CHAPTER I

INTRODUCTION
Significance of the Research Problem

Recent approaches to the appraisal of developmental performance and prospects of the third-world economies has highlighted the importance of fiscal policy. The dismal performance with planned development over four decades manifests in the enduring macro-economic problems whose dimension and intensity have been unremitting despite the prolific diagnosis and, prescriptive measures applied in several countries. Of these problems, the fiscal crisis appears as the most acute in its extensive and expansive form and probably the most decisive in their developmental prospects. An enquiry into this seemingly intractable problem can be useful in understanding the basic cause(s) of the problem, the interrelationship with other micro and macro economic problems and also of the nature of the state in context. This micro study on Egypt is an attempt in this regard.

In the context of developing countries, and more specifically this case study, is the relevance of Joseph Schumpeter's observation that:

"The public finances are one of the best starting points for an investigation of society especially though not exclusively of its political life. The full fruitness of this approach is seen particularly at those turning points or better epochs during which existing forms begin to die off and to change
into something new. [Emphasis added]. This is true both of the causal significance of fiscal policy (in so far as fiscal events are an important element in the causation of all change) and of symptomic significance (in so far that every thing that happens has its fiscal reflection)..."¹

This postulation inspired the pioneering effort of James O'Connor at explaining the recurring deficits of the American State.² Drawing from the findings of O'Connor's study, this endeavor is a modest and modified attempt at explaining the fiscal crisis of a post-colonial society whose fiscal process is decisively influenced by external as by domestic factors. As a case study, Egypt's numerous economic problems are common to the region and elsewhere in varying combinations and intensities, therefore, Egypt may be considered representative of a large group of developing countries with similar problems.

In most states that emerged in the post-Second World War era, Development appeared as an 'overriding obsession'³ of the ruling elites, approximating an ideology in some. Developmentalism as a public policy foisted by the ruling

2. ibid.,
elite was akin to a strategy for transforming erstwhile 'traditional' societies into 'modern' states and for preserving statehood. In this undertaking, ruling elites sought to replicate patterns perceived successful in the developed world within the domestic domain. This facilitated an expansive role for the State beyond the political realm. The intrusion, specifically in the accumulation process, has affected all elements of the economic system.\textsuperscript{4} The emergent state-sector propelled by the budget process assumed a crucial element in realising the regimes objectives. Corporatist strategies adopted for statizing society, including, the "clientist" nature of recruitment in the state institutions, had cost correlates embodied within social expenditures. Rapid increases in these outlays, not infrequently beyond rational limits, deoptimise surplus available for reinvestment in the accumulation process and thus tends to inhibit autonomous development in the long run. Because of the link between public resource mobilisation and macro-economic performance the fortunes of national accumulation was significant to the budgetary process. Similarly, the strength and weakness of the budget are thereby manifested

\textsuperscript{4} The logic of development enabled the state to assume the driving force, shaping relations and mode of production. See further Shakrullah, ibid.
in the entire government structure and when it lapses into a crisis it aggravates latent social fissures\(^5\) that may imperil social adhesion to the regime.

As the structure of public finance was shaped by the development of political institutions with close ties to the economic structure, the reproductive capacity of the economy determined the 'political returns' available to the regime. Therefore, control over national accumulation became an essential component for legitimizing the government.\(^6\) The pervasive role of the State in the Third-World in the accumulation process often inspired by need for rapid social, political and economic transformation, is causal to the relationship between the fortunes of the state formation and the accumulation process. From this vantage the correlation between the fiscal crisis and the crisis of the state is implied.

The fiscal crisis of the state has been termed as the tendency of the government expenditure to outstrip revenues.\(^7\) Given the prevalence of the problem, and the chal-

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5. Social fissures are shaped by functional differentiations that are magnified in the hegemony of classes.


7. O'Connor n.1, p.3.
lenge it poses in several developing countries, an elaboration of the principles which govern the volume and allocation of state finances and the distribution among economic classes will illustrate the nature of the ruling coalition and the character of the 'peripheral' state.  

