

# Liberal Capitalism, Conniving Capitalism and Lumpen Development: The case of Egypt

Samir Amin

## A. "Liberal" Capitalism or conniving capitalism?

Liberal capitalism (or neoliberal) proposed and imposed as without alternatives is based on seven principles considered as valid for all societies in the globalized world.

1. The economy must be managed by private companies because they only behave normally as actors subject to the requirements of the transparent competition , moreover beneficial to society, it ensures economic growth based on the rational allocation of resources and fair remuneration of all factors of production - capital, labor and natural resources. Accordingly if there are assets owned by the state, unfortunate legacy of "socialism" (productive enterprises, financial institutions, urban land or agricultural land), they should be privatized.
2. The labor market must be liberalized, fixing compulsory minimum wage (and a fortiori a sliding scale for the latter) should be removed. Labor law must be reduced to the minimum standards to ensure the morality of human relations between employer and employee. Trade union rights limited and controlled for this purpose. The wage hierarchy result of individual and free negotiations between employees and employers must be accepted, as well as the sharing of net national income between labor income and capital income as a result.
3. Services called 'social' - education, health, or the supply of water and electricity, housing, transport and communications - when they were in the past provided by public agencies (state and local authorities ) should also be privatized as much as possible, their cost must be borne by the individuals who are the beneficiaries and not covered by the tax.
4. The tax function should be the minimum necessary to cover only sovereign functions (public order, national defense in particular), the tax rate must remain relatively moderate, not discourage private initiative and to guarantee their reward.
5. Credit management should be undertaken by private interests, allowing the free encounter between supply and demand of credits to form itself in a rational monetary and financial market.
6. Public budgets must be designed to be balanced without deficit other than circumstantial and conjectural. If a country suffers from a structural deficit inherited from a past that we want to deny his inheritance, the government must commit to reforms that reduce the scale as quickly as possible. Meanwhile the deficit must be covered by the borrowing on the private capital market, domestic or foreign.

The six principles are considered to be implemented not only in all the nations of the globalized world, but also in international relations, regional (for example the EU) or global. Private foreign capital must be free to move and be treated on an equal footing with local private capital.

These principles together constitute the "market fundamentalism". I shall recall here the inconsistency of the assumptions and the lack of compliance of the scheme with reality. Very briefly the proof by logical reasoning that the free play of market widespread, even in the extravagant (not according to reality) assumption that the existence of a competition called transparent would produce a balance between supply and demand (in addition socially optimal), has never been made. Instead logical reasoning leads to the conclusion that the system moves from imbalance to imbalance never arriving to balance. Successive imbalances in question are produced because this theory (which defines the conventional economics) excludes from its scope of investigation the conflicts of social and national interests. Moreover, these assumptions describe an imaginary world that has nothing to do with the contemporary system that really exists, which is that of a capitalism of generalized, financialized, and globalized monopolies. This system is not viable and its ongoing implosion shows that. I refer here to my writings on this radical critique of the system in question and the economic theory which legitimizes it.

Implemented globally the principles of liberalism do not produce anything in the outskirts of the "south" else than a connivance capitalism (crony capitalism), hinged on a comprador state, as opposed to the national state embarked on a path of sustainable economic and social development. This form of capitalism (and there is no other possible) therefore produces no development, but a lumpen-development. The example of Egypt, considered in what follows, provides a good example.

### **B. Connivance capitalism, comprador state and lumpen development: The case of Egypt (1970-2012)**

Successive Egyptian governments since Sadat's access to Presidency (1970) have so far implemented with all diligence all principles proposed by the liberal fundamentalism. What has resulted has been the subject of serious and accurate analysis with definite conclusions, as follows:

1. The Nasserist project to build a national developmentalist state had produced a model of state capitalism that Sadat pledged to dismantle, as he told his U.S. interlocutors ("I want to send to the devil Nasserism, the socialism and all this nonsense and I need your support to achieve that", a support which was obviously given without restriction). Assets owned by the state - industrial, financial and commercial, agricultural land and urban or desert land - have been "sold". To whom? To businessmen in collusion, close to the power system: Senior army officers, officials, rich merchants returned from their exile in the Gulf countries equipped with beautiful fortunes (in addition to the political and financial support of the Muslim Brotherhood). But also to "Arabs" of the Gulf countries and foreign US and European companies. At what price? At ridiculous prices, incommensurate with the real value of assets.

