DEPENDENCE OF THE EGYPTIAN HISTORIC TRANSITION ON THE BANKING SYSTEM

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The problem with which this paper is concerned is that of examining the role that the Egyptian Banking System had to assume during the transition period, 1952 - 1964.

This paper is divided in four parts; the first part is an introduction and it is composed of Chapter I. Part two is a brief survey of the economic and monetary developments in Egypt during this transition period and it is composed of Chapters II and III.

Part three examines the reconstruction of the banking system and it is composed of Chapters IV and V.

Part four presents a conclusion and some implications for other developing countries. The Egyptian experience's lack of success was due to nonrealistic and uncoordinated planning.

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Abbreviation	Definition
CBE	Central Bank of Egypt.
NBE	National Bank of Egypt.
Hyphen (-) between dates	Period includes beginning and year end, e.g., January, 1956 to December, 1960 is 1956-60.
Slash (/) between dates	Fiscal year, e.g., June 1957, to June, 1958, is 1957/58.
CAPMS	Central Agency for Public Mobilization and Statistics (Cairo).
PCDNP	Permanent Council for the Development of National Production (Cairo).
UNCTAD	United Nations Conference For Trade and Development, (New York and Geneva).

Egyptian Units of Measurement:

1 Feddan = 1.038 acres - 4,200.8 square meters.
1 Kantar = 44.928 kg.

Currency:

1 Egyptian pound (LE) = 100 Piasters.

Exchange rate: September 1949 - June 1962: LE1 = $2.872
June 1962 - March 1972: LE1 = $2.286
March 1973 = LE1 = $2.56.

CHAPTER I

INTRODUCTION

Dependence of the Egyptian Historic Transition On The Banking System

Egypt's experience with economic development is simlar to that of many underdeveloped countries as far as the economic condition in general is concerned, but the Egyptian government had to contend with some outside pressures also. These pressures, which resulted from nationalistic conflicts with Britain, France, and Israel in the mid-fifties, led to the 1956 war or, as it is called, the "Suez Crisis," in which the forces of Britain, France, and Israel attacked Egypt. The result of that conflict was a victory, an inspiration for the Egyptian leadership that led to even more rigid nationalistic values and principles.

The transition in Egypt started with the 1952 revolution, a transition that relieved the country from the foreign exploitation which had lasted for hundreds of years by different foreign peoples from the Turks to the British. Therefore, the student of Egyptian economics should keep two things in mind: first, Egyptian economic planning was influenced to a great extent by nationalistic values; second, the country was under foreign control for a long and continuous period of time; add to that the lack in natural resources and the

lack in qualified human resources, and the surge toward economic development becomes a grueling one.

Egypt was largely an agricultural, one-crop economy. heavily oriented toward the export market. Cotton was Egypt's sole major export and accounted for over four-fifths of the total value of exports between World War One and World War Two and for 60-70 per cent of their total value after the war.(2, p.177) Population presented another severe problem for Egypt; it increased at a rate of 2.8 per cent per annum during the fifties and 2.5 per cent per annum during the sixties.

The workings of the free market with limited government guidance caused the situation to become frustrating; therefore, the Egyptian government moved toward increasingly centralized and stringent economic planning. The reforms attempted by the Egyptian government after the 1952 revolution were looked on with approval by nationalists in the neighboring Arab countries, and by the end of 1954, Gamal Abdel Nasser had become the unrivaled leader of the "New Egypt"; freedom, socialism, and unity were the three main principles or values. Freedom referred to independence from all imperialistic exploitations, mainly by Western Europe and the United States. Economic development revolved around central planning, with improving the welfare of the poor as a first priority; unity referred to the Arab world as a whole because Nasser had in mind a long-range goal: for the Arabic individual and the

Arab nations to establish and maintain any sense of integrity, independence, and freedom, the Arab nations would have to unite and form one nation with many states. Nasser analyzed the situation and concluded that some Arab countries had the human resources and others had the capital resources; by a balanced allocation process, the Arab world could become strong enough to contend with the two powers, the United States and the U.S.S.R., and help the third world establish and maintain its freedom and make the Middle East a peaceful and technologically advanced part of the world.

Nasser had two alternatives to choose from; the first alternative involved the complete concentration on Egypt only; the second alternative involved the sharing of efforts between Egypt and the whole Arab world, a more difficult and grueling path to follow. The fact that Nasser considered himself a leader for the whole Arab world played an important part in his choosing the second alternative, a choice that doubled his political and economic problems. By committing himself to the Palestinian people, he severed his relations with the U.S.A.; by committing himself to the ending of all imperialistic influence in the Middle East and Africa, he severed his relations with Western Europe; and finally by committing himself to the liberation of the Arab world from all "reactionary elements," he ended any hope of getting any financial help from the oil-rich Arab countries because the leaders of these countries felt that their "inherited" positions were in jeopardy.

An honest question is being asked in Egypt and other parts of the Arab world; should Nasser have selected the first alternative, would Egypt be having as many economic problems today? This is a very complicated question and a very controversial one. The economic conditions in Egypt would probably be better today; yet the revolutions in countries such as Libya, Algeria, Sudan, Yemen, and the Arab Gulf states probably would never have come about; also, the Palestinian situation probably would have been forgotten. The word "probably" is used continuously because nothing is certain, and only history will provide the answer.

Egypt, like other developing countries, needed economic aid to supplement its small holding of foreign exchange which declined alarmingly despite the imposition and tightening of foreign exchange controls. Population-control programs were not very successful, mainly because of the high rate of illiteracy and the strong religious feelings against birth control; these feelings are a direct result of illiteracy.

Governmental development programs played an important role in the expansion of money supply, but they did not cause as much inflation as might have been expected for two reasons; first, foreign exchange reserves were run down to pay for the much needed imports; second, government subsidies kept prices from increasing to high levels. In the early sixties foreign exchange reserves were depleted, and deficits began accumulating at a fast pace, a phenomenon that, if not checked, will cause

severe damage to an economy.

A comparison between governmental expenditures and gross national product indicates the increasing role of government in the economic life of the country. In 1955, this ratio was 13.8 per cent, and by 1963, it had climbed to 17.3 per cent (1, p. 12). This is a moderate increase, but it does not tell the whole story, since many of these expenditures that were attributed to the "private" sector were actually carried out by government-sponsored or government-controlled institutions, and these institutions' activities have greatly increased in the period since 1955. Also, the largest part of the rapid rise in investments was implemented by the government through the various ministries and organizations set up for this purpose. The Egyptian government needed to finance its expenditures, and taxes collected were not enough to finance all of these. Therefore, the Egyptian Banking System had to carry most of the load. The Central Bank lent large sums to the government by buying obligations of the treasury.

The Central Bank had two main tasks to fulfill: to finance the treasury's deficits and to provide flexibility for the financing of the seasonal crop. Apart from financing the needs of the government, the Central Bank extended loans to the private sector, mainly government-sponsored institutions and the specialized banks for agriculture and industry. In this way, the Central Bank was an important source of development finance for favored sectors in the growth effort.

In regard to flexibility for seasonal financing, the Central Bank evolved several techniques for control between 1952 and 1960 which appeared quite effective. The commercial banks quickly developed the use of Central Bank credit for seasonal needs. Banks borrowed from the Central Bank and also used part of their growing treasury bill holdings for discounting with the Central Bank.

Central banking in Egypt, in the sense of a monetary authority regulating the amount and price of credit, began in an elementary fashion after 1951. Before that period, the National Bank of Egypt, even though it enjoyed a monopoly of the rate issue and was banker to the government, was unable to control the money supply. This occured because, up to 1947, Egypt was on the sterling-exchange system. The implications of this system meant that the National Bank of Egypt stood ready to exchange sterling for the Egyptian pound at a fixed rate. In effect, therefore, the supply of Egyptian pounds was determined by the demand for pounds in terms of sterling, which depended on the trade balance and the lending operations of the banking institutions which had access to funds in London. The Central Bank did not expand the supply of currency on the basis of its holdings of Egyptian Government Securities except to a negligible amount.

The establishment of Bank Misr (the Arabic word for Egypt) in 1920 as a purely Egyptian bank reflected the growth of Egyptian nationalism. While most of the other banks had

concentrated on financing foreign trade, Bank Misr played an active role in investing in industry. In February, 1960, Bank Misr and the National Bank of Egypt were nationalized. Beginning January 1, 1961, the National Bank of Egypt was divided into a separate Central Bank of Egypt and a Commercial National Bank of Egypt. The former took over the assets and liabilities of the Issue Department as well as those functions of the Banking Department which were related to central banking.

The rest of the banking system and insurance companies were nationalized in July, 1961. Later nationalizations and mergers reduced the number of banks to five large banks in 1963(3,pp.157-160). In July, 1964, the government decided that each bank would be responsible for financing particular segments of the public sector.

The focus of this paper is the transition period between the years 1952-1964. The paper is divided into two main parts: part one is a discussion of the economic conditions of Egypt during the transition period; part two is a discussion of the banking system and the role it played during this period of increasing expenditures and economic development.

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CHAPTER II

SURVEY OF ECONOMIC AND MONETARY DEVELOPMENT

Egypt began rediscovering itself during the early part of the twentieth century, and in July, 1962, this rediscovery process was completed with the Revolution. While Egypt's political boundaries occupy an area of some one million square kilometers, physical constraints limit the habitable area to 36,000 square kilometers--or one thirtieth of the total. The population is concentrated in the Nile Valley, the Delta, and a few scattered oases in the Western Desert. The government hoped to reclaim large tracts of land in the desert and irrigate them with underground or Nile waters from the High Dam.

This makes Egypt a perfect example of classical Malthusian economy with a low rate of output expansion and a high rate of population growth.

The Egyptian National Income

The Egyptian gross national product grew continuously after 1953 in terms of 1953/54 prices, as shown in Table I (5, pp.226-228). An increase occured every single year with the exception of 1953/54. The period 1956 to 1958 was one of sluggish growth because of the dislocations caused by the Suez Crisis in which Egypt was attacked by the armies of Great Britain, France and Israel.

Another very important feature, seen in Table I, is the continued importance of agriculture in the national economy up to 1957/58 and its relative decline thereafter as the government accelerated its efforts to industrialize. In 1952/53, the percentage contribution of agriculture to total gross national product (GNP) was 31.6 per cent, and by 1961/62 it had declined to 25 per cent. The contribution of industry and electricity rose from 14.2 per cent to 19.0 per cent during this period.

In general, the sectors of the economy which speed up the process of industrialization--such as industry and electricity, construction, and transportation and communication--increased their percentage contribution to the GNP, whereas, agriculture and "other service" industries declined in importance.

Agriculture continued to be an important component of the GNP, and "this importance was taken into consideration in the comprehensive development plan which allocates to agriculture some LE 804 million, or 24.4 per cent of total investment to be carried out during the ten years 1960-1970" (2, p.13).

Perhaps the most outstanding feature of Egyptian agriculture is its large degree of dependence upon the cotton crop. Output of raw cotton is mainly directed towards exports, although local demand from the textile industry has been increasing. While in most underdeveloped countries the need for diversification of agriculture is generally acknowledged,

TABLE I

GNP BY INDUSTRIAL ORIGIN AT 1965/66 MARKET PRICES AND CONSTANT PRICES 1953/54 PRICES 1952/53-1961/62

Fiscal Year	GNP At Current Market Prices	(LE Million) Gross National Product At Constant 1953/54 Market Prices												
		Agriculture		Industry and Electricity		Construction and Housing		Transportation & Communication		Commerce and Finance		Other Services		Total
		LE	%	LE	%	LE	%	LE	%	LE	%	LE	%	
1953	905	305	31.6	137	14.2	84	8.7	54	5.6	167	17.3	217	22.5	964
1954	963	295	30.6	140	14.5	83	8.6	55	5.7	158	16.4	232	24.1	963
1955	1014	298	30.1	149	15.1	88	8.9	58	5.9	161	16.3	235	23.8	989
1956	1072	308	30.0	160	15.6	90	8.8	62	6.0	171	16.6	237	23.1	1028
1957	1125	318	30.3	170	16.2	95	9.1	58	5.5	172	16.4	236	22.5	1047
1958	1195	333	30.0	186	16.7	101	9.1	62	5.6	189	17.0	240	21.6	1111
1959	1256	352	29.9	198	16.8	108	9.2	69	5.9	205	17.4	245	20.8	1177
1960	1372	367	29.3	209	16.7	115	9.2	88	7.0	213	17.0	259	20.7	1251
1961	1467	365	27.6	234	17.7	113	8.6	98	7.3	223	16.9	289	21.9	1321
1962	1550	338	25.0	257	19.0	131	9.7	111	8.2	228	16.8	289	21.3	1354

the solution is not an easy one. In Egypt's case, for instance, the much higher profitability of cotton and its importance as a source of foreign exchange helped to maintain the country's traditional specialization in producing long-staple cotton. As Egypt strives toward economic development, her need for foreign exchange and her dependence on cotton exports have increased, and it seems that this will continue for some time. Since 1957, Egypt has received loans (through U.S. Public Law 480) in the form of American agricultural surpluses so that most of her food imports were paid for in local currency. It made sense, therefore, to continue the high degree of specialization in cotton production.

In the case of industry, its contribution to GNP has greatly changed. Its share of GNP increased from 14.2 per cent to 19.0 per cent between 1952/53 and 1961/62, and the industrial output almost doubled in terms of constant prices. The index of industrial production (1958=100) rose from 70 in 1953 to 103 in 1959 (2, p.136).