**Scope, Objectives and Working Hypotheses**

The prolonged and pervasive role of the state in the economy of Egypt thrust major significance on the fiscal instruments especially the government budget. Such was it that the budget became reflective of the macro-economic performance in many aspects. As a consequence, the crisis that developed in the post-1967 war was reflected in the budget. The social and political crisis in reference were linked with the crisis in the accumulation process. 

The shift away from state-led development embodied in programme of economic and political liberalization formally

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8. It is peripheral in so far it recourses to external resources to relieve a structural rather than cyclical crisis.

9. The crisis has been abundantly researched. See Shukruallah n.3; Galal Amin, 'Migration Inflation and Social Mobility: A Sociological Interpretation of Egypt’s Current Economic and Political Crisis, in, C. Tripp and R. Owen n.2. pp. 103-121.

10. The significance of external exigencies (war) is by no means understated. The emphasis here is that as the state dominated the economy it could interdict much of the production surplus that should have otherwise been ploughed back into the production process.
adopted in the early 1970's altered budgetary priorities and also imparted consequences on the social structure. Envisaged as panacea to the fiscal crisis of the state, reprioritisation in the patterns of resource mobilisation and its utilisation was linked with the immediate exigencies confronting the regime. The repudiation of the state-capitalist development model, embarked on since the hey-days of the revolutionary regime, was symmetrical with transformation in the state-form from collegial to the presidential executive system. Consequently, the locus of decision-making shifted and manifested most in the policy of 'Infitah' (Open Door Economic policy - ODEP) formally adopted in 1974.

As part of the liberalisation, the 'democratization' process initiated to enlarge the social-coalition base of the ruling regime affirms that the state was susceptible to societal forces. Thus, the state is not a 'political given' but part of the problematique. Emanating from the new locus of power is the altered perception with regard to external forces. Hitherto, threat perceived by the Nasserite regime from the external forces engendered the 'seige' structures in the state and economy which is generally ascribed state-capitalist apparatichik. Significantly infi-

tah facilitated shifts in this economic orientation. As distinct from the erstwhile circumspect approach in its interactive process with dominant global forces, Infitah annulled the subsistence redoubts embedded within import-substituting development strategies and intensified Egypt's participation in global economic processes.

As a public policy the ODEP and several measures introduced to rectify the distortions of the economy eased the resource deficit in the short term but failed to redress the budgetary imbalances. The deficit tended to grow in nominal terms over the decade from LE1.5 billion to over LE7 billion between 1975 and 1984/85. High growth observed for the economy (averaging 10%) however conceals the lop-sided sectoral performance. To the extent that the liberalization policy did not impart desirable developmental impact on the economy while compounding medium and long-term difficulties, political expediency is to be ascribed due weightage while explaining the intent and means of the "Infitah" policy. The failure of Infitah in the specific context of redressing Egypt's fiscal problem necessitates an enquiry in order that on-going reforms overcome its shortcomings.

The aim of this study is largely to examine inftah as a remedial policy to the fiscal crisis of the Egyptian state. Both the paradigm adopted, and the intervening variables which bear upon the size and scope of the fiscal problem suggest the adoption of subsidiary goals. To contextualize the problem-focus within its social totality - to offer a more holistic understanding - the following objectives are set for the study viz:

(i) To establish the causal relationship between the fiscal politics and fiscal crisis of the Egyptian state by illustrating the character of fiscal politics and its impact on the developmental process.

(ii) To highlight the sociological foundations of the fiscal crisis.

(iii) To relate and integrate the analysis and findings from this case study with the pioneering effort of O'Connor and related studies.

