Cairo Stock Exchange.

Norbert Schiller

Dreamland
The Neoliberalism of Your Desires
Timothy Mitchell

Neoliberalism is a triumph of the political imagination. Its achievement is double: while narrowing the window of political debate, it promises from this window a prospect without limits. On the one hand, it frames public discussion in the elliptic language of neoclassical economics. The collective well-being of the nation is depicted only in terms of how it is adjusted in gross to the discipline of monetary and fiscal balance sheets. On the other, neglecting the actual concerns of any concrete local or collective community, neoliberalism encourages the most exuberant dreams of private accumulation—and a chaotic reallocation of collective resources.

In Egypt, as Pfeifer explains in this issue, such modes of thinking have defined the 1990s as a decade of remarkable success and a vindication of neoliberal principles. Yet accompanying this picture of financial discipline is a contrasting image of uncontrolled expansion and unlimited dreams. The most dramatic example is Egypt's rapidly expanding capital city. While government deficits shrink, Cairo explodes. "Dreamland," the TV commercials for the most ambitious of the new developments promise, "is the world's first electronic city." Buyers can sign up now for luxury fiberoptic-wired villas, as shopping malls, theme parks, golf courses and polo grounds rise out of the desert west of the Giza pyramids—but only minutes from central Cairo *via* newly built bridges and ring roads.

Or one can take the ring road in the opposite direction, east of the Muqattam Hills, to the desert of "New Cairo," where speculators are marketing apartment blocks to expatriate workers saving for their future in the Gulf. They can start payments now (no deposit is required) at agencies in Jeddah and Dubai. "No factories, no pollution, no problems" is the advertisement's promise, underlined with the developer's logo, "The Egypt of My Desires."[1]

The development tracts spreading out across the fields and deserts around Greater Cairo represent the most phenomenal real estate explosion Egypt has ever wit-

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nessed. No one has mapped what is happening, but a conservative estimate is that within less than five years the area of its capital city has doubled.

Building Trade

The exuberance of these private developers is matched by the state. While speculative builders are doubling the size of Cairo, the government is proposing to duplicate the Nile Valley. In October 1996, President Mubarak announced the revival of plans from the 1950s to construct a parallel valley by pumping water from Lake Nasser in the south into a giant canal running northwards that is intended to irrigate two million acres of the Western Desert.[2]

In the meantime, the state also subsidizes urban property developers, selling public land cheaply and putting up the required expressways and bridges in rapid time. The state is even involved as a developer, since the largest single builder of Cairo's new neighborhoods, far larger than the builders of Dreamland, is the Egyptian army. Military contractors are throwing up thousands of acres of apartments on the city's eastern perimeter to create new suburban enclaves for the officer elite.

If one's first reaction is amazement at the scale and speed of these developments, one soon begins to wonder about the contradictions. The IMF and Ministry of the Economy make no mention of the frenzied explosion of the capital city, and the state's role in subsidizing this speculative neoliberalism goes unexamined. A bigger problem is that structural adjustment was intended to generate an export boom, not a building boom. Egypt was to prosper by selling fruits and vegetables to Europe and the Gulf, not by paving over its fields to build ring roads. But real estate has now replaced agriculture as Egypt's third-largest non-oil investment sector, after manufacturing and tourism.[3] Indeed, it may be the largest non-oil sector, since most tourism investment goes into building tourist villages and vacation homes, another form of real estate.

Undisciplined Capital

The conventional story is that by 1990 the economy was in crisis, no longer able to support loss-making public industries, an overvalued currency, "profligate" government spending, an inflationary printing of money to cover the budget gap and astronomical levels of foreign debt.[4] After 15 years of foot-dragging and partial reforms, the government was forced to adopt an IMF stabilization plan in 1990-91 that allowed the currency to collapse against the dollar, slashed the government budget, tightened the supply of money, and cut back subsidies to public sector enterprises, preparing to privatize or close them. These "prudent" fiscal policies were implemented more drastically than even the IMF had demanded.[5] But the story is more complex: Among the most profligate of the government's expenses was its level of arms purchases, willingly supplied and subsidized by the US (part of its own system of state subsidies). An impending default on these military loans, causing an automatic suspension of US aid, helped trigger the collapse in 1990. The crisis was brought on not just by a spendthrift state but by the slump after 1985 in the price of oil—the largest source of government revenue—and by the lost remittances and other income caused by the 1990-91 Gulf conflict. And as Pfeifer notes elsewhere in this issue, the largest single contribution to Egypt's fiscal turnaround, debt forgiveness, resulted from a political decision of the US and its allies.