It is in this way that the new "owning" Egyptian and foreign class has been built that fully deserves the qualification of capitalist collusion/crony (rasmalia al mahassib, Egyptian term to designate it and understood by all). Some notes:

- a. property granted to the "army" transformed the character of the responsibilities it already exercised in certain segments of the productive system ("the army factories") that the army managed as state institution. These powers of management became those of private owners. In addition to privatization in the race the most powerful officers also "acquired" the property of many other state-owned assets: commercial businesses, suburban and urban land and housing estates in particular.
  - b. The opinion describes these Egyptian practices of "corruption" (fasad) located in the field of morality, making the assumption that justice worthy of the name could fight it successfully. Much of the Left itself makes the distinction between this condemnable corrupt capitalism and an acceptable and desirable productive capitalism. Only a small minority understands that when the principles of "liberalism" are accepted as the basis for any policy called "realistic" capitalism in the periphery of the system can't be different. There is no bourgeoisie building itself on its own initiative as the World Bank wants us to believe. There is a comprador state active behind the creation of these colossal fortunes.
  - c. The fortunes of Egyptian and foreign were formed through the acquisition of existing assets without adding productive capacities other than negligible. The "capital inflows" (Arab and other), however modest, fall within this framework. The operation ended with the establishment of private monopoly groups that now dominate the Egyptian economy. It is far from healthy and transparent competition liberal discourse trumpeted to them. Moreover, the greater part of these colossal fortunes consists of real estates: Holiday villages ("Marina") on the shores of the Mediterranean and the Red Sea, new neighborhoods closed, guarded (in Latin American fashion - previously unknown in Egypt), desert terrain in principle intended for agricultural development. These properties are retained by their owners who speculate on resale after the State has provided staggering costs of infrastructure that give them real value (and these costs have obviously not been included into the sale price of the land).
2. The monopoly power of the new capitalism of complicity has been systematically reinforced by the almost exclusive access of these new billionaires to bank credit (including for the "purchase" of the assets in question) at the expense of lending to small and medium producers.
  3. These monopolistic positions have also been reinforced by massive subsidies from the state, for example, granted for the consumption of oil, natural gas and electricity by industries that had been privatized (cement, iron metallurgy and the aluminum, textiles and others). But the "free market" has allowed these companies to raise their prices to adjust to those of competing imports. The logic of public subsidy which compensated for lower prices by the state sector is broken in favor of super profits of private monopolies.
  4. Real wages for the vast majority of unskilled and medium qualifications deteriorated by the effect of the laws of the free labor market and the fierce repression of collective action and trade unions. They are now located at rates much lower than they are in other countries of the

South, whose per capita GDP is comparable. Super profits of private monopolies and poverty go hand in hand and result in the continued widening of inequality in income distribution.

5. Inequality has been reinforced consistently by a tax system which denied the principle of progressive taxation. This low tax for the rich and corporations, praised by the World Bank for its alleged virtue to support investment resulted simply into super-profits.
6. Throughout these policies implemented by the state, comprador/crony capitalism does not produce by itself but a low growth (less than 3%) and hence the continued growth of unemployment. When the rate was a little better, it was out of the expansion of extractive industries (oil and gas), associated with a conjuncture of better prices, the growth in fees from the Suez Canal, tourism and remittances from migrant workers.
7. These policies have also made it impossible to reduce the public deficit and the external trade balance. They have led to the continuing deterioration of the value of the Egyptian pound, and imposed growing public debt. This gave the opportunity to the IMF to impose ever greater respect for the principles of liberalism.

### **C. Immediate responses**

These answers have not been imagined by the author of these lines. I merely collected them from the various components of the movement - Left and center national democratic forces, trade unions, various youth and women organizations etc. Considerable work and of quality was conducted for more than a year by activists responsible for the formulation of a common program to meet the immediate requirements. Their formulations (repeated here) have already been published, among others by our colleague Ahmad El Naggari. The salient points are:

1. Transfer operations of public assets should be subject to systematic revision. Specific studies - equivalent to good audits - are available for many of these transactions and prices corresponding to the real value of these assets calculated. Given that the "buyers" of these assets have not paid these prices, the property acquired assets must be transferred by law after an audit ordered by the court to state corporations whose shareholder is equal to the difference between the actual value of the assets and that paid by buyers. The principle is applicable to all these buyers be it Egyptian, Arab and foreign.
2. The law should establish minimum wages, amounting to LE 1200 per month (155 Euro at rate of exchange in effect, the equivalent purchasing power of 400 Euros). This rate is lower than it is in many countries whose GDP per capita is similar to that of Egypt. The minimum wage must be associated with a sliding scale and unions responsible for monitoring its implementation. It will apply to all activities of public and private sectors.

Given that the beneficiaries of the freedom of prices, private sectors that dominate the Egyptian economy have already chosen to locate their prices closer to those of competing imports, the measure can be implemented and will reduce margins of monopolies profit without destroying

the viability of the industries. This adjustment does not threaten the balance of public accounts, taking into account savings and new tax legislation as proposed later in the paper.