To realise the objectives of the study the following working hypotheses were adopted viz:

i) The fiscal crisis of the Egyptian State shows the incapacity of the State to reconcile the demands of legitimation and the accumulation process.

ii) Though the origin of the problem is localized it gets aggravated by the external exchange relations of the state.
Literature Survey

Much of the mainstream and prolific diagnosis of development challenges and problems of under-development in Third-World States provide useful insights short of policy relevance in as much as the problem has persisted despite the attention received. Most striking is the casual attitude of 'Development Theory' towards social and institutional reality of the Third-World State. Not infrequently, these variables are conveniently excluded by invoking the phrase ceteris paribus, while focussing on quantifiable economic variables analysing only a few of the major inter-relationships which affect the economic realm.\(^{13}\) As if to recompense the contempt for the institutional realities in the interpretative bias, policy prescriptions developed on flawed diagnosis have hardly imparted positive momentum to the development prospects of these economies. Growing interest in the development challenges of these economies has however been accompanied by the devaluation of development theory owing to the lack of substantive beneficial impact of this literature on the problem area to which it focussed. It is obvious that the interventionist role of the

state in the economy has restricted the predictive capabilities of the theoretical formulations. As political economy eschews as isolation of reality into artificial 'disciplines' it provides a more relevant paradigm to the specific problem under focus in this study by allowing the consideration and analysis of the role of 'externalities'.

Egypt's current economic problems are partly enduring legacies of the Nasserist period. Though this study analyzes the recurrent fiscal problem during the transition period in Egypt's political economy in the 1970's, the imperative of the paradigm necessitates illustration of Egypt's social formation in its historical context. This exonerates the study from the critical observations on related studies focussed on the period. From the overview of much of the literature on Egypt's contemporary economic problems a cognizable feature has been its fragmentary i.e., non-integrative, approach. As a result it has been difficult to understand the nature and dynamics of Egypt's social formation. Often period or discipline-defined, these studies based on tenuous premise are replete with inductive typolo-


gies but rarely provide tenable deductive inferences that may be elsewhere tested. Hansen's\(^\text{16}\) endeavour to bridge the time-horizon that plagued most studies suffers from multiple-focus approach to problems which in themselves are consequences of policy measures. Generally the analyses of consequences of public policies adopted are often unaccompanied by explanations of reasons for their adoption. As a result the exigencies confronted by the policy-making elites that constrain the adoption of appropriate policies are rarely highlighted.\(^\text{17}\) Except tangentially, rarely has attempt been made to provide deductive analysis in the 'scientific' context of input-output relationship by illustrating how the policy process (indicator of how and why policies are formulated) generates specific policy (enunciated and adopted) and the consequence (as in respect to the problem focus).

Having shown the inadequacies of analyzing Egypt's economic problems in rigid confines of the economic discipline the challenge arises in explaining the numerous macro-economic problems. An appropriate starting point is the


fiscal problem. Though it was a stated objective of the
government to loosen control over the economic space the
government share of GDP remained formidable accounting for
an average of 55% during the period. Implicit was the
continued significance of the budget. While there seemed no
economic justification for continued government domination
of the economy the fiscal crisis that has however accompa-
nied it provides the rationale for explaining the role of
"externalities" - extra-economic influences, in Egypt's
economic processes and more specifically the fiscal process.
As a tool of analysis the fiscal policy was more consistent
and relevant than the Plan Documents. 18

Reflecting the dominant theoretical approach of public
finance analysis towards equity implications of its policy
tools is the tendency to design fiscal policy in most coun-
tries with emphasis on the norms of taxation. 19 Much of the
studies on the distributive intent of Egyptian government
suffer from one-dimensional focus, often on the incidence of

18. Development plans are prepared quinquennially but planned
devolopment is not actually undertaken because of
difficulties in mobilising resources. See further
Rodney Wilson, The Economics of the Middle East

19. Thomas K. Morrison, 'Structural Determinants of Govern-
ment Budget Deficits in Developing Countries' World
its tax policies. The overall equity implications of government finance in Egypt ought to be assessed by the incidence of the sources of State income along with the incidence of its expenditure which though is not perceived as affecting income levels directly but skews benefits indirectly within societal and economic sectors. The limitation of the one-dimensional approach that characterizes much of the existing literature neither portray the overall distributive intent of government policy nor offer explanations that enhance the understanding of its relationship to the cross-sectoral disequilibrium embodied in the government budget.