Behind this lies a more important story. The crisis of 1990-91 also stemmed from the chaos brought on by deregulated international flows of speculative finance. The financial reforms that followed were not so much an elimination of state support (as the neoliberal version of events would have it), but rather, a change in recipients. Since 1974 the number of banks had increased from seven to 98, as commercial banks sprang up to finance the investments and consumer imports of the oil-boom years. The four large state-owned banks made loans mostly to public sector enterprises. It is estimated that at least 30 percent of these loans were non-performing.[6] But the state banks were also part owners of the private-sector banks, enabling

An ad from an Egyptian business periodical.

them to channel public funds toward a small group of wealthy and well-connected entrepreneurs.[7] These large private-sector borrowers were also in trouble.

By 1989, 26 percent of private and investment loans were in default, more than half of which belonged to just three percent of defaulters. Many of the big defaulters were able to delay legal action and others fled the country to avoid the courts.[8] The largest default came in July 1991, when the Bank of Credit and Commerce International (BCCI) collapsed. Depositors in BCCI's Egyptian subsidiary were protected by an informal insurance scheme among Egyptian banks, which had to contribute 0.5 percent of their deposits and share the cost of a £E1 billion interest-free loan to make up the missing funds.[9]

These difficulties signaled that Egypt was increasingly beholden to the interests of a narrow class of financiers and entrepreneurs whose actions it was unable to discipline.[10] As with the 1997-99 global financial crisis, however, the problems of undisciplined capitalism (a better term than "crony" capitalism, now in vogue with the IMF, for it points to the pervasive struggle to subject capitalists, within and outside the state, to law and regulation) cannot be separated from the problems caused by speculative global finance, especially currency trading. After international currency controls were abandoned in 1980, daily global foreign exchange turnover increased from $82.5 billion (1980) to $270 billion in 1986 and $590 billion in 1989 (by 1995 it was to reach $1.230 trillion).[11] This chaotic explosion of speculation overwhelmed the attempts of governments to manage national currencies according to the local needs of industry and exports.

In Egypt, global deregulation coincided with a surge in private foreign currency transfers as expatriate workers sent home earnings from the Gulf. More than 100 unregulated money management firms were formed to transfer and invest such funds, five or six of them growing very large.[12] These Islamic investment companies (so-called because they appealed to depositors by describing the dividends they paid as profit shares rather than as interest payments) invested successfully in global currency speculation, later diversifying into local tourism, real estate, manufacturing and commodity dealing, and paid returns that kept ahead of inflation. The public- and private-sector commercial banks, subject to high reserve requirements and low official interest rates (essential to the government financing of industry), could not compete and were increasingly starved of hard currency.

In 1988-89 the bankers finally persuaded the government to eliminate the investment companies. A law went into effect suspending their operations for up to a year. Companies found to be insolvent (or in many cases made insolvent) were closed, and the remaining companies were reorganized as joint-stock companies and forced to deposit their liquid assets in the banks. This protected the banks and their well-connected clients, but provoked a general financial depression from which neither the banks nor the national currency could recover. As a recent UN report confirms, the best predictor of economic crises in countries of the South is not state-led development but the deregulation of finances.[13]