Output of electricity has also risen considerably, the big jumps coming in 1961 and 1962 owing to the much greater installed capacity which took place in 1960.

The textile industry--cotton, wool, artificial silk, and jute--continued to remain the most important manufacturing industry in Egypt, despite the increasing importance of iron and steel production, chemical engineering, and food processing industries. The main aim of this industrialization is to

provide employment for the underemployed agricultural labor force as well as the growing labor force.

International Trade and Import Deficits

Being an agricultural export economy, Egypt depends on foreign trade to a great extent, which makes the Egyptian economy extremely vulnerable to fluctuations in international commodity prices.

Cotton exports formed 84 per cent of total exports in 1953/54; although this share fell to 55.9 per cent in 1965, agriculture still account for 69.6 per cent of merchadize exports, as Table II shows (7, p.180). This decrease in the cotton exports was not attributed to new products being exported as one might think, but to the fact that the share of commodities exported initially in small quantities increased at the expense of cotton.

The Egyptian government tackled this import-dependence problem by discouraging the imports of certain types of consumer goods. Cotton and woolen textiles as well as luxury good imports have almost ceased to exist, while imports of capital goods and machinery have increased. These changes did not, however, change the basic fact that the value of cotton on the international market has determined the value of exports, and, to a large extent, the terms of Egyptian trade.

The government's development programs required more capital goods and machinery which had to be imported. That and the growing necessity for various food imports resulted in

continuously growing deficits, as Table III shows (2, p.136).

TABLE II

SHARES OF MAIN PRODUCTS IN EXPORTS
(PERCENTAGES)

	1952/53	1959/60	1964/65
Raw cotton	84.0	70.8	55.9
Rice	----*	2.5	8.1
Other agriculture	8.1	4.3	5.6
Crude petroleum	----	1.7	3.9
Other mining	0.8	1.7	1.1
Textiles	3.3	9.7	14.0
Petroleum products	1.1	1.5	4.1
Other Manufacturing	1.4	6.9	6.6
Miscellaneous and Re-exports	1.3	0.9	0.7
	100.0	100.0	100.0

*----means too small to mention

The result of the heavy program of imports was a rapid decline in holdings of net foreign monetary assets. From a credit balance of LE 264.4 million in 1953, there was a debit balance of minus LE 44.3 million in 1964. This decline was reflected in a fall in foreign-exchange holdings and increases in Egypt's liabilities to foreign countries and to international organizations. A decline in net foreign assets of such magnitude does not usually occur without pressures on the rate of exchange and restrictions on imports combined with encouragements of exports.

TABLE III

EGYPT'S IMPORT DEFICIT, 1956-1964
(LE MILLIONS)

Year	Deficit
1956	- 50
1957	- 33
1958	- 21
1959	- 47
1960	- 35
1961	- 66
1962	- 118
1963	- 123
1964	- 135

Source: International Financial Statistics, August, 1965.

Imports were subjected to increasing controls, licensing, even outright prohibition, while exports were encouraged by a system of premiums. The foreign exchange for imports from hard-currency areas had to be purchased at a premium varying with that granted for cotton exports until 1959; thereafter a flat 20 per cent premium was assessed for some years, only to be changed again several times. Imports from countries with whom Egypt had bilateral-payments agreements were made at the commercial banks' rate of exchange, which was the official parity rate of $2.88 to LE 1. To encourage exports, especially cotton exports, in the face of falling world prices and, at the same time, shield cotton producers from the effect of declining incomes, the government permitted exporters to offer cotton against payment in convertible currencies at a discount from the official exchange rate. This meant that

the Egyptian government settled for less badly needed convertible foreign currency in order to protect its cotton producers and exporters in the exchange-rate control.

There were many more changes which covered a wider range of goods as time went on. The important thing to note is that all these premiums and discounts represented an effective depreciation of the Egyptian pound, and this was made official on May 8, 1962, when the "new", tighter monetary policy was inaugurated. The multiple-exchange structure was replaced with a simple rate of $2.30 per LE 1 (from $2.88) (9). In addition to the above, barter and clearing agreements were entered into with several countries, which made it easier to export Egyptian goods and guaranteed higher priced markets for Egyptian exports, insuring, in effect, a higher rate of exchange than could have prevailed in the free market.

For economic and political reasons (2,p.467) the period since 1956 has witnessed important shifts in the direction of Egypt's foreign trade, as Table IV shows (2, p.467). The main developments are (1) the decline in the share of trade with Western Europe, mainly because of diminished trade with the United Kingdom, France, and Belgium; (2) the rise in the share of trade going to Eastern European countries; and (3) an increase in the share of trade with the United States, largely reflecting the increased Egyptian imports of surplus agricultural products.

TABLE IV

DIRECTION OF IMPORTS AND EXPORTS IN SELECTED YEARS, 1920-1964
PER CENTS

Year	Arab Countries		East Europe		West Europe		Africa, Asia & Australia		U.S.A.	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1920	3.6	5.5	1.6	0.3	59.4	59.1	16.5	2.7	16.3	28.8
1930	5.7	7.0	10.9	7.9	62.3	70.2	13.3	7.6	9.3	6.4
1940	4.3	13.3	5.6	2.7	46.3	61.0	23.1	15.3	20.1	5.0
1950	5.4	3.8	6.4	10.7	54.5	55.6	23.4	18.8	10.2	10.7
1955	6.5	9.9	7.0	20.6	59.6	37.3	14.2	24.1	12.7	7.1
1956	6.3	12.4	12.6	29.2	56.2	31.6	15.3	22.6	15.1	3.4
1957	9.8	11.4	23.7	39.9	38.5	23.0	17.1	19.8	10.9	4.8
1958	5.1	9.8	31.7	41.8	42.6	25.5	11.7	20.4	9.0	2.3
1959	8.2	12.4	27.4	44.3	39.8	23.8	9.9	16.9	14.7	2.3
1960	8.2	9.9	24.0	42.0	38.0	20.4	11.4	20.0	17.8	7.4
1961	4.9	9.6	24.2	42.5	33.5	22.9	15.4	14.8	21.8	9.4
1962	5.9	10.5	24.2	38.7	31.1	26.7	13.1	14.9	25.6	8.7
1963	6.9	8.2	18.7	44.3	35.0	24.9	10.3	15.3	29.9	6.7
1964	8.0	8.4	19.0	45.1	31.9	24.3	9.9	15.7	31.0	5.8

The Move Toward Rapid Industrializations

The Egyptian Revolution may have not initiated the industrial developments programs in Egypt; but, for the first time in Egypt's modern history, the Egyptian government played the leading role in these programs. It was a very difficult role from the start; the country was feudal, agrarian, over-populated, and poor in natural resources. That, combined with the broad ambitious objectives of the Revolution, made the task even more difficult.

Social welfare was one of these objectives, which was reflected in the agrarian reform laws, and it was also pursued in other areas, mainly in education, health, and the provision of social services.

The feudal system was struck down by the Revolution with a land reform act which had a great effect on rural Egypt and the country as a whole. In 1951 over a fifth of rural income went to the large landowners. In 1956 this ratio decreased to one-tenth(8, p. 180).

Another broad objective related to the diversification of the economic structure, mainly through industrialization. This involved at one stage great encouragement to private industry, government participation in new industrial ventures, and an increase in the rate of public investment in electricity, agriculture, and other services. It rapidly led to the transformation of the economic system from free private enterprise, with moderate government intervention, to a new

situation in which the involvement of the state in the economy, through planning and the operations of a large public sector, became very significant(9).

Economic diversification was closely related to another concept, that of Egyptianization. Egyptian intellectuals have always resented the dependence of the economy on world conditions, arising from its narrow export specialization in cotton. They also resented the control exercised by the small but prosperous foreign community and by those "Egyptians" who had more foreign than national influence in their culture, habits, interests, and ways of life.

The Revolution was determined to carry out vigorously the objective of economic diversification. It created, as early as 1952 by Decree No. 213, a new institution, The Permanent Council for the Development of National Production, for the study of investment projects which developed later into a planning commission. Concerning Egyptianization, the Revolution tended to be more cautious during the first years, partly for economic reasons--it hoped to encourage foreign investment--but mainly for political reasons. The reason for this caution was that Egypt hoped to reassure France, Great Britain, and the United States about its intentions and to obtain support and recognition, especially since the country was engaged in delicate negotiations with the British government over the evacuation of military bases. Later, however, the nationalization of the Suez Canal in 1956 led to a radical

policy of Egyptianization, extended within a few years to all the economic activities and institutions still in the hands of foreigners.

Any analysis of the development budgets of the Permanent Council for National Production for the fiscal years 1954/55 and 1955/56 reveals an interesting pattern, as Table V presents (10). The early concern of the Revolution with land reclamation as well as an emphasis on electricity, seen as a prerequisite for industrialization, is obvious. The share of industry, small in the first year, more than doubled in the second.

The difference in this program, in comparison with governmental budgets under previous regimes, lies precisely in the appearance of industry as an item of public expenditures and in the large allocations to electricity and land reclamation. O'Brien states that "most of the investment proposed by the Council remained traditional public expenditures" (9, p. 70). But one can not help but disagree with that statement, since irrigation, drainage, and transport, the items O'Brien had in mind, accounted for 50 per cent of the budget in 1954/55 and 38 per cent in 1955/56.

In January, 1957, a new organization was created. It had a two-level structure, with a higher committee under the chairmanship of the President responsible for the guidelines and the final approval of the plans and the planning committee (known as NPC). The NPC was to draft a detailed and compre-

hensive five-year plan (initially scheduled for the calendar years 1960-64, later changed to fiscal years 1960/61 through 1964/65) as the first stage of a ten-year program.

TABLE V

DEVELOPMENT BUDGET OF THE PERMANENT COUNCIL
1954/55 and 1955/56

	1954/55 LE*Thousands**	%	1955/56 LE Thousands	%
Irrigation and drainage	9,780	23	6,905	13
Agriculture	4,167	10	2,718	5
Land reclamation	6,478	15	9,043	17
High dam	-----	--	2,850	5
Industry (including petroleum & mining)	3,017	7	8,213	15
Electricity	7,290	17	10,168	19
Transport	11,420	27	13,851	25
Storage	100	1	500	1
TOTAL	42,252	100	54,248	100

*LE means an Egyptian pound
** Exchange rate: September 1949-June, 1962: LE1=$2.872.
June, 1962-March, 1972: LE1=$2.286.

The long-term objective of the plans was to double the national income in ten years. The more immediate aim was to raise the level of national income by 40 per cent during the first five years. Too many books have been written about the plan, and this paper shall only touch on a few points of that plan(5,p.21; 5,p.12).

The pattern of planned investment presented in Table VI (3) reveals something about priorities and areas of special

TABLE VI

TOTAL PLANNED GROSS INVESTMENT IN THE FIRST FIVE-YEAR PLAN
(1960/61 - 1965/65 AT (1959/60 CONSTANT PRICES)

	LE Millions		Percentages	
Agriculture	383.2*		23.4	100.0
Vertical expansion		50.8		13.3
Irrigation and drainage		173.4		45.2
High Dam (excluding electricity)		47.3		12.3
Mining (including crude petroluem and exploration)	52.4		3.3	
Manufacturing	383.8		23.4	100.0
Food, textiles, clothing		79.8		20.8
Wood, paper, rubber, chemicals, petroleum, nonmetallic		154.9		40.4
Basic metals and metal products		48.6		12.7
Machinery and transport equipment		63.1		16.4
Others (including replacements)		37.4		9.7
Electricity (including High Dam power stations)	138.5		8.5	
Transport, communications and storage	269.2		16.4	100.0
Railways		100.0		37.2
Road transport		55.3		20.5
Rivers, maritime, air, pipelines		37.9		14.1
Suez Canal		35.0		13.0
Telecommunications		31.2		11.6
Storage		9.8		3.6

	LE Millions		Percentages	
Dwelling	140.0		8.6	100.0
Urban		113.0		80.7
Rural		27.0		19.3
Public Utilities	47.6		2.9	
Services	101.7		6.2	100.0
Education		39.2		38.5
Health		9.0		8.8
Scientific research		6.1		6.0
Tourism		9.6		9.5
Others		37.8		37.2
Changes in stocks	120.0		7.3	
	1,636.4		100.0	

*Investment figures exclusive of land.

Continued

emphasis. Contrary to common opinion, agriculture was not neglected in favor of industry, since its share in total planned investment equals that of manufacturing. This can be traced to the fact that Egypt depended on agriculture for too long to make a radical shift, plus the fact that the economy is labor--surplus in nature. (This will be discussed in more detail in the next chapter.) In manufacturing, capital goods were neglected, for most investments under heading "3d" and "machinery and transport equipment" were scheduled for consumer durables and private cars. The urban bias is apparent in "dwelling." In transport, railways had the big share. The emphasis in services is on education, but this item is relatively small (2-4 per cent of total planned investment). Tourism could have been promoted with considerable benefits in the early 60's, but for some reason it seems to have been neglected. Scientific research is a very noteworthy feature of the plan, but unfortunately the allocation was misdirected to nuclear physics and to the establishment of yet a new university, when it could have been more profitably employed for industrial research (adoption of imported technology to Egyptian conditions and development of new products from local raw materials), agriculture, or medical purposes.