Given the primacy of the budget in Egypt's economic process a study combining the incidence of public revenue, with its expenditure will illuminate the distributive intent as well as its implications on growth and evolution of the


21. Within the context of economic liberalization. 'Infat' - the apparent repudiation of the role of taxation as an instrument of redistribution has thrust much importance to the structure of public expenditure in evaluating the distributive intent of the government.
economy. As observed by Aisha Ghaus,\(^2\)\(^2\) the paucity of research in general using this framework is in part linked with the complex and controversial framework of public expenditure benefit analysis, as also the lack of relevant and generally acceptable data particularly in a developing country as Egypt.\(^2\)\(^3\) As with studies on other developing economies\(^2\)\(^4\) much of the interest in the deficit in Egyptian government accounts has been to establish its linkage with other macro-economic problems. The persistence of the deficit necessitates both explanations of the linkage between the structure and imbalance of the budget, and reasons for failing to curb its growth moreso as it was a major objective under the program of economic liberalization initiated


in the 1970's. Within the transformation observed in Egyptian political economy and the continued significance of the fiscal policy to growth in the government-dominated economy, the standard framework of analyzing fiscal deficit, that is economic defined offers limited relevance in understanding the recurrent deficits. A more holistic explanation must posit the fiscal problem within the macro-economic setting to establish the impact of fiscal policy in regeneration of social surplus.

The approach in mainstream development literature in the specific area of fiscal problem has tended to be 'scientific' i.e. to develop predictive capability in to policy formulations. In the context of problem-solving, policy prescriptions are developed within 'input-output' relationships. The relevance of orthodox analysis to the present study lies in the reversion of the input-output relation by relating the output (fiscal problem) back to inputs (policy measures). The retrospective framework of analysis posits the fiscal policy itself as an output of the political framework of decision-making thereby acknowledging the significance of the interventionist role of the state in Egypt. Retrospectively, the fiscal problem emerges as the "economic effects of political choices" and, posteriorly,
reforming the fiscal problem is akin to resolving "political effects of economic decisions." 25

Fiscal policy like any other public policy cannot therefore be divorced from the political framework in which decisions are made as choices relate to relevant time periods. 26 Conversely the political process cannot be exonerated from the decisions themselves 27 as it may provide indications of the nature of relationship between the political class and economic groups. In the selection of fiscal priorities, regimes are constrained by the limited availability of resources and preferences demonstrated are those which maximise aggregate benefits at a particular time not necessarily within zero-sum context as each choice involved political, social and economic consequences.

Existing models for analysing transformation in the state system, including the framework of analysis as depicted above, are not wholly admissible for induction to


26. Ibid., p.10

this case study. Wholesome induction of these models developed mostly in Latin America subsumes the specificities of Egypt or for that matter other states in the region. It would appear that the body of inductive studies that exist rest on the evidence of state-capitalist development model. Empirical evidence from Egypt suggests the presence of the general criteria for describing state capitalism but the situative realities and compulsions are certainly different from the Latin American milieu where the models were developed. Therefore, these models are suspect and offer limited relevance nevertheless, provide useful frame of reference to this study.

The nature and transformation in Egypt's state-form and development-model as observed in the 1970's and their conse-

28. A critique of the theoretical paradigms for interpreting changes developed in Latin America and their relevance to Egypt's contemporaneous transformation has been succinctly presented in John Waterbury, The Egypt of Nasser and Sadat: The Political Economy of Two Regimes (Princeton: Princeton Univ. Press 1983) p. Owing to the limitations a recent attempt has been made to adapt the concept of the Janus-Faced state to Reform - See Nazihi Ayubi, 'Political Correlates of Privatization Programs in the Middle East'. Arab Studies Quarterly (Normal) vol. 14 no.2&3 1992 pp. 39-56.