The proposals made by the movements concerned will be strengthened by the adoption of the maximum wage at 15 times the minimum wage.

3. Workers' rights - conditions of employment and loss of employment, working conditions, health insurance / unemployment / retirement - should be discussed in a major tripartite consultation (unions, employers, government). Independent unions formed through the struggles of the past decade should be legally recognized as the right to strike (always "illegal" in the current legislation).

A "survival benefit" must be established for the unemployed, the amount and conditions of access and funding of which should be subject to negotiation between the unions and the state.

4. Subsidies granted by the colossal budget to private monopolies should be abolished. Again the specific studies conducted in these areas show that the abolition of these benefits does not affect the profitability of the activities involved, but only reduce their monopoly rents.
5. New tax legislation should be implemented based on progressive taxation of individuals. The rate of taxation of profits of enterprises employing more than 20 workers should be raised to 25%. Tax exemptions granted with extreme generosity to Arab and foreign monopolies should be abolished. Taxation of small and medium enterprises, often heavier now should be revised downward. The proposed rate for the upper brackets of personal income - 35% - also remains low in international comparison.
6. A precise calculation was conducted which shows that all the measures proposed in paragraphs 4 and 5 can not only remove the current State budget deficit (2009-2010) but also provide a surplus. This will be used to increase public spending on education, health, popular housing subsidy. The reconstruction of a public social sector in these areas does not impose discriminatory measures against private activities of a similar nature.
7. The credit must be placed under the control of the Central Bank. Extravagant facilities granted to monopolies should be abolished in favor of the expansion of credit to small businesses in action or that could be created in this perspective. Specific studies have been conducted in the areas concerned, craft, industrial, transport and service. The demonstration has been made that the candidates to take initiatives in the direction of creating business and employments exist (particularly among unemployed graduates).
8. Programs offered by the components of the movement remains less clear with regard to the peasant question. The reason is that the movement of resistance to the expropriation of small farmers accelerated since the current policies of "modernization" of the World Bank were adopted remains fragmented and never went out of the village concerned - especially because of the fierce repression to which it is submitted and the non-recognition of its legality.

The current claim of the movement - mainly urban, admittedly - is simply passing laws making it harder for the eviction of tenants unable to pay excess rents charged on them and the expropriation of indebted smallholders. In particular, it advocates a return to a law fixing the maximum rent (they were later freed by the successive laws revising the agrarian reform).

But it should go further. Progressive organizations of agronomists have produced concrete projects and argued for ensuring the development of the small peasantry. Improved irrigation methods (drip etc.), choice of rich and intensive cultures (vegetables and fruits), remove of the upstream monopoly control of inputs by suppliers, remove of the downstream monopoly power through the creation of marketing cooperative associated with consumer cooperatives. But it remains to establish an enhanced communication between these organizations of agronomists and agricultural smallholders involved. Legalization of organizations of farmers, their federation at the provincial and national levels should facilitate progress in this direction.

9. The action program set out in paragraphs above would certainly initiate a resumption of healthy and sustainable economic growth. The argument advanced by liberal critics - that would ruin any hope of new entries of capital from external sources - do not hold. The experience of Egypt and other countries, particularly in Africa, who have agreed to comply fully with the requirements of liberalism and renounced to develop by themselves a project of authentic development shows that these countries do not "attract" foreign capital despite their uncontrolled opening (precisely because of it). Foreign capital will simply then conduct raid operations on the resources of the countries concerned, supported by the state and collusion of comprador capitalism. On the other end emerging countries who actively implement a national development project do offer real opportunities to foreign investment that accept to engage in these national projects, and accept the constraints imposed on them by the state as well as the adjustment of profits at reasonable rates.
10. The government in Cairo, composed exclusively of Muslim Brotherhood chosen by the President Morsi has immediately declared its unconditional adherence to all the principles of liberalism, and taken measures to accelerate their implementation, and deployed to this end all means of repression inherited from the former regime. The state and comprador capitalism connivance continue ! Popular consciousness that there is no change is growing as evidenced of the success of popular demonstrations on 12 and 19 October. The movement continues! The people say in the streets : "the revolution has not changed the regime, but it has changed the people".
11. The program of immediate demands which I have traced the dominant lines here only concerns the economic and social challenge. Of course, the movement also discusses its political sides: the draft constitution, the democratic and social rights, the required "citizen's state" (Dawla al muwatana) contrasting with the proposed theocratic state (Dawla al Gamaa al islamiya). These issues have not been addressed here.

(Prepared by Samir Amin in October 2012)