Egyptian planners did not forget changes in common stocks, a common omission in many plans, but the predicted increase (LE 120 million) appears to be too large. Whether

TABLE VII

STRUCTURE OF GROSS VALUE ADDED IN MANUFACTURING
1952 AND 1966/67
(PERCENTAGES)

	1952	1966/67
Food and beverage	22.4	11.9
Tobacco	7.4	4.4
Textiles	33.1	38.1
Clothing	1.9	1.2
Wood and products	1.6	1.2
Paper and products	1.3	2.8
Printing and publishing	2.8	2.1
Leather and Rubber	.9	1.3
Chemicals	7.4	12.7
Coal and petroleum	8.6	4.2
Nonmetallic products	4.3	4.2
Basic metals	1.6	3.9
Metallic products	1.7	3.3
Machinery	0.7	4.4
Transport equipment	3.1	2.1
Others	1.2	1.2

the NPC believed that the planned expansion of industry and agriculture would lead to such a significant building up of stocks or whether they allowed for larger amounts than required as a safety factor against underestimates in other investment items remains an open question.

The major transformation in the Egyptian economic system took place between 1952 and 1964. In 1952 public ownership of means of production was very limited. By 1963 ownership had extended to all financial institutions, public utilities, transportation, and to almost all industrial establishments of significant size. The public sector also controlled the export-import trade and the marketing of major agriculture crops.

In July, 1956, President Nasser announced the nationalization of the Suez Canal in retaliation for the withdrawal of the U.S. and U.K. offers to help finance the High Dam, but the real cause was much deeper than that. The desire for national economic independence called for the Egyptianization of all major foreign assets one way or another. This was one of the main objectives of the Revolution since the start.

Egyptian industry went through structural changes after 1952. The textile industry was dominant in 1952, and this dominance increased even more, as Table VII (1) shows. Planners attempted to take advantage of the country's main agriculture resources and aimed at transforming an export economy while specialized in a primary commodity, into an

industrial economy, which specialized in the processing of that commodity. The growth of agricultural production of food is lower than the growth of demand. Therefore, Egypt, which was a net exporter of food before the second World War, is increasingly becoming a net importer.

The share of basic consumer-good industries (textiles, food, beverages, tobacco) in gross value added has declined from 64.8 per cent to 55.6 per cent in two years. The share of machinery in gross value added has considerably increased from a very small initial value. But Egypt has not succeeded in developing its capital-good industry in any significant way. Machinery includes mostly consumer durables, but one should remember that Egypt is an underdeveloped country, and this is typical of most developing countries.

Output grew at a remarkable rate during the fifties, and it continued to grow during the sixties as Table VIII shows(2,p.467). An index of production was computed by the research unit of the National Bank of Egypt until 1959. From 1959 to 1966/67, an index of gross value added at 1959 constant prices is used to assess output movements. An average annual compounded rate of growth of 5.7 per cent was maintained during the fifties. Although the National Bank index may understate the growth of industrial production because of a failure to include new products, the broad picture given by these indices is fairly accurate. An average rate of real growth close to 6 per cent over a relatively long period is an impressive achievement.

The annual rate of growth reached its peak in 1963/64, when it was 12.5 per cent. The growth rate declined in the following several years because of import restrictions that resulted from severe deficits in the balance of payments.

Egyptians, Arabs, and non-Arabs will always ask themselves and others the same question: Did Egypt gain or lose by nationalization? This issue has two main aspects: the efficiency of the private enterprise in relation to public concerns and the appropriation of profits.

TABLE VIII

INDICES OF PRODUCTION AND OF GROSS VALUE ADDED AT CONSTANT 1959/60 PRICES, 1952-1966/67

Years	Index Of Production	Years	Index Of Gross Value Added At 1959/60 Prices
1952	100	1959/60	100
1953	103	1960/61	111
1954	112	1961/62	117
1955	119	1962/63	128
1956	130	1963/64	144
1957	137	1964/65	150
1958	151	1965/66	154
1959	157	1966/67	155

As for the first aspect, it should be looked upon without any prejudices. There are no reasons to believe that public managers, as a group, are less able or less competent than their predecessors in the private sector. Political favoritism may influence their recruitment in the new system, but family and social favoritism prevailed in the private sector. One

may argue that the government has access perhaps to a wider range of talents than the former private sectors, since it recruits from a larger social group.

There are three main causes of inefficiencies in the Egyptian economy: the lack of incentives and price and foreign trade controls. With or without nationalization, the economy would have suffered from the effects of the labor (but not the wage) legislation, certain price controls, and the foreign trade policies pursued by the State. The situation before nationalization may thus have been preferable from the point of view of efficiency in certain respects: greater price autonomy, greater freedom to innovate, and the ability to provide labor with wage incentives. But all that needs some qualifications: price antonomy may have led to monopolistic pricing, and the freedom to innovate may have been irrelevant if firms lacked the necessary ability or if they lacked the inducement to innovate because of the protection afforded to their market. All in all, nationalization may have caused losses to the economy on these counts, but these losses were small. The significant inefficiencies should be attributed to other features of the system and to other policies.

A study of the National Bank concerning the behavior of companies indicates that, by 1960, they were distributing some two-thirds of their profits to shareholders, which suggests that business savings propensities were relatively small, whereas the government invested all the profits that

got to the treasury. This will be discussed in more detail in the next chapter.

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CHAPTER III

EMPLOYMENT AND ECONOMIC DIVERSIFICATION

The Egyptian Revolution had everything against it in 1952. It suffered from limited natural resources, increasing deficits, an explosive rate of population increase, limited ability of agriculture in absorbing the surplus labor, and few educational institutions. On top of that, the country had to contend with foreign powers who did not approve of this "radical" revolution.

This chapter is composed of three parts. The first part deals with the severe unemployment or underemployment problem in Egypt; the second part deals with the expenditures that the Egyptian government had to undertake in order to attain a greatly needed economic growth; the third part deals with the changes in the distribution of the national income, a very essential and crucial element for the road to a reasonable economic and social state of welfare.

Employment In An Overpopulated Nation

Countries with a high population growth rate always face the problem of labor absorption in various sectors of their economies. This problem becomes more serious and requires more immediate solutions in those underdeveloped countries aspiring for development, and Egypt is a very good

example of that.

The feudal-agrarian system in Egypt has a dualistic structure: it is comprised of large capitalistic farms operated by tenants and wage labor and small family farms mainly operated by the members of the household. There is also an important pool of landless workers who are likely to suffer from open unemployment. Since landlords usually seek to maximize their profits, they are unlikely to hire more works than profit maximization requires. Egyptian defenders of the feudal-agrarian system argued that tradition commits both landlords and family farmers to supporting unproductive labor in underdeveloped agriculture.

Traditional values may retain a certain importance, but the population growth in Egypt created too many strains in the sytem. A social commitment to employ surplus labor, plausible in a static stituation, becomes an open-ended commitment which tends to break down where a high rate of population growth adds year after year to the labor force.

The ability of this dual agricultural system to absorb labor, when population grows while land remains in fixed supply, greatly depends on the rate and nature of technical progress, an ability that is limited under such a system. A sustained rate of technical progress equal to that of population growth is difficult to achieve; also technical progress need not result in higher wages or greater employment on capitalist farms where its benefit tends to be translated

into higher profits. Technical progress could increase labor absorption on family farms. In Egypt, however, as in most underdeveloped countries, innovations are more sluggish on small than on large farms. In such a feudal-agrarian system, labor displacement away from agriculture is the result, and the question of whether other areas and sectors of the economy can absorb this displaced labor becomes an important and crucial one.

Displaced labor either migrates from rural to urban centers, or it transfers within rural areas from agricultural to nonagricultural activities. Migration is the more critical phenomenon because of its scale and its wide socioeconomic implications. In Egypt in 1960, rural areas with 62 per cent of the total population accounted for the following shares of sectoral employment: industry, 26.3 per cent; construction, 32.5 per cent; public utilities, 19.9 per cent; commerce, 35.1 per cent; transport and communications, 23.0 per cent; services, 29.1 per cent (10). In most developing countries, government policies and the tendencies of industry and new services to concentrate in the major centers all add up to discrimination against the rapid development of rural areas. These factors restrict the absorption of labor in the villages and increase the rate of migration.

The determinants of migration should not be uniquely related to the modern urban/rural wage differential and the probability of finding a job. In one of the rare studies of

migration in Egypt, J. Abu-lughod suggests that there are two types of rural migrants: "the bright youths who migrate in search of education or wider opportunities" and the "have-nots of the village" (1, p.23). The latter are numerically dominant. The educated youth aspires for jobs often unavailable in villages. Higher education turns him into an urban dweller from the moment he joins the university or other institutions; agriculture to him, as to any person born in towns, rarely represents a real option. Education is associated with the prospect of good jobs and high earnings; and if it is extended to rural areas, migration is encouraged because a large proportion of these jobs are in the towns. The Egyptian government responded to this situation by expanding educational facilities and by committing itself in 1962 to employ all graduates.

The explosive population growth made the problem of labor absorption in the various sectors of the economy more difficult, yet more urgent to deal with. Table IX reveals that the labor force in Egypt increased by more than 1.91 million between 1937 and 1960, but the increase was much larger during the first decade. Between 1947 and 1960, the labor force increased at a much slower rate than the population growth (less than 1 per cent against 2.5 per cent per annum). The rate of participation in the labor force, around 37 per cent in 1937 and 1947, decreased to less than 30 per cent in 1960. Changes in the age composition owing to increases

in the rate of population growth and the extension of compulsory education are partly responsible for this phenomenon, but it may also reflect an inability of the economic system to provide the necessary incentives that would draw more people from the manpower reserve into the labor force.

Agriculture, despite its large initial share in the labor force (63 per cent in 1937), did not make a significant contribution to new employment during this period. Table IX also reflects the failure of the agricultural labor force to expand between 1937 and 1947 and shows the increase between 1947 and 1960 to be relatively moderate. Agriculture employed less than 400,000 of an increment of 1,917,000 over the whole period, which meant that more than 1.5 million had to find jobs in other sectors.

Employment in manufacturing more than doubled during the period (from 352,700 in 1937 to 713,000 in 1960), but the absolute increment (316,000) was smaller in this sector than in agriculture (386,000). Industrial employment grew from a very small base (its share in the total was only 6.1 per cent in 1937), but in relation to the rapid growth of industrial output after the Second World War, manufacturing employment expanded at only a moderate rate (1.19 per cent per annum between 1947 and 1960, compared with an average rate of growth of real industrial output of some 7 or 8 per cent). Population growth and nature of modern industrial development, which leads to the adoption of labor-saving

TABLE IX

LABOR FORCE AND EMPLOYMENT BY SECTORS 1937-1960(10)
(IN THOUSANDS)

	1937	1947	1960
Labor force	5,809.2	6,994.6	7,726.6
Agriculture	4,020.4	4,085.7	4,406.4
Mining and quarrying	10.8	13.0	21.1
Manufacturing	352.7	560.6	713.1
Electricity, gas, water	21.0	22.6	36.8
Construction	120.7	113.3	158.8
Transport	138.9	203.3	260.2
Commerce	439.5	590.4	641.4
Other services	701.7	1,051.8	1,369.4
Unspecified	3.5	353.9	119.3

technology and involves structural shifts towards capital-intensive industries such as chemicals, petroleum, paper and metals, explains this performance.

Most of the increase in the labor force, some 1.1 out of 1.9 million, thus found employment in sectors other than agriculture and industry (including activities which the census fails to specify). The share of these sectors (excluding agriculture and industry) in total employment increased from 24 per cent in 1937 to 31 per cent in 1960; and for each new job in industry, three additional persons were engaged in the services. Construction and transport employed only an extra 169,000 workers; so most of the expansion took place in government, commerce, personal service and in the sector labelled "unspecified".

A breakdown of employment by urban centers and the provinces for the three census years makes it easier to analyze the pattern of absorption in different geographical areas. The data used were adjusted by Mead (11, p.240) and cover only adult males (aged 15 and above).

Two important factors are reflected in Table X. First, the percentage increase in employment between 1937 and 1960 was much larger in the main towns (129 per cent) than in the provinces (35 per cent). Second, the increase in the service-sector employment in the provinces absorbed more workers than agriculture--20,000 as opposed to 162,000 between 1937 and 1947 and 418,000 as opposed to 383,000 between 1947 and 1960.

TABLE X

LABORS FORCE AND EMPLOYMENT IN URBAN GOVERNORATES AND PROVINCES 1937-1960(9) (THOUSANDS)

	1937	1947	1960
Urban governorates*			
Total employment	617	943	1,412
Agriculture	26	27	65
Industry	130	221	346
Services	461	694	1,001
Provinces			
Total employment	3,840	4,303	5,182
Agriculture	2,950	3,112	3,495
Industry	200	293	370
Services	690	899	1,317

*Urban governorates are the five metropolitan governorates of Cairo, Alexandria, Port Siad, Ismailia, and Suez.

As a result, the share of employment in the service sector increased to 25 per cent in 1960 from 18 per cent in 1937. This means that half of all new jobs in the provinces were created in the service sector.

After 1960, employment grew at a much faster rate, as shown in Table XI. Unfortunately, these statistics were computed by a different source, but they give the same general idea. The rate of growth of total employment was 3.2 per cent between 1960 and 1965, a rate greater than the rate of population growth. Industrial employment expanded faster than before because of a higher rate of investment and as a result of employment policies; after nationalization in 1961 and 1962, the government compelled public companies to engage more persons than they actually required.