29. For these attributes see Mark N. Cooper. 'State Capitalism, Class Structure and Social Transformation in the Third World: The Case of Egypt'. International Journal of Middle Eastern Studies (IJMES) (Cambridge) vol. 15 no. 1983 pp. 451-469; Further see. Rolf Hanisch and Rainer Tetzlaff 'The State in Developing Countries as an Object of Social Science Research', Law and State (Amherst) vol. 27, no. pp 59-91.
quences neither approximates any historical precedent nor was there a contemporary parallel. Given the parallelism of changes in framework of decision-making and economic-orientation prompted by the crises, the state appears as part of the problematique. Vulnerabilities of the state-form to the vagaries of the development model demonstrated by the regime's subsequent attempt to widen its social-coalition base underline the distortions embedded within the state capitalist structure and of the growing clout of emergent forces in the power structure. The regime appeared to have confronted the twin challenges of preserving the political structure and its domination within it, and, the removal of all impediments to the 'modernisation' drive as to sustain the developmental momentum. In consonance with these concerns the regime induced changes within the mode of production that subsequently transmitted influences to the production relations and the structure of real appropriation.

In explaining the strategies and dynamics of the process of state-induced transformation, scholars who opted for the deductive, rather than inductive, framework of analysis
have mostly taken the Behavioural approach. By focussing mainly on the reconstitution of the social-coalition particularly the process of realignment or 'retraditionalization' within the upper crust, these scholars demonstrated the importance of 'familialism', patronage and clientism in the political and administrative structure of Egypt. Over the past two decades the semblance of stability observed within the framework of this realignment appears as a trade-off in the context of enlarged allocative circuit afforded by availability of rental incomes. Oil revenues has been singularly highlighted in facilitating the 'modernising' of a traditional pattern of maintaining legitimacy. Short of analysing the opportunity cost of the trade-off such a perspective presumes a positive correlation with development


the state". Generally the rentier state has been amenable to societal pressures on the economic front as a trade-off for political docility. On this count however the shortcomings of applying rentier interpretation to Egypt become apparent. While still in the formative stages, societal cleavages have acquired a substantial degree of clout and recognition which has been formalized by cooptation in the policy process and have thus improved their bargaining vis a vis the state. However cooptation has constricted their autonomy and the state disbursed rents to limit and manipulate the interest groups to preserve authoritarian disposition.

The self-evident attempts of several governments to transform the rentier base of their economies testifies to the transitory phase of the seemingly rentier economy. This trend makes the theoretical constructs based on rentierism suspect and the inferences have limited prospective policy relevance. Though studies on rentierism have been fragmentary and non-integrated, significantly they provide an exposé on the reversed dependence in society-state links brought by the availability of oil rents. The work of Lucia-ni and others are instructive of the cyclical pattern and causal relations of the fiscal and state crises. The logic

34. Shakrullah, n.3, p.54.
of extroversion, and the attendant vagaries, identified in the rentier economies impelled governments to initiate processes for re-sourcing legitimacy.

In response to the uncertain and diminishing prospects of rental incomes for funding stability, Egypt has had to grapple with the challenge of identifying alternative sources of legitimacy. The slow but significant changes in the economic system since the mid-1980's was accelerated in the post Gulf Crisis, after 1990, in response to the dislocation caused by the events external to Egypt. These exogenous influences depreciate the premise for interpreting changes in Egyptian political economy based solely on the political culture approach. Against the background of the reforms, adopted following reversals in the external sector the weak capacity of the 'semi-rentier' state as evident in Egypt, restates the ephemeral character of the mode, and the extent to which deductions made thereto are liable. Understanding the changes in the strategies of the Egyptian government to re-source legitimacy away from rentier incomes while maintaining the development tempo mandates that the fiscal problem as a reality be posited within a social totality that illustrates the social formation observed and the inter-relationship with other social formations.
Methodological Notes

The limited relevance of available conceptual apparatus to the research on Egypt, and the region in general, allows for the adoption of a variant of political economy that posits the fiscal problem within social science research by cutting across methodologies. The positive consequence has been in providing a critique and reconstruction of the theory of transformation in Egypt's social formation.