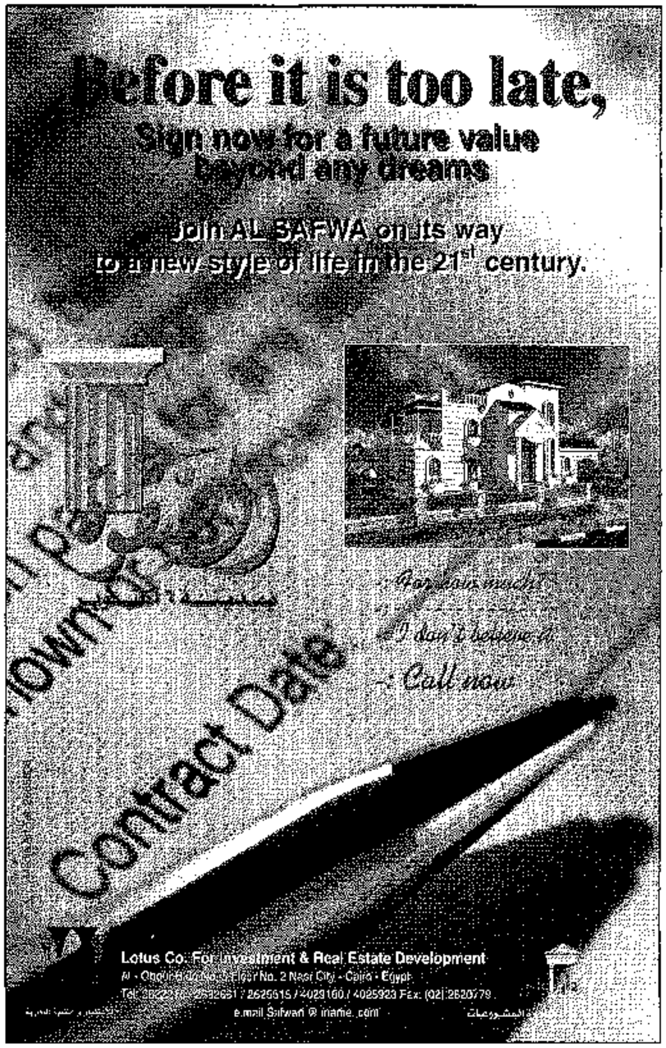
Bailing Out the Bankers

In response to the financial crisis, the centerpiece of the 1990-91 reforms was a gigantic effort to bail out Egypt's banks. After allowing the currency to collapse and cutting public investment projects, the government transferred to the banks funds worth 5.5 percent of GDP in the form of treasury bills.[14] To envision the scale of this subsidy, in the US during the same period the government bailed out the savings and loans industry, transferring a sum amounting to three percent of GDP over ten years. The Egyptian bailout was almost twice as large, relative to GDP, and occurred in a single year. Moreover, the government declared the banks' income from these funds to be tax-free, a fiscal subsidy amounting to a further ten percent of GDP by 1996-97. In 1998, the government attempted to end the subsidy by reintroducing the taxing of bank profits, but the banks thwarted the implementation of the law.[15] The banks became highly profitable, enjoying rates of return on equity of 20 percent or more.

The government extended further support to the banking sector by tightening credit to raise interest rates, pushing them initially as high as 14 percent above international market levels. Non-market interest rates brought in a flood of speculative capital from abroad. This was quickly interpreted as a sign of the success of neoliberal discipline. It was nothing of the sort. The money consisted of highly volatile investment funds chasing interest income whose attractiveness was due not to "market fundamentals" but to state intervention. After two years, interest rates were reduced, thus ending the mini-boom.

In 1996, the government engineered another mini-boom by announcing an aggressive program of privatization. It began to sell shares in state-owned enterprises on the Cairo stock market, which it had reorganized to exclude small brokers while eliminating taxes on profits.[16] By June 1997, the government's income from the privatization sales amounted to £E5.2 billion ($1.5 billion). It used 40 percent of this income to pay off bad debts in the banking sector.

The sell-off fattened the banks and the government budget and fueled a short-lived stock-market boom. Its outcome was a complicated adjustment of existing relations between public-sector business barons and their partners in the private sector. The press was full of stories of phony privatizations, such as the December 1997 sale of Al-Nasr Casting, which in fact had been sold to the public sector banks.[17] A year later, state officials forced the chairman of the stock exchange to resign after he tried to improve surveillance of company finances and share trading.[18]



An ad from an Egyptian business periodical.