Absorption of labor in the service sector seems to have contained the threat of open unemployment, for there is little evidence of substantial unemployment until 1965. The 1960 census returned 175,000 unemployed, less than 2.5 per cent of the labor force. This was done by creating a large mass of underemployed and inefficient public employees and officials, and their contribution to economic development is likely to be negative. Labor reallocation involved income transfers as much as income growth in Egypt. The transfer of labor from agriculture, where they would become increasingly underemployed, to low-paid, low-productivity jobs in certain service activities is not the same as a reallocation to industry. Labor does

TABLE XI

EMPLOYMENT BY SECTORS 1960-1965
(a) TOTAL NUMBERS (THOUSANDS)(4)

	1960	1965
Total employment	6,511.9	7,373.9
Agriculture	3,600.0	3,751.0
Industry	625.6	825.0
Electricity	13.1	18.0
Construction	166.0	345.2
Transport	252.7	283.9
Commerce	663.0	729.7
Services	1,191.5	1,421.1

(b) Share of Main Sectors (Percentage)

	1960	1965
Total employment	100.0	100.0
Agriculture	55.3	50.9
Industry and electricity	9.8	11.4
Services	34.9	37.7

(c) ANNUAL AVERAGE RATES OF GROWTH (PERCENTAGE)

	1960	1965
Total employment	3.2	2.3
Agriculture	1.0	1.5
Industry and electricity	7.1	2.2
Services	5.3	3.2

not cooperate with capital in these activities to generate any economic surplus or contribute to economic development and technical progress.

The Egyptian government should not be unduly criticized for its policies; its dilemmas are very serious, and its freedom of choice is very constrained. The inadequacy of its policies reflects, to a large extent, the inadequate resources of an underdeveloped country, a country that has been exploited by foreign powers for a long time, an explosively growing population that has been intellectually retarded by a feudal system, and internal and external pressures for rapid development.

Economic Growth and Government Expenditures

The Egyptian government was striving toward rapid growth in income and industrialization. By assuming the large share of economic activity, it increased its borrowings, taxing, and spending. This section will briefly survey the government position, its revenue and expenditures in the period 1952-1965.

In the period 1952-1960, the Egyptian fiscla system operated with three main budgets: (1) the ordinary budget; (2) the development budget; and (3) the annexed budgets, which included a number of independent budgets such as Railways, the petroleum authority, universities, and the broadcasting organization. The annexed budgets are usually in

balance. When they are not, contributions from the ordinary budget make up the difference. Table XII presents the main developments in these three budgets and in revenues for the period 1952-1960.

During that period there were four years of surplus and four years of deficits on ordinary revenues and expenditures. Surpluses recorded in column 3 are misleading since they do not take account of expenditures in the development budget. The over-all deficits or surpluses are computed in column 6 by adding development expenditures to ordinary expenditures. Column 4 is not added because these expenditures are assumed in accordance with the treasury's procedure--to be in balance with their revenues.

Immediately after the revolution of 1952, the government initiated a policy of financial austerity, but soon after that, total expenditure rose rapidly in connection with development and defense expenditures.

During the Suez Crisis period, there was a decrease in the pace of development expenditures, but these picked up again in 1958. Instead of classifying the development as opposed to the ordinary budgets, Table XIII classifies expenditure items according to their nature and function. The ratio of development to ordinary expenditures rose markedly after 1952/53, declined during the Suez period, and resumed its upward movement thereafter. (see column 3) The same is true for the ratio of development expenditures as a percentage of the Gross National Product (GNP) rose from 2.7 per cent

TABLE XII

PUBLIC EXPENDITURES, REVENUES, AND SURPLUSES OR DEFICITS, 1952/53-1959/60(8)
(LE MILLIONS)

				Annexed Budget	Development Budgets	Over-All (+) Surplus (-) deficits
Fiscal Year	Expenditures (1)	Revenue (2)	(+) Surplus or (-) Deficit (3)	Expenditure (4)	Expenditure (5)	(6)
1953	208.4	198.1	-10.3	4.8	0.2	-10.5
1954	199.7	206.4	+ 6.7	9.5	27.4	-20.7
1955	228.1	219.7	- 8.4	13.4	29.1	-37.5
1956	275.6	267.5	- 8.1	28.9	39.4	-47.5
1957	308.0	264.5	-43.5	13.0	38.4	-81.9
1958	269.5	292.3	+22.8	23.1	28.3	- 5.5
1959	268.8	280.0	-11.2	107.3	46.0	-34.8
1960	282.1	294.5	+12.4	115.9	98.1	-85.7

to 8.2 per cent. In the two years following the Suez Crisis, this dropped to 5.9 per cent and 4.9 per cent, respectively, and by 1959/60 it had risen to 9.3 per cent.

With the political union between Egypt and Syria (United Arab Republic or U.A.R.), a unified budget was introduced covering such matters as foreign affairs, defense, and others (6,pp. 124-135). The most comprehensive changes in the budgetary system were introduced in 1962/63(7,pp. 108-125). After that, all expenditures and revenues came under two main budgets, the services budget and the business budget, with each budget's expenditures divided into current and investment expenditures. The former includes three budgets: (1) the general services budget (previously the ordinary budget); (2) the annexed budgets; and (3) a new local administration budget. The business budget comprises all budgets of autonomous public authorities and related companies owned, either wholly or partially, bu the public sector.

A breakdown of current and investment expenditures for the two budgets reveals that the business budget is mainly concerned with investment type expenditures, while the services budget expenditures are predominantly of a current nature, as shown in Table XIV. Estimates for 1964/65 show the following ratios of current and investment expenditures for the two budgets.

TABLE XIII

PUBLIC EXPENDITURES FOR ORDINARY AND DEVELOPMENT PURPOSES 1953/53-1959/60 (LE MILLIONS)

Fiscal Year	Public Expenditures		(2) - (1) Per Cent	(2) As A Per-Centage Of GNP
	Centage (1)	Developments (2)		
1953	181.1	24.6	13.6	2.7
1954	178.6	47.6	26.7	4.9
1955	207.1	56.9	27.5	5.6
1956	248.7	87.6	35.2	8.2
1957	282.7	66.6	23.6	5.9
1958	242.1	59.0	24.4	4.9
1959	239.3	77.6	32.4	6.2
1960	254.7	127.3	49.9	9.3

TABLE XIV

INVESTMENT AND CURRENT EXPENDITURES IN THE BUSINESS AND SERVICES BUDGETS FOR 1964/65(12, p.240) (PER CENT)

Type Of Budget	Type Of Expenditure	
	Investment	Current
Business	64.6	35.4
Services	11.7	88.3

Table XV provides some idea of the trend and magnitude in public finances, and it is clear that the dominant characteristics of this period is the large and persistent deficits.

Changes in The Distribution of Income

The social and economic policies of the Revolution were motivated by distributional objectives. Many of these policies, whatever their explicit aims, had a differential impact on the incomes of various social groups. At a more general level, improvements in the standard of living of the poor, a reduction in the degree of income inequality accompanied by increases in the income of the less-favored groups, a better distribution of public goods such as education, health, and social services were products of these economic policies.

TABLE XV(8,p.47)

PUBLIC EXPENDITURES, REVENUES, AND DEFICITS (-)
1960/1961-1964/1965
(LE MILLIONS)

Fiscal Year	Expenditures	Revenues	Deficits (-)
1961	700.1	540.5	-159.6
1962	779.7	550.3	-229.4
1963	970.0	727.5	-242.5
1964	1,079.4	775.3	-304.1
1965	1,184.4	829.3	-355.1

There is no doubt that the distribution of income was heavily lopsided when the Free Officers took power in 1952. The polarization of Egyptian society between a small group of very rich families and large masses of poor was the result of complex historical and socioeconomic factors. The maldistribution of income and wealth, common to many underdeveloped countries, was aggravated in Egypt by specific

historical circumstances in the nineteenth century (the formation of large estates through gifts from the ruler or the state) and later by a laissezfaire system which, in a country poorly endowed with human skills and subject to population pressures, permits the appropriation by a small minority of the benefits of economic growth.

Land reform is the main cause of change in the distribution of land ownership in agriculture; hence, it has a dominant influence on changes in the distribution of income. The immediate effect of the successive laws was to remove the top bracket in the existing distribution of land ownership, thus improving the relative distribution of income and wealth. In the transition period, the reform involved a simple transfer of income from the big landowners to the state. Improvements in the relative distribution of income were not immediately accompanied by rises in personal income for the landless laborers, since there is no evidence to suggest that the agrarian-reform authorities paid laborers on expropriated estates more than the market wage.

Unil 1958 the state was the major recipient of incomes transferred by the reform. The law, however, was changed on several occasions after 1958, always to the greater advantage of land-reform beneficiaries. After these changes, the transfer of land ownership implied significant income increases for the beneficiary.

The number of landless families (defined as neither

owning nor renting land) was estimated at 1,270,000 in 1950 and at 960,000 in 1965. Average daily wages for adult males was LE 0.10-0.12 and LE 0.20-0.22, and the number of days worked per year 150 and 180 in the respective years. A comparison of shares in agricultural incomes accruing to various groups is summarized in Table XVI.

TABLE XVI (3)

SHARES IN AGRICULTURAL INCOME
(PER CENT)

	Year 1950	Year 1960
Landless families	9.0	8.0
Holders of less than 5 feddams	17.5	34.0
Holders of 5 to less than 100 feddams	48.5	54.0
Holders of 100 and more	25.0	4.0
TOTAL	100.0	100.0

Two features should be mentioned about these figures. First, the income for the holders of less than five feddams doubled its share in total agricultural income mainly because of the transfer in land ownership after the land-reform law. Second, there seems to have been an increase in the share of the holders of 5 to less than 100 feddams. This is not surprising, since this group includes both former big landlords left with less than 100 feddams and the very stable group of medium land owners whose share of cultivated area has not much declined.

In industry, nationalization automatically improved the relative distribution of income and wealth by transferring the ownership of means of production in large areas of the modern sector to the state. New socialist laws granted substantial benefits to workers. They displaced managing directors and members of company boards and replaced them by new men whose income probably increased as a result. The main change, however, is a considerable reduction in the volume and share of the profit income of households. The direction of distributional changes is clear, but their magnitude is difficult to assess.

Two features of Table XVII are of interest. First, the shares of all types of manufacturing employment in the country's labor force seem to have been significantly increased. Second, average incomes of weekly paid workers seem to have increased by a larger percentage than those of employees. Deflating by the official cost-of-living index, increases in average real income between 1952 and 1966 appear to be of the order of 44 per cent for workers and 8 per cent only for employees.

Government civilian employment increased from an estimated 325,000 in 1952 to 1,035,000 in 1966. The share of this group in the country's labor force rose from 9.6 per cent to 15.4 per cent; its share of the national income, from 8.6 per cent to 13 per cent. Changes in the grade-composition of the civil service, however, significantly affect the averages.

TABLE XVII

EMPLOYMENT AND AVERAGE INCOME IN MANUFACTURING
1952 and 1966/67 (2)

	Labor Force (thousands)		Share of National Labor Force (Percentage)		Average Annual (LE's)	
	1952	1966/67	1952	1966/67	1952	1966/67
Modern Sector						
Employees	32	80	.45	.95	312	450(575)*
Workers	250	517	3.50	6.08	88	168(201)
Small-scale						
Self-employed	120	170	1.70	2.00	120	280
Workers	80	115	1.10	1.35	32	60
Itinerant and rural	80	90	1.10	1.05	32	60

*Figures between brackets include fringe benefits and employer's contribution to social insurance.

An analysis of changes in government wage scales indicates that significant increases in income accrued in the lower half of the scale. Thus the maximum improvement is in grade 9, where real income increased by 85 per cent between the years 1952 and 1966. However, the real value of nominal salaries at the top of the scale fell by some 10-20 per cent between 1952 and 1966.

There is little coubt that rural areas have benefited under the Revolution from a rise in the relative share of public expenditures on social services. Achievements after 1952 have been significant. An interesting study by the

ministry of planning reveals, however, the degree of disparity in the social infrastructure between provinces and urban governorates in 1966/67. This is significant for hospital beds and for the spread of education above the primary levels; the discrepancy between public administration expenditures and revenues implies a hidden subsidy from provinces to urban governorates. That the proportion of students in primary schools in provinces is close to the proportion of their population in total is a measure of the progress accomplished in certain fields. Table XVIII reveals some of the indicators that influence rural-urban distribution of social facilities in 1966/67.

TABLE XVIII

SOME INDICATORS OF RURAL-URBAN DISTRIBUTION OF SOCIAL FACILITIES 1966/67*
(PERCENTAGES)
(4, pp. 148-157)

	Governorates	Provinces
Population	21.8	78.2
Students in primary education	27.6	72.4
Students in preparatory education	35.7	64.3
Students in secondary education	42.4	57.6
Hospital beds	41.4	58.6
Social centers	13.2	86.8
Local administration revenues	29.7	90.3
Local administration expenditures	31.3	68.7

The government employment policy is, perhaps, after the land reform and the nationalization, the major influence on the distribution of income. The difference between the employment policy and the other measures is that it may continue

to operate for some time in the future. Broadly speaking, nationalization meant a single, final change, and the land-reform redistribution will come to an end unless ownership ceilings are lowered once more, an unlikely event under the present government.

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CHAPTER IV

STRUCTURAL CHANGES IN THE BANKING SYSTEM

During the fifties and early sixties, Egypt, while still a predominantly agricultural country, made important strides towards laying a foundation for industrial developments. This transition attempt revolved around many development programs that had to be financed by the Egyptian government. This drastic rise in public expenditures led to budgetary deficits, a large part of which were covered by the banking system, especially the central bank. Since the Egyptian banking system was not adequately equipped to handle this enormous task, a complete reconstruction of the banking system was in order.