The analysis is contextual of transformation in Egypt's post-colonial social formation. Therefore, Egyptian public policy in general, as with new nation-states in the post Second World War era is positively perceived to be inclined towards the processes of nation-building and state-formation. In explaining these processes, the historical-empirical approach that allows a consideration of Behavioural variables in addition to institutional factors are adopted in the analysis. The attempts of successive regimes to statize Egyptian society is to be discerned within public

36. Essence of this approach has been highlighted by Enid Hill ibid., p.24.
37. This affords the interpretation of the significance of fiscal policy in Egypt's changing political economy.
policy especially with fiscal measures. Within both state-led and state-influenced development in Egypt, the twin objectives of state legitimation and enhancing national accumulation are to be discerned within the thrust given to fiscal policy. The study is thus designed to capture the significance of "externalities" - extra-economic variables - on the fiscal problem by illustrating the influence of the former in Egyptian fiscal process and its constraining influence in adopting and implementing appropriate policies.

As the fiscal crisis precedes the adoption of ODEP, the empirical evidences of the fiscal problem are posited within the institutional framework of the economy in its historical context. The evolution of this social totality is thereby illustrated. To the extent that externalities bear upon the dimension of the problem, Egypt's social formation is posited within the "world" structure to provide a premise for deductive inferences in the critical areas of "steering-capacity" of the state or the political-administrative system,38 relationship between the political class and the

38. The theory of 'steering capacity developed by Offe within an advanced capitalist framework is being adapted here. Besides the fiscal means there are two other steering resources, administrative rationality and mass loyalty. While the last two may be wanting in Egypt as in most Third World States, the fiscal means may furnish the crucial foundation for potential development policy steering as observed by Hanisch & Tetzlaff. See further: Claus Offe, 'Structure Problems of Capitalist
class structure\textsuperscript{39} in the peripheral Egyptian state. ODEP is examined within two dimensions: Firstly, in the context of Egypt's domestic realities and within the global structure; secondly as a public policy emanating from a definitive political structure. The analysis shows aversion for economic reductionism in explaining the cause of the fiscal problem.

Having initiated strategies of international development economic policy was consistent with the new thrust given to national accumulation. Fiscal policy was subjected to extra-state influences and tended to appear as the outcome of political exchange between state elites and elites of the global market system. ODEP and the reform policies are therefore posited within the outcome of elite-led games\textsuperscript{40} i.e., as a product of political exchange in the domestic domain and within the world system. As the state dominates the economic structure, economic policy trickled-down to economic agents.

\textit{...Continued...}

States' (German) cited in Hanisch & Tezlaff n.28.

39. Far from making a class analysis in the Marxian Sense, the purpose is to highlight the relation among emergent interests.

40. Much insight is derived from the brief but concise preview offered by Hansen. See n.16, p.522-24.
Analyzing Egyptian public finances would necessarily entail examination of official sources. However the well documented challenges imposed by conflicting government assessments, statistical inconsistencies and methodological difficulties makes inferences therefrom suspect and emphasized the supplement of non-official sources.

Chapterization

To explain the disequilibrium, in the government fiscal accounts it is necessary to understand the totality of factors operational in the policy process that influence fiscal decisions, and, to relate the performance of the economic variables back to the policies adopted. To the extent that the fiscal crisis endured and did not respond to prescriptive policies conceived as panaceas, a diagnosis of the failed policy must focus on the policy environment to show the factors shaping policies adopted and those militating against adoption of appropriate policy measures. The objectives of the study are largely reflected in chapter two. In the illustration of the causal significance of fiscal policy in Egyptian political development and economic re-

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structuring under the successive regimes during the period 1952-1981, evidences are provided of how political imperatives of the regimes are inscribed in fiscal policy with the resultant effect on the structure and performance of national accumulation. In view of the import of the state's economic function and the momentum imparted to national production, it is argued that the power relations in the state, as reflected in the disproportionate leverage of socio-political forces, shaped distributive and allocative decisions and caused uneven distribution of burdens among socio-economic groups while increasing demands that had to be met by the state.