Reconstruction of Egyptian Banking

In the early fifties most of the commercial banks were either branches of foreign banks or institutions registered in Egypt but owned and controlled mainly by foreigners. The predominant business of these banks had traditionally been the financing of foreign trade, mainly the cotton crop. Because Egypt was until 1947 on the sterling-exchange standard, the banks were able to supplement their lending capacity during the height of the cotton financing season by borrowing from the London money market. The money supply usually reached

its seasonal height during the peak of cotton financing requirements in December and its low for the year in August, when the advances made by commercial banks were repaid.

In 1952 there were twenty-five registered commercial banks, of which three were British, two French, two Greek, two Turkish, and two Palestinian(3, pp.226-228). While the remaining banks were registered in Egypt, they were controlled by foreigners, except for the National Bank of Egypt (NBE) and Bank Misr.

The NBE, originally established in 1898, had both a banking and an issue department. The latter had a monopoly of the note issue. The banking department originally functioned as a government bank and as a purely commercial bank. When in 1947 Egypt left the sterling area, the banking department was entrusted with the administration of exchange control. A few years before Egypt left the sterling area, a gentlemen's agreement between the NBE and the commercial banks provided for the latter to keep noninterest-bearing deposits with the bank as reserves against deposit liabilities.

The establishment of Bank Misr in 1920 as a purely Egyptian bank reflected the growth of Egyptian nationalism. Whereas most of other banks had concentrated on financing foreign trade, Bank Misr played an active role in investing in industry. In addition to its seasonal financing of the cotton crop, it participated in industrial issues as well as underwritten stock floatations. By the early 1950's this

bank controlled a diversified list of companies which came to be known as the Misr Group. These included chemical, cement, jute, ginning, and textile companies. The shares of these companies were reserved to Egyptian nationals.

The 1956 war led to the sequestration of British and French assets in Egypt and those of certain Jewish residents who were considered unfaithful to the government. These assets included British and French banks that continued to operate, but they were taken up by the Economic Development Organization which merged them with other Egyptian banks. Later, in 1961, Belgian economic interests were sequestrated, a gesture of protest after Lumumba's assassination. No compensations of any kind were made to the owners of these French, British, and Belgian interests, but it is logical to assume that they realized the fact that their end in Egypt was getting closer and the thing to do would be to take as much as possible of their assets outside of Egypt one way or another before the government made its move. This becomes even more logical after one considers that the Egyptian government was more interested in eliminating all foreign influence in Egypt's domestic affairs than in keeping foreign capitalistic assets.

These sequestrations were followed immediately by Egyptianization measures, for the laws 22-24 of January, 1957, required all foreign banks, insurance companies, and local branches of foreign commercial concerns to change their status

to that of Egyptian majority shareholding and Egyptian management. Commerical banks were also required by these laws to become joint stock companies, whose capital would be owned by Egyptians and whose management would be Egyptian. Banks were allowed five years to carry out these changes.

The Egyptian government was wary of independent centers of economic power, often suspected of being disguised political opposition and capable of delaying or frustrating its development plans. This attitude was reflected in the laws forbidding any bank to hold more than 25 per cent of the shares of any joint-stock company, a law clearly directed against the Misr Group and designed to prevent the emergence of similar groups.

In February, 1960, Bank Misr and the NBE were nationalized. These nationalizations meant that the government became the sole owner and manager of all newly nationalized interests. Beginning in January 1, 1961, the NBE was divided into a separate Central Bank of Egypt and a Commercial National Bank of Egypt. The Central bank took over the assets and liabilities of the issue department, as well as those functions of the banking department which were related to central banking (5, pp.239-242). (The emergence and functions of the central bank will be discussed in more detail in Chapter Five.)

The remainder of the banking system and insurance companies were nationalized in July, 1961. Changes in management were very essential, according to government's plans. Later

nationalizations and mergers in 1962 reduced the number of banks to five large banks by 1963 (6, pp.157-160; 7, pp.1962-1963). In July, 1964, the government decided that each bank would be responsible for financing particular segments of the public sector. However, the country's main agricultural crops, especially cotton and rice, would be share-financed by all five banks.

Credit Expansion and Reduction In Holdings Of Net Foreign Assets

During World War II and until 1954, the relationship between money supply and the foreign assets of the NBE continued to be one of very high covariation. Increases in foreign assets were accompanied by increases in the supply of money owing to the fact that Egypt was an export economy. An export surplus will, other things being equal, lead to a rise in foreign assets; and, as exporters exchange their assets for deposits through their banks, both bank reserves and money supply will increase with a large proportion of this increase coming from external origin. The ratio of foreign monetary assets of the central and commercial banks to the total money supply is the usual measure of money due to external origin.

Table XIX shows the changes in the foreign assets of the NBE and the changes in the money supply for 1940-1954. The direction and magnitude of change in most of the years examined are consistent in that, when foreign assets increased, so did the money supply, until 1952.

TABLE XIX

CHANGES IN MONEY SUPPLY AND IN THE NATIONAL BANK OF EGYPT'S FOREIGN ASSETS, 1940-1954(2)
(LE MILLION)

Year Ending In December of	Changes in Gross Money Supply	Changes In Foreign Assets Of NBE
1940	+24	+32
1941	+29	+40
1942	+42	+49
1943	+55	+83
1944	+76	+62
1945	+75	+49
1946	-22	- 8
1947	-12	- 5
1948	+38	0
1949	0	- 4
1950	+17	- 1
1951	+18	+ 4
1952	-10	-71
1953	- 7	- 9
1954	- 1	-12

In the period 1952-1964, the covariation between money supply and net foreign assets was broken, and the main reason appears to be the fall in the ratio of money from external origin. This fall meant that foreign assets were not reflected in the supply of money as heavily as before, which also meant that changes in net foreign assets had a lesser impact on changes in money. After 1952, changes in money supply reflected to a large extent the treasury and business borrowings rather than mainly the monetization or demonetization of balance of payments surpluses or deficits.

What happened in Egypt after 1952 is that the money supply came to depend more upon bank-financed treasury deficits than on changes in the country's foreign assets. These developments are likely to be accompanied by changes in the real sectors of the economy. Variations in income were determined by changes in investment or some other automomous variables such as government expenditures rather than by exports, whereas, previously, export values were more important than government expenditures in causing variations in income and imports.

The situation after 1952 appears to have been reversed, Since 1952 it was changes in government expenditures which determined major variations in income and imports. Export values still influenced income and imports, but the connection was weaker, especially in the case of the relationship between exports and imports because development expenditures usually require larger amounts of imports than nondevelopment expenditures. Essentially this would imply an upward shift in the import-income functions, unless measures such as exchange control and import licensing altered this shift(1, p.206). Thus, imports may be rising because of the rise in income (and possibly prices) caused by government expenditures. In this situation the rise in imports leads to a reduction in net foreign assets, whereas increased government expenditures financed at the central bank will lead to a counteracting rise in money. Whether the supply of money rises or falls

TABLE XX

CHANGES IN THE ASSETS HELD BY THE BANKING SYSTEM AND CHANGES IN THE MONEY SUPPLY AND BANK RESERVES, 1952-1964(2)
(LE MILLION)

Year Ending In December Of	(1) Money Supply	(2) Net Foreign Assets	(3) Claims On	(4) Claims On Private Sector	(5) Commercial Bank Reserves
1953	- 7.2	- 9.1	- 5.8	1.5	0.4
1954	- 1.2	-12.1	-15.1	35.1	-4.7
1955	3.4	-35.2	39.3	5.5	11.9
1956	56.9	-38.7	88.1	15.1	-3.0
1957	2.7	-52.4	9.6	14.5	6.7
1958	1.7	-20.9	-0.9	26.4	-0.6
1959	20.8	-28.5	20.3	51.4	4.2
1960	10.2	-14.7	64.1	11.3	10.5
1961	57.3	-25.7	36.6	27.4	-2.2
1962	36.1	-56.9	47.0	59.8	-4.6
1963	111.1	- 0.9	120.7	30.7	10.5
1964	106.3	-15.5	77.6	27.0	18.4

depends on the magnitude of the expansion in government and business borrowing from the banking system, relative to the decline in net foreign assets.

Table XI shows that there is little direct connection between changes in money supply and net foreign assets, or, more correctly, there exists a negative relationship between them for every year since 1954. On the other hand, there is a strong association between changes in money and the banking system's claim on the government; the largest increases in money generally occured when claims on the government rose most, except when other factors were present. At the same time, decreases in government borrowing from the banking system were associated with decreases in money supply (1953 and 1954) or with very small increases (1958). Although the relationship between the money supply and the credit to the private sector is a positive one, this is true to a lesser degree than the relationship between credit to the government and money supply. Changes in commercial bank reserves are more closely associated with the size of the government's borrowing from the banking system than with any other variables.

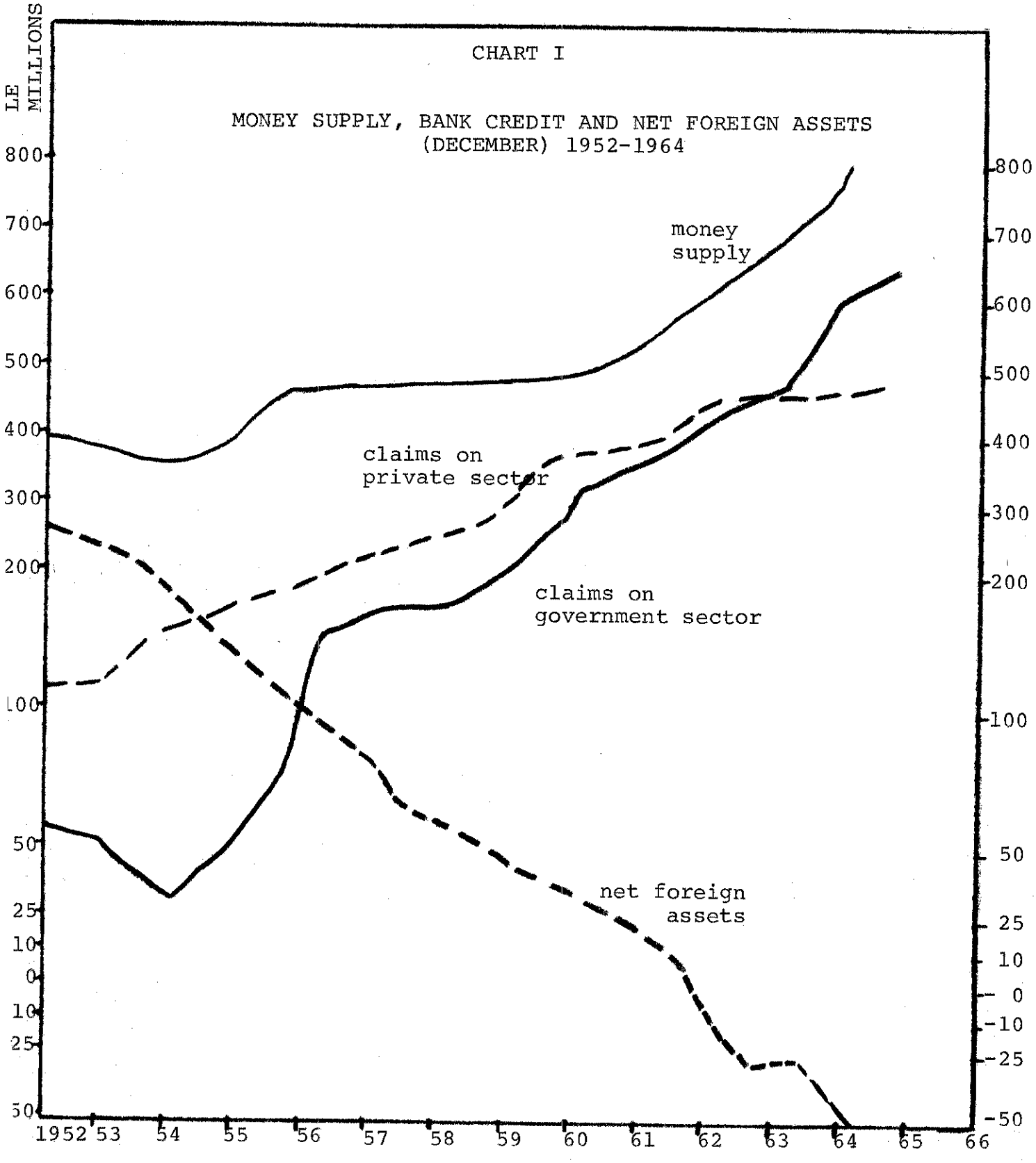
A reduction in net foreign assets and an increase in money supply will lead to a fall in the ratio of money of external origin, and this will result in increases in the money available for private and public borrowings. It also means an increase in the degree of domestic control over money and credit.

This rapid decline in foreign assets appears to have been part of a conscious decision by the authorities. The Egyptian government must have looked upon foreign assets as a kind of luxury which a developing economy could do without or, more accurately, should use to help finance the foreign exchange costs of the development programs. In an article appraising Egypt's economic growth since 1952, the NBE (by now a commercial bank) had this to say:

> First of all, it was decided to run the economic machine at its highest feasible speed in order to combat the effect of population growth. The implicit decision is thus to tolerate the maximum possible load of unfavourable effects of such elements as monetary expansion, Government indebtedness, and foreign payments difficulties. . . . . Secondly, it was decided to start the industrialization process. . . . This decision implies the maximization of the present loan on the foreign payments due to increased imports of raw materials, semi-finished goods, spare parts and equipment(7, pp.41-42).

There is some evidence, therefore, that the balance of payments deficits and the decline in net foreign assets were part of the authorities' decision to use most of these assets to finance the foreign exchange costs of industrialization. In this sense one can say that increases in government expenditures led both to the rise in money and caused the deficit in the balance of payments.

Chart 1 shows that claims on the government rose more than fourfold between 1952-1960, whereas claims on the private sector were slightly less than double. Net foreign assets declined to about a fifth of their original amount, and the supply of money rose by 22 per cent. The main recipient of



Source: International Financial Statistics, Supplement to 1965/66 issues, pp.264-65.

bank credit was the government, and the main extender of this credit to the government was the central bank.

During 1961-64 the decline in net foreign assets continued, and after 1962 net foreign assets were negative in the sense that Egypt's foreign monetary liabilities were greater than her foreign monetary assets. The government's credit demand upon the banking system rose sharply, and by the end of 1963 claims on the government were larger than those on the private sector. By contrast, in 1954, credit to the government was one-quarter that to the private sector.

Between 1952 and 1954 there was a small fall in the supply of money, which was reflected in a reduction in credit to the government and a fall in net foreign assets. The rise in credit to the private sector appears to have been caused by the slow exportation of cotton, which necessitated a longer period of credit expansion to cotton exporters(4,p.19). The government's contractionary influence was part of the authority's policy of fiscal restraint, which resulted in a small cash surplus.

From 1954 to 1957 the supply of money recorded a very rapid increase, the total rise being LE 63 million. The increase came mainly from the large rise in the banking system's credit extension to the government. The government had large cash deficits in connection with the Suez crisis and the beginning of development expenditures.

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from the large rise in the banking system's credit extension to the government. The government had large cash deficits in connection with the Suez crisis and the beginning of development expenditures.

The large rise in credit to the government came mainly through the bonds and treasury bills purchased by the NBE, whereas the commercial banks lent the government only some LE 10 million. The increase in credit to the government by the NBE between 1954 and 1957 was LE 143.7 million.

In the period 1957-1960, the private sector absorbed slightly more credit than the government did. However, a substantial proportion of the total increase in credit to the private sector went to the government-sponsored institutions. As larger sectors of the economy became nationalized, the government borrowing from the central and commercial banks increased rapidly during 1960-1964.

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CHAPTER V

CENTRAL BANKING AS A CONTROLLING AUTHORITY AND A LENDER OF LAST RESORT

The National Bank of Egypt (NBE) had no effective control over commercial bank credit prior to the monetary reform in the early 1950's. It was neither a banker's bank nor a lender of last resort, and it did not influence credit through changes in the reserve requirements, rediscount rate, or open-market operations which are designed to add to or reduce commercial bank reserves.

After 1952 the banking system played a very important role in financing the government's development programs. This was mainly done by buying government securities from the treasury by the central bank. The central bank also attempted to regulate credit to the private sector by manipulating the instruments of monetary controls.

This chapter deals with the role that the central bank played in the Egyptian economy after 1952, from changes in reserve requirements, to credit controls and the financing of the treasury and the private sector.

Reserve Requirements

Before 1939 commercial bank reserves could fall to any level and did fall as low as 9 per cent, since there was no reserve requirement(17). Most of these reserves were held

in cash or in the form of British Treasury Bills, and a minimal amount was kept with the NBE for interbank clearing purposes. Because of unusual internal and external disturbances during the middle of World War II, there was a run on banks in June and July, 1942, and some commercial banks were hard put to supply the notes the public demanded.

In 1943, a gentlemen's agreement was reached between the NBE and the clearing banks that a minimum reserve against deposits be kept by the bank(22). In 1948 there was a further agreement which specified a 20 per cent minimum reserve to be kept with the NBE. Commercial bank reserve balances with the NBE rose from a mere LE 0.61 million in 1938 to LE 30.4 million in 1950. While these requirements did not represent any kind of active monetary policy, they laid the ground for future changes in reserve requirements.

Soon after the 1951 Banking Act was passed, the reserve ratio was set at 15 per cent. Then, in July, 1954, in conjunction with lowering the discount rate, the ratio was reduced to 12.5 per cent, effective September 1. The purpose of this measure was to alleviate the tight money market conditions resulting from a fall in commercial bank reserves(22). The fall in bank reserves was largely due to a reduction in the NBE's holdings of government debt. This reduction was in treasury bills (mainly cotton bills), which the government had issue to finance the cotton crop in the 1952-1953 seasons. The lower reserve requirements would enable the

banks to expand credit for seasonal purposes. Between 1954 and 1956 there were no changes in either the discount rate or reserve requirements.

From 1957 onward, continued use made of changes in reserve requirements as a means of credit adjustment. These changes were made predominantly on a seasonal basis, to provide the banks with sufficient funds to finance the yearly cotton crop. It appears that the NBE viewed changes in required reserves as the best means for providing monetary elasticity in the system. Since no changes in discount rates were made, changes in reserve requirements appear to have become the main instruments of monetary adjustment.

In October, 1957, the NBE reduced the required reserve ratio to 7.5 per cent. It remained at that level until the end of February, when the peak of the cotton finance requirements was over; it rose to 10 per cent during the month of March and to 12.5 per cent beginning April, 1958.

During the following cotton season, the ratio was only reduced to 10 per cent from November, 1958, to February, 1959, and then raised to 12.5 per cent in March. This small reduction in reserve requirements, or less monetary ease, was prompted by the consideration that, during the 1957-58 reduction, deposits with commercial banks increased, and banks expanded their loans and advances for purposes other than cotton financing. Some estimates place this source of finance at LE 1-4 million per year during 1955-60. According to official

sources, the higher level of reserve requirements in the 1958-59 season had some effect in limiting the rise in loans and advances(9,p.35). It also seems to have forced the banks into borrowing heavily from the NBE. Borrowings from the NBE were LE 7.5 million in December, 1957, and a year later were up to LE 20.5 million(10, p.182). Most banks were able to maintain the required ratio. The first time the ratio fell below requirements, the NBE exempted the guilty banks from any penalties. The NBE also showed its willingness to rediscount treasury bills held by banks in case of a fall in the ratio, the rediscounting to be considered effective as from the day of the fall and the proceeds to be credited to the banks' account that same day.

The NBE lowered the reserve requirements before the cotton season in some years as is the case in 1959-60, when the reserve requirements were lowered to 10 per cent from October 1, 1959, to February, 1960. This particular action is of no special interest except that the period of lower reserve requirements had to be extended for a month to finance the issue of a new development plan loan for LE 15 million (11, pp.171-172). The loan was taken up in full, part of the success being attributed to the commercial banks, which increased their holdings of government securities by LE 8.2 million(12, p.4). What is of interest here is the fact that the reserve requirements developed in these years from a mere seasonal weapon for the facilitation of cotton financing to

an instrument for the support of treasury borrowing. This was done again in 1960 when the government came to the market for an additional LE 25 million.

The central bank continued to use reserve requirements for seasonal purposes, but in May, 1962, they were raised from 12.5 per cent to 17.5 per cent, and since that period reductions for seasonal purposes have generally been made from the 17.5 per cent level, as in previous years. The rise to 17.5 per cent was part of the monetary policy pursued after the standby agreement with the International Monetary Fund.

Liquidity ratios were not used until 1958, apparently to change the distribution of assets for certain individual banks(16). By specifying certain assets which commercial banks must hold in cash and other assets to total liabilities, and by varying the level and composition of the ratios, the central bank can affect the ability of the bank to expand credit as well as direct whatever lending is permitted into approved channels. Apart from the usual cash items which are normally included in the numerator of such ratios, commercial banks in Eqypt were also allowed to include treasury bills, government securities, and government guaranteed securities(2, p.4).

No use was made of liquidity ratios except to fix them at 30 per cent in 1958. Commercial banks were able to maintain this ratio, which was based on the general average pre-

vailing in the aggregate balance sheets of commercial banks during the preceding three years. This varied between 30 per cent at the peak of the cotton season to 40 per cent at the end of August when the banks' cash and treasury bills rose(2, p.4). This ratio was left unchanged even when the new monetary policy of 1962 was inaugurated. Because of this, it is difficult to ascertain whether they were meant to function as seasonal, quantitative, or qualitative instruments for monetary controls by the central bank. It might have been thought that the primary purpose of liquidity ratios was "to increase the effectiveness of credit restrained by limitning the scope for commercial bank liquidation of treasury bills to support an expansion of bank loans(2, p.2,; 2, p.13). This was the Bank of Canada's declared purpose when it began using this weapon. However, it is difficult to accept this hypothesis, for on the one hand, there is not much possibility of selling treasury bills or securities or government-guaranteed bonds in the open market (other than to the central bank); and on the other hand, the authorities did not raise the liquidity ratio when the volume of the above-mentioned assets increased substantially in the banks' portfolios.

Interest Rates and Credit Controls

Generally speaking, changes in the central bank's discount rate are designed to affect the rate of spending through changes in the cost and availability of credit; while there are other reasons why the bank rate may be changed, the use

of this credit-control instrument has been usually associated with counter-cyclical policies. In Egypt, however, is is not likely that the framers of the 1951 act had the control of the rate of spending uppermost in their minds, since investment was not a main variable in the flow of total expenditures or in a change in cycles. Exports were even, during most of the 1950's, the main cycle generators.

The NBE was empowered to discount treasury bills and approved commercial bills, and it appears that the intent of this part of the legislation was twofold: (1) to allow the central bank to act as a lender of last resort, encourage the commercial banks to borrow from it, and thus increase their dependence on the NBE; and (2) to attain uniform interest rates at a level deemed desirable by the authorities. The authorities might wish to exercise the NBE's influence as a lender of last resort for several reasons. By doing that, the authorities can provide elasticity in the monetary mechanism so that banks can borrow from the NBE during the peak of cotton-financing requirements. Should this borrowing habit develop to a sufficient extent, it may then be possible to influence commercial bank-lending activities by making central bank credit easier or harder to obtain. At the same time, the achievement of a given level of interest rates may be desirable if the authorities wish to affect the rate of saving or the demand for credit by the public. It is important to notice that, if the first objective is achieved, the second is more likely to be attained, i.e., if rediscounting and

borrowing is a well-developed habit, then any rise or fall in bank rate (or the schedule of ratios published by the NBE) is more likely to be transmitted to the rest of the money and credit market than otherwise.

Between 1952 and 1954, there were changes in the NBE's discount rates, and upon two (2,p.2; 2,p.13) of these occasions, the bank's reaction was to change its own lending and deposit rates in the same direction. In July, 1952, the discount rate on treasury bills was raised from 2 to 2-1/4 per cent and then on commercial bills from 3 to 3-1/2 per cent. The NBE wanted to reduce the demand for bank loans and to check the speculative holding of commodities as well as to encourage savings(3,p.8). The reaction of the banks was to raise their minimum rates of interest on various classes of advances and the maximum rate of interest on deposits.

In September, 1954, the NBE lowered its discount rate from 3 to 2-1/2 per cent on treasury bills and from 3-1/2 to 3 per cent on commercial bills. This action was taken "with a view to alleviating the prevalent credit stringency"(1, p.84). In addition, to encourage commercial banks to invest in treasury bills, the NBE expressed its readiness to discount such bills presented by banks at a lower rate than the official discount rate but slightly higher than the market rate. The NBE also rediscounted commercial bills to a greater extent(1,p.18). This stands out as a sincere effort on the

part of the authorities to increase the use of bills as a money market commodity and perhaps to increase the banks' dependence on the NBE.

On cannot, from this limited use of the discount rate, conclude that bankrate policy was successful in influencing the commercial banks' interest rates. Thus, during the 1954 lowering of the discount rates, six months elapsed before the commercial banks reduced their lending and deposit rates. It is possible that the banks' belated reaction was of the follow-the-leader variety, in the sense that the commercial banks felt duly bound to follow the NBE when the latter gave the signal for a change in interest rates. This might be the case when one remembers that the NBE often used moral suasion to attain its ends. This does not mean that bank-rate policy was unsuccessful. In the specified instance of 1954, for example, the commercial banks' interest rate may not have been lowered immediately after the fall in bank rate because the banks experienced a sharp loss in their cash reserves which fell from LE 50.3 million in June, 1954 to LE 32.4 million in March, 1955; and this decline was mainly due to a fall in net foreign assets(1,p.18).

After these early changes in bank rate, the central bank did not use that weapon for quantitative purposes until 1962. With such limited use of the discount rate, it is not possible to conclude one way or the other about the efficiency of this weapon of credit control.

On the other hand, the central bank's desire to increase the commercial bank's reliance on it appears to have been achieved. Commercial bank borrowings during the height of the cotton-financing season in December rose from LE 4.4 million to LE 31.2 million between 1952 and 1960, as shown in Table XX. At the same time cash and balances with the central bank did not fluctuate seasonally as much as they did before 1954. Between 1952 and 1954, the seasonal decline in bank reserves was about LE 23 million on the average, whereas between 1955 and 1960, the fluctuation was usually less than LE 5 million. Thus, the financing of the seasonal expansion in loans and advances of commercial banks since 1954 has been possible--apart from the small reduction in their balances with the central bank--because of two developments: (1) a decline in treasury bill holdings and (2) larger borrowings from the central bank.