As fiscal policy assumed crucial importance under state-led development in post-revolutionary Egypt, the historical context of transformation within the mode of production overlaps with the adoption of state-capitalist development model. On the premise\(^{42}\) that a developed state-monopoly sector can appear at two stages of capitalist development – as a result of overdevelopment of capitalism and the underdevelopment of capital – the transformation

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in Egypt's social formation is thus contextualised and serialized within capitalist transformation. The illustration in this chapter provides the underpinnings for the interpretations in successive chapters.

As existing studies are of limited utility in understanding the nature and causes of the persistent and growing budgetary deficits during the transformational process (from state-led to state-influenced development) in Egypt an unorthodox framework of analysis was imperative. The parameters of O'Connor's study are modified and inducted to disaggregate capital-formation in the economy. Evidence is thereby provided for the impact of economic and extra-economic influences inscribed within the fiscal pattern on the evolving structure of the economy.

In the context of the 'output-input' relationship the cross-sectoral analysis seeks to establish the implications of the factors influencing the fiscal pattern for the structure of the national income and the lopsided evolution of the economy. Within chapter four the explanation of the nature of disequilibrium in Egyptian government's fiscal accounts integrates existing related studies. Drawing on the centrality of fiscal decisions to Egypt's economic processes the bases of disequilibrium are identified with the enduring and evolving framework of the accumulation process.
Having domesticised the source of the imbalances within the preceding discussion, the fifth chapter argues that Egypt's policy makers recognised the source of crisis but were incapable of applying remedial policies. The chapter elucidates the compulsions, constraints and consequences of externalized policies adopted in the light of the crisis as measures to bridge the domestic resource deficit. By focussing on the mechanism through which the resources are mobilised externally and the instrumentalities for their disbursement, it is argued that the policy preference of external-reliance is conditioned by short-term political expendiency. As a result, the possibilities for rectifying the fiscal disequilibrium were minimal and perhaps non-existent. Furthermore, the medium and long-term costs of this policy option on the external sector of the economy resonate adversely in the fiscal process.

To the extent that the adoption of ODEP was preceded by significant shifts or postures in Egypt's foreign policy, this represented the conversion of foreign policy into a potential "economic asset." However, the adverse global economic environment and the ensuing crisis observed in the mid-1980's posed questions of the regenerative capacity of this asset. An inference made on Egypt's location in the world system derives from the impact of this crisis on the
Egypt's political economy and, the response of the government are analysed within the parameters of 'autonomy' and 'self-sustaining' development.

In chapter Six, the reforms adopted with the onset of crisis of the mid-1980's are examined. The issues in focus include: - why the reforms were ineffective; the reasons for stalling the reform process; reasons for the type of policy measures adopted and the significance of the aborted process for the 'steering capacity' of the state. From the analysis of the reforms implemented through the second half of the 1980's, it is argued that infitah altered the structure of real appropriation\textsuperscript{43} and the bargaining arrangement between the state and society to the advantage of the latter. This increased the obligations of the state to the society but reduced the responsibilities of the latter. As a consequence the steering capacity of the state over society shrunk. The vulnerability of the State's finances in the mid-1980's accentuated this dichotomy. Given the existence of a "fifth columnist", a 'soft' state could not attempt changes in the structure of its finances but rather opted for rectifying the balance, to maintain its corporativist character. Following the crisis in the Persian Gulf, that dislocated

\textsuperscript{43} It must be noted that the liberalization process opened up opportunities for rentier-incomes to the private sector as individuals and as a collective entity.
the structure of real appropriation, the popular desire for the State to 'assert common weal' improved its steering capacity that subsequently led to more purposeful reforms.

The concluding chapter recapitulates the foregoing analysis, the findings and thrusts up issues that could facilitate attempts at reconstruction of the change in Egypt's social formation on the lines of Luciani's embryonic concept of fiscal - institutional cycle.44

44. Luciani, n.6.