It can also be seen from Table XXI that there has been a substantial increase in bank holdings of commercial as well as treasury bills. But it is apparent that banks have not discounted at the central bank commercial bills on a seasonal basis. Part of the accomodation of the seasonal loan expansion was accomplished through reductions in treasury bill holdings only. This is attributed to the fact that, during most of the period between 1952 and 1960, the treasury bills yield was roughly between 1-1/2 to 2-1/2 percentage points lower than the discount rate. A commercial bank in

TABLE XXI

BILL HOLDINGS OF COMMERCIAL BANKS
1952-1964 (9)
(LE MILLIONS)

Year	Commercial Bills		Treasury Bills		Totals	
	August	December	August	December	August	December
1952	11.2	7.2	1.6	2.1	12.8	9.3
1953	7.1	9.1	12.1	2.1	19.2	11.2
1954	14.2	16.7	8.7	1.2	22.9	17.9
1955	16.4	19.4	8.7	1.3	25.1	20.7
1956	17.0	16.0	13.3	6.8	30.3	22.8
1957	17.0	17.8	15.0	6.8	33.5	24.9
1958	14.4	17.8	10.0	.0	24.4	17.8
1959	17.3	20.1	11.9	0.4	28.9	20.5
1960	20.1	20.6	14.6	3.0	34.7	23.6
1961	33.2	18.6	59.5	37.5	92.7	56.1
1962	13.2	15.2	41.3	44.3	54.5	59.5
1963	15.3	13.8	68.7	70.0	84.0	83.8
1964	5.0	8.8	94.0	60.7	99.0	69.5

need of cash for seasonal loan expansion could acquire reserves by allowing its portfolio of treasury bills to run down. It was more profitable, therefore, for commercial banks to reduce a large part of their holdings of bills before borrowing from the central bank. With the nationalization of the banking system in 1961, these profit considerations were weakened.

After 1960 an important modification occured in the commercial banks' behavior pattern. While bank reserves (cash and balances with the central bank) and borrowings continued to display the seasonality of the 1950-60 period, treasury bill holdings did not. In 1962 and 1964, for example, bank holdings of treasury bills in December were higher than in August. This reversal of past behavior reflects the treasury's increased reliance on commercial banks, especially the new National Bank of Egypt, to cover the treasury's cash requirements. To accomodate this increased treasury demand for credit, commercial banks had to borrow large amounts from the central bank. The much larger indebtedness of commercial banks during the slack months of the cotton season is also due to the rise in credit for non-agricultural purposes.

The discount rate was not changed again until early 1960. This time, however, its use was for qualitative purposes. To understand how this occurred, it will be useful to discuss briefly the credit development in that period.

TABLE XXII

FINANCING OF COMMERCIAL BANKS' SEASONAL EXPANSION
OF LOANS AND ADVANCES
1952-1964(17)
(LE MILLION)

Year	Loan and Advances		Cash and Balances With Central Bank		Borrowings From The Central Bank	
	August	December	August	December	August	December
1952	74.5	104.3	60.1*	42.2	0.2	4.4
1953	64.6	103.4	58.8	42.7	0.1	4.2
1954	78.5	126.5	58.7	37.9	2.3	11.0
1955	93.4	126.8	49.4	49.8	3.1	9.5
1956	93.0	142.9	53.3	46.8	2.5	16.3
1957	100.3	157.4	59.3	53.5	4.0	7.5
1958	136.2	186.2	56.8	52.9	.0	20.5
1959	146.2	220.4	59.6	57.4	.0	31.0
1960	166.3	216.7	64.9	69.2	5.1	31.2
1961	170.9	231.7	84.2	65.4	0.6	21.5
1962	183.9	261.1	92.3	60.7	13.5	32.9
1963	218.0	311.5	87.4	71.4	32.5	63.9
1964	262.0	400.0	103.7	89.7	71.9	121.7

*September, 1952.

The 1959-60 cotton crop involved a great deal of financing from commercial banks--much larger than the previous season--although the estimated size of the crop in the beginning of the 1959-60 season was not much different from the 1958-59 figure (12.2 million cantars vs. 11.9 million cantars)(5,p.3). Also loans and advances granted by banks for the purpose other than cotton financing continued to rise. All this necessitated a great deal of borrowing from the NBE. By the end of 1959, borrowings rose to a record LE 31 million (see Table I), in addition to rediscount facilities of more than LE 6 million.

It seems that NBE was afraid that speculation in cotton would affect its competitive position in world markets(7,p.9), and so on December 29, 1959, the bank issued a direction to commercial banks to reduce their cotton loans by 15 per cent before mid-January, 1960. Again, on January 9, commercial banks were directed to reduce cotton loans further by a minimum of 10 per cent before the end of January, 1960(12).

These directives were apparently instrumental in reducing cotton loans and total advances, in general, a tendency which was aided by the improvement in foreign demand for Egyptian cotton(12). The use of the discount rate in this instance was therefore directed at a special segment of the economy.

As noted in Chapter II, Egypt experienced continued deficits in her balance of international payments. The level

of foreign currency holdings fell to alarming proportions, and in the spring of 1962 the government requested and received from the International Monetary Fund (IMF) a stand-by agreement, giving Egypt drawing facilities of up to $42 million (measured in U.S. dollars) over the next twelve months. In return for its help, the IMF suggested better housekeeping.

As a result of this agreement, various measures were taken to restrict the expansion of credit, including a rise in the discount rate of the Central Bank of Egypt (CBE)--the new central bank, from 3 to 5 per cent beginning May 15, 1962(22,p.20). This general tightening of credit and the attempt to stimulate savings had actually begun somewhat earlier than the new monetary policy; for on March 21, 1962, the Central Bank Board of Directors exempted the Post Office Savings Bank from the maximum creditor rates. For this reason, as well as a measure barring payment of interest on current accounts, there was a very rapid shift to time and savings deposits.

Discussion in the financial press of the effects of the rise in interest rates appears to have been centered around the inflationary effects of the action. Obviously, this also had political implications such as causing the consumer to be apprehensive and creating problems for Nasser and his government. The question was raised as to whether or not the rise in interest costs might add to the total cost of

consumer goods, and the answer, quickly given, was in the negative. This would not occur because of the subsidies and price controls which pervaded the price structure in Egypt. Moreover, the intent of the measure was to cure the inflation which would surely occur if the monetary reins were given to it. At the same time, it was hoped that the rise in interest rates would stimulate savings and control the rate of credit expansion within the requirements of the most productive uses(14,p.36).

The National Bank of Egypt referred to this rise in interest rates as the introduction of a "new monetary policy" designed to check the high rate of growth of the money supply in the last few years and connected mainly with large outlays on economic development by the public sectors: "The monetary authorities have found it advisable at this stage of economic development to discourage various enterprises from having recourse to bank credit in lieu of real savings"(4 ,p.9).

But it is not certain how much faith the authorities had in the efficacy of the rate of interest as a quantitative weapon of control. For, in addition to the 2 per cent rise in the discount rate, there was an accompanying increase in the required reserve ratio from 12.5 to 17.5 per cent, but banks were granted a delay of sixty days to adapt their position to the prescribed ratios. Moreover, "the global size, as well as each bank's share of bank

credit were determined by the central bank so as not to exceed a certain ceiling"(13).

Deficit Financing Of The Public and Private Sector By the Banking System.

Governments of underdeveloped countries that are committed to rapid economic growth and industrialization confront the problem of finding sufficient financial resources outside of the banking system. This problem or inability leads to deficit financing. The procedure of financing deficits has been to estimate what the nonbank public will buy and then to allocate the rest of the banking system (the central bank and commercial banks).

If the treasury plans to sell LE 50 million during a given year, it would find out how much the pension and insurance funds and large businesses would buy of the total, urging them to participate in the development effort. If the amount these institutions will purchase is LE 10 million, the treasury would then approach the commercial banks to see how much money they will take, perhaps reminding them that these holdings may be included in the computation of their liquidity ratios. If the banks buy LE 5 million, then the central bank will take up the remaining LE 35 million. Individuals and private businesses have bought very few government bonds so that the treasury has had to rely on banks--mainly the central bank--and other savings institutions, as well as purchasing its own bonds when that was possible.

An estimate of the cash deficit and that part of it financed by the banking system will be attempted at this point in order to indicate its effect on the supply of money. The estimated cash deficits for any year will be defined as the increase in public debt outstanding (treasury bills plus loans plus consolidated loans) minus the increase in government deposits at the commercial and central bank. This net cash deficit will then be allocated to three holders of government debt, namely:

1) NBE up to 1960; CBE since 1960;
2) Commercial banks;
3) Others.

"Others" is a residual and will include individuals, private nonbank businesses, other banks (especially the Post Office Savings Banks), and presumably the government's holdings of its own debt, since the treasury operates trust and pension funds which it normally invests in its own assets. Unfortunately, there are no data subdividing "others" into its components; it would be interesting to know how successful the government has been in placing its debt with the different nonbank sources of savings such as individuals, private businesses, insurance and pension funds. This is not a serious drawback, however, since the above three categories are sufficient if one is mainly interested in separating the banking system's sources from other sources of financing the government deficits.

In the period 1952 to 1960, the net cash deficit was LE

235 million, since net liabilities of the government rose from LE 156 million in December, 1952, to LE 391 million in December 1960. (See Tables XXIII and XXIV) Of this total the NBE financed on a net basis LE 212.5 million or 90 per cent of the total deficit, while commercial banks and "others" financed the other 10 per cent. This means that commercial banks and "others" played a minor role in financing the treasury's cash deficits up to 1960 and, so far as the commercial banks are concerned, a negligible role in the creation of money for the government's needs. It is also clear that the more relevant definition of deficit financing, so far as the increase in money supply is concerned, is the net financing by the NBE during 1952-60, since the commercial bank's net financing was negligible in this period.

1952-1954

Between 1952 and 1954, the new government attempted to cut down its expenditures, and small cash surpluses resulted, as Table XXIII shows. The ordinary budget was in surplus, and the development program had not yet reached a large scale (2,pp.3-5). Hence, there was no need for new money; in fact, between 1952 and 1954 the net liabilities of the treasury fell by LE 11 million, since the government retired outstanding treasury bills. (See table XXIII)

1955

During 1955 the net cash deficit amounted to LE 48 million.

TABLE XXIII

ESTIMATED CASH DEFICIT OF THE GOVERNMENT
(DECEMBER 1952-60)
(LE MILLIONS)

Public Debt	1952	1953	1954	1955	1956	1957	1958	1959	1960
Treasury bills	50.0	50.0	38.0	71.0	146.0	150.0	160.0	175.0	185.0
Development loans	-----	-----	-----	25.0	50.0	50.0	65.0	85.0	125.0
Other loans	123.0	123.0	123.0	108.0	108.0	108.0	97.0	97.0	142.0
Total	173.0	173.0	161.0	204.0	304.0	308.0	322.0	357.0	452.0
Less: government deposits with NBE and commercial banks	70.0	18.0	17.0	12.0	17.0	24.0	45.0	46.0	61.0
Equals: net liabilities	156.0	155.0	144.0	192.0	287.0	284.0	277.0	311.0	391.0
Increase (-) or Decrease (+)		+1	+11	-48	-95	+3	+7	-34	-80
Plus loan to agricultural and cooperative credit bank						-20			
Plus loan to industrial bank									-3
Total cash deficit (-) or surplus (+)		+1	+11	-48	-95	-17	+7	-34	-83

The government obtained its money by selling treasury bills and by issuing the first set of development loans. By virtue of Law No. 242, 1955, the treasury was empowered to sell up to LE 200 million for internal short-term financing. In general, this issue of treasury bills had been limited to the short-term needs of the government in connection with cotton financing. The development loans totalled LE 25 million. The breakdown of the sources of finance for the LE 48 million deficit was as follows: NBE, LE 46.1 million, commercial banks, LE 0.5 million, and "others", LE 1.4 million.

From the above, it is clear that the treasury was not very successful in tapping private sources of finance. The treasury's reason for issuing debt rather than taxing was that the government found it better than resorting to increased taxation, since any increased taxation above present levels might hinder investment and economic expansion. In addition, it is known that most of the benefits from the projects would accrue to future generations. It is then just that these generations would share the burden of financing these projects(4, p.8).

Critics argued that since creating money by borrowing from the central bank leads to inflation, this burden would fall on the present generation in the form of tax on cash balances and other fixed-value claims to wealth. The treasury's reasoning, argued the critics, would be justified if the treasury were borrowing by issuing bonds to savers instead of

TABLE XXIV

FINANCING OF THE GOVERNMENT'S CASH DEFICIT
(DECEMBER) 1952-1960(20)

		1952-1953	1953-1954	1954-1955	1955-1956	1956-1957	1957-1958	1958-1959	1959-1960
*Total cash deficit (-) or surplus (+) (LE millions) (1)	(1)	+ 1	+ 11	- 48	- 95	- 17	+ 7	- 34	- 83
Net financing by:									
NBE	(2)	-3.7	-5.5	46.1	60.1	32.1	9.4	17.6	55.9
Commercial banks	(3)	-1.6	-0.7	0.5	9.8	-0.8	-14.9	1.1	7.2
Others	(4)	-4.3	-4.8	1.4	25.1	-14.3	1.5	15.3	-19.9
Total bank financing (2) + (3) = (5)	(5)	-5.3	-6.2	46.6	69.9	31.3	- 5.5	18.7	63.1
Ratios of rows:									
(2) to (1) for deficit years - per cent				96.0	63.3	188.8		51.2	67.3
(3) to (1) for deficit years - per cent				1.0	10.3	- 4.7		3.2	8.7
(4) to (1) for deficit years - per cent				2.9	26.4	-84.1		45.0	24.0

*Row (1) is the last row from Table XXII. Rows (2) and (3) are the increases in "Claims on the Government" with NBE and commercial banks minus government deposits with NBE and commercial banks.

by issuing them to the central bank. This is not a valid criticism because, if the treasury were able to tap private sources and savers, things would have been easier for everybody.

1956

In 1956 the military action in connection with the Suez Crisis had a serious impact on government finances, the cash deficit amounting to LE 95 million. The NBE took LE 60.1 million, the banks LE 9.8 million, and "others" LE 25.1 million. In March, 1956, two new development loans were issued, totalling LE 25 million. According to official sources (7, p.14), individuals contributed LE 4 million, whereas the central bank did not buy any of these development loans. The NBE must therefore have concentrated its large purchases in the short-term sector of government debts. Of interest is the phenomenon that "others" bought a rather large proportion of the increase in debt, amounting to 26 per cent of the cash deficit. Discussing this occurrence, the authorities noted that "The 1956 development loans registered alos the first instance in which an internal loan had been covered without the help of the central bank",(7, pp.176-177).

1957 and 1958

There was a very sharp reversal in the flow of government expenditures in the two years following the Suez Crisis,

TABLE XXV

FINANCING OF THE GOVERNMENT'S CASH DEFICIT
DECEMBER, 1961-JUNE, 1964

		1961*-62	1962-63	1963-64
Total cash deficit (-) (LE millions)	(1)	-34.0	-89.0	-46.0
Net financing by:				
Central Bank of Egypt	(2)	5.4	76.1	31.9
Commercial banks	(3)	47.3	44.6	44.8
Others	(4)	-18.7	-31.7	-30.6
Ratios of rows:				
(2) to (1) per cent		15.9	85.5	69.3
(3) to (1) per cent		139.1	50.1	97.4
(4) to (1) per cent		-55.0	-35.6	-66.5

*In January 1, 1961, the NBE was divided into a separate Central Bank of Egypt (CBE) and a Commercial National Bank of Egypt.

partly through a reduction in ordinary expenditures as well as a cutback in development outlays. In addition, there was a substantial increase in revenues.

In 1957 there were no new issues of development loans or of any other type of direct treasury borrowings except for a LE 4 million increase in bills. The treasury did, however, give its guarantee for a LE 20 million loan by the NBE to the agricultural and cooperative credit bank. Thus, the increase in NBE holdings of LE 32.6 million resulted from purchases of bills, government-guaranteed securities, and small purchases of other outstanding issues.

In 1958 the cash surplus of LE 7 million resulted from a small increase in public debt outstanding and an increase of LE 21 million in the government's deposits with the NBE and commercial banks. Treasury bills outstanding rose LE 10 million, and the government raised LE 15 million in November, 1958, by issuing a production loan; at the same time, it redeemed LE 11 million in the form of a 2-3/4 per cent national loan. Despite the cash surplus of LE 7 million, the NBE increased its holdings of government securities by LE 9.4 million on a net basis. It follows that either the commercial banks and/or others decreased their holdings on a net basis. Commercial banks' holdings fell by LE 14.9 million, and "others" holdings fell by LE 1.5 million.

1959-1960

During these two years there were large cash deficits,

financed by the NBE and "others." In 1959 the deficit amounted to LE 34 million, of which the NBE financed LE 17.6 million and "others" LE 15.3 million. Early in 1959 the government issued LE 15 million in treasury bills to finance its cotton purchases(17), so that total bills outstanding rose from LE 160 million to 175 million. Apparently the authorities had planned this as a temporary accomodation to be repaid when the cotton stocks they purchased were sold. However, by the end of 1959, the total treasury bills on the market was still LE 175 million, and by the end of 1960, it had risen to LE 185 million.

The cash deficit in 1960 was LE 83 million, the largest since the Suez Crisis year. More than half of the deficit, however, is accounted for by a special factor, the issuing of the first loan for external financing, amounting to LE 45 million: "This loan was covered by issuing bonds in conformity with Law No. 243, of 1955 which authorized the Minister of Economy to issue Government bonds within a limit of LE 100 million to meet the external financing requirements of the development projects"(2 0.pp.12-13).

The other increases in public debt during 1960 were two new development loans--one for LE 10 million and another for LE 25 million--and LE 10 million in treasury bills. In addition, the NBE bought LE 3 million in bonds of the industrial bank guaranteed by the government. Total indebtedness thus rose LE 98 million, but government deposits rose LE 15 million,

of which LE 12.7 million was at the commercial banks. Thus, the net cash deficit rose by LE 83 million. Of this total, the NBE financed LE 56 million, the commercial banks LE 7 million, and "others" LE 20 million.

After 1960 the treasury continued to rely on the banking system as a means of securing the financial resources necessary to implement the government's development and other expenditures, as Table XXV shows. In this period commercial banks financed a much higher ratio of the cash deficit than previously. Since the government carries the main burden of implementing development and other expenditures, the commercial banks are more likely to monetize public rather than private debt.

The largest buyer of government and government-guaranteed securities has been the Commercial National Bank of Egypt. Its government securities portfolio increased LE 69.6 million between January, 1961, and June, 1964, or 55.4 per cent of the rise in all commercial banks' investments in goverment securities. And most of the increase in commercial bank holdings has been in short-dated debt, as shown by Table XXVI which is computed from Table XXII.

Deficit financing caused big increases in the country's money supply. Figures show that the increase in money supply during the year 1954-60 was 24.6 per cent, which is a modest increase for a period of rapid expansion(6, p.4). A great part of this potential expansion was "exported" through a

TABLE XXVI

TREASURY BILL HOLDINGS OF COMMERCIAL BANKS
(1952-1964)(21)
(LE MILLION)

Year	August	December	Average
1952	1.6	2.1	1.85
1953	12.1	2.1	7.1
1954	8.7	1.2	4.95
1955	8.7	1.3	5.0
1956	13.3	6.8	10.05
1957	15.0	6.8	10.9
1958	10.0	.0	10.0
1959	11.9	0.4	6.15
1960	14.6	3.0	8.8
1961	59.5	37.5	48.5
1962	41.3	44.3	42.8
1963	68.7	70.0	69.35
1964	94.0	60.7	77.35

reduction in the NBE's holdings of foreign assets. The decline in net foreign assets during this period amounted to LE 164 million, and by the year 1960, foreign assets were almost depleted.

Between March, 1961, and March, 1964, money supply rose by 33.5 per cent, an average of 11.17 per cent a year. The absence of the moderating role of foreign assets increased the pressure on domestic resources which would result from deficit financing.

Critics in the western hemisphere blamed the increases in deficit and money supply on the public sector, but Table XXVII shows that the private sector increased its debt proportionately to that of the public debt because financing the private sector was a part of official policy to stimulate certain sectors of the economy: "The Government's policy was to participate directly in providing the capital of the new industries whenever private firms were unable to provide necessary capital. If private firms did take the responsibility for new industrial investments, the Government's policy was to aid them in obtaining credits from the banking system, the necessary import licenses and foreign exchange" (4, pp.8-9).

Table XXVII shows that commercial banks borrowing from the Central Bank increased steadily; also commercial bank's holdings of private debt maintained its ratio to public debt very closely. The core of the problem lay in the lack of

TABLE XXVII

COMMERCIAL BANKS BORROWING FROM THE CENTRAL BANKS PRIVATE DEBT, PUBLIC DEBT, AND THEIR RATION TO TOTAL DEBT

Year	Commercial Bank's Borrowing From The Central Bank (1)* (LE Million)	Private Debt Held By Banks** (2) (LE Million)	Ratio Of (1) To (2) (3) (Per Cent)	Public Debt Held By CBE (4) (LE Million)	Total Debt (5) (LE Million)	Ratio Of (2) To (5) (6) (Per Cent)	Ratio Of (4) To (5) (7) (Per Cent)
1952	2.3	98.6	2.3	156.0	254.6	38.7	61.3
1953	2.2	92.1	2.4	155.0	247.1	37.3	62.7
1954	6.7	118.0	5.7	144.0	262.0	45.0	55.0
1955	6.3	128.0	4.9	192.0	320.0	40.0	60.0
1956	9.9	134.5	7.4	287.0	421.5	32.0	68.0
1957	5.8	145.3	4.0	284.0	430.3	34.0	66.0
1958	10.3	177.0	5.8	277.0	454.0	39.0	61.0
1959	15.5	202.0	7.7	311.0	513.0	40.0	60.0
1960	18.2	211.9	8.6	391.0	602.9	35.2	64.8
1961	11.1	227.3	4.9	436.0	663.3	34.3	65.7
1962	23.2	336.7	6.9	470.0	806.7	42.8	58.2
1963	48.2	279.3	17.9	559.0	838.3	33.4	66.6
1964	96.8	337.9	28.6	605.0	942.9	35.9	64.1

*Column 1 is the average of columns 5 and 6 in Table XIX. Column 2 is the average of columns 1 and 2 in Table XX plus the average of columns 1 and 2 in Table XX.

**Private debt includes commercial banks holdings of commercial bills, loans, and advances.

natural resources, the unchecked population explosion over the years, and many outside political pressures that resulted from wars and continuous tensions requiring big defense commitments.

Social and economic diseases had their very deep roots in Egypt long before the Revolution; yet the symptoms of these retarding diseases did not become obvious to the Western world until the fifties and sixties. This happened because the West, in general, disliked President Nasser and disapproved of his nationalistic values, and as a result the whole country suffered. If Western governments really cared about the welfare of the Egyptian people, they would not have caused so many expension and troublesome problems as they did in 1956 (The Suez Crisis) and all during the fifties and sixties. They used the excuse of Russian influence in the Middle East to cover up their own imperialistic ambitions. The U.S.A. was the first country that Nasser asked for help in the attempt to build the Aswan Dam, but he was turned down and had to ask the Soviet Union for help as a last resort. As history proved, the Russians did not end up controlling Egypt.

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CHAPTER VI

CONCLUSION

In assessing this period of Egyptian history, it is worth remembering that the time involved is always short and that the gestations are long. The Egyptian government was anxious to achieve rapid economic development, which is essentially a long-term affair, but population pressure created serious and growing difficulties in the short term. Underdeveloped countries were kept from developing their economic and human resources for long periods of time by being ruled by foreign governments either directly or indirectly, and the result is continusous social and economic exploitation.

Chronic and severe social and economic diseases are created by such exploitation, and the symptoms are numerous: high rate of illiteracy, a level of poverty that is unacceptable by any human standards, a primitive agriculture, industry with little or no technology, a high rate of mortality owing to some easily preventable or curable causes, and many more.

> It is difficult for people living in temperate latitudes to appreciate the real significance of disease as a factor retarding the development of a tropical area. The native of West Africa inherits almost all the disorders of temperate climates, and on top of these he may suffer from a multitude of other diseases to which his ignorance of their causes, his poor standards of hygiene and his particular environment make him liable. The inadequacy

> of the medical facilities and often the reluctance of the sufferer to take advantage of them at least until it is too late aggravates the situation (1,p.230).

This is the case in most underdeveloped countries, and certainly this was the case in Egypt.

Common sense insists that, in order to cure an illness, the main cause should be treated and not the symptoms. Overpopulation can be slowed down by careful planning, education, and mandatory procedures if needed; otherwise, a big portion of the income generated by economic development will be wasted in supporting more people in poverty instead of in trying to eliminate it.

Egypt qualifies, in every sense of the word, to be considered an underdeveloped country, with the addition of one important feature--that of outside political pressure. The Egyptian government based its social and economic planning on rigid nationalistic values; therefore, most of its needed capital had to be generated from internal sources, a feat that became more difficult owing to large defense commitments. This problem forced the government to move in the direction of dependence on the banking system in financing its development programs. The result was an accumulation of deficits. Because of the rigid nationalistic values and poor planning on the part of the Egyptians, the Egyptian experience was not a success. An excess of governmental control should not be blamed for this lack of success, since poor planning does not leave much to be controlled in an economy.

Most of the plans during the fifties were little more than lists of unrealistic projects. The industrial plan aimed at raising the industrial sector of the national income from LE 100 million to LE 184 million in five years, assuming that the rest of the economy would expand at a rate of 2 per cent per annum and that the per capita income would double in twenty years. Manufacturing needed LE 181 million, while the mining and oil industries took a further LE 70 million. Thus, about LE 50 million in new investment would be required each year. The means of obtaining the necessary capital were not made clear(3,pp.229-231).

These hasty plans put great pressure on the banking systems, which made it very difficult to function efficiently in controlling the monetary system. Governmental controls and regulations resulted in greater dependence on the banking system, but even in the United States of America the banking system is the most regulated industry.

Careful overall planning is the backbone for any kind of economic development, and it is even more necessary in underdeveloped countries. Therefore, a great deal of governmental interest and participation should be a main feature. Economic development should include planning, coordinating, and controlling. Planning should involve realistic aims, directions, priorities, and phasing.

The banking system should be an important part of economic development programs in underdeveloped countries, and with good planning this goal becomes easier to achieve. There

is no question of not being able to break the vicious circle of poverty because, after all, the present developed lands were themselves once underdeveloped, and they have successfully taken the necessary steps.

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