The stock market boom lasted less than 18 months, with the EFG index of large capitalization companies reaching a high in September 1997, then losing one-third of its value over the following twelve months.[19] As the stock market slid, the government halted the sell-offs, suspending privatizations after the summer of 1998 and refusing the IMF's demand to begin privatizing the financial sector. Instead, to stem the collapse of the market, the government used its financial institutions to invest public funds. Between December 1997 and October 1998, the large state-owned banks, pension fund and insurance companies pumped about $600 million into the market, suffering large losses.[20] In the process, the state reacquired shares in most of the companies it had recently claimed to be privatizing. By June 1996, the number of loss-making public enterprises had almost doubled; accumulated losses had risen from £E2 billion to £E12 billion.[21] The government had redefined its finances to exclude public-sector companies from the fiscal accounts, however, so this worsening situation was hidden from view.[22] Neoliberalism could continue to claim that it was replacing government deficits with a balanced budget.

Family Business

The neoliberal program has not removed the state from the market or eliminated "profligate" public subsidies. These achievements belong to the imagination. Its major impact has been to concentrate public funds into different, but fewer hands. The state has turned resources away from agriculture, industry and the underlying problems of training and employment. It now subsidizes financiers instead of factories, speculators instead of schools. Although the IMF has shown no interest in raising the question, it is not hard to determine who benefits from the new financial subsidies. The revitalized public-private commercial banks lend big loans (tax-free) to large operators. The minimum loan size is typically over $300,000 and requires large collateral and good connections.[23]

Leading the pack of those who have good connections are about two dozen conglomerates, such as the Osman, Bahgat and Orascom groups. These family-owned businesses typically began as construction companies or import/export agents, but most have also moved into tourism, real estate and food and beverages, and in some cases the manufacturing of construction materials or the local assembling of consumer goods such as electronics or cars. They enjoy powerful monopolies or oligopolies as exclusive agents for the goods and services of western-based transnationals.

The Bahgat group, for example, is the biggest producer of televisions in the Middle East and dominates the Egyptian market, having graduated from assembling Korean sets to making Grundig, Phillips and own-name brands. The group's other major interests include hotels and internet service provision; they are the builders of the internet-wired Dreamland. Dr. Ahmed Bahgat, the family head, is reputed to be a front man for well-placed interests within the regime, which may explain why the express roads out to Dreamland were built in record time. Orascom, a holding company wholly owned by the Sawiris family, controls eleven subsidiaries, including Egypt's largest private construction, cement making and natural gas supply companies, the country's largest tourism developments (funded in part by the World Bank), an arms trading company and exclusive local rights in cell phones, Microsoft, McDonald's and much more.

These conglomerates produce goods and services affordable to just a small fraction of Egypt's population. A meal at McDonald's costs more than most workers earn in a day, and a family outing to Dreampark, the amusement park at Dreamland, would consume a month's average wages. The Ahram Beverages Company, which makes soft drinks, bottled water and beer, calculates its potential market (including expatriates and tourists) to be just five or six million, in a country of 62 million.[24] This narrow market corresponds to that segment of the population that can afford, or even imagine affording, the country's one million private cars—which is why local manufacturers concentrate on assembling Mercedes, BMWs, Jeep Cherokees and other luxury cars. Beyond the small group of state-subsidized super-rich, modest affluence probably extends to no more than five or ten percent of Egypt's population.[25]

The Spending Gap

What of the other 90 or 95 percent of Egyptians? Real wages in the public industrial sector dropped by eight percent from 1990-91 to 1995-96. Other public sector wages remained steady, but could be maintained only because the salaries remain below a living wage.[26] A schoolteacher or other educated public-sector employee takes home less than two dollars a day. One sign of the times is the reappearance of soup kitchens in Cairo, offering free food to the poor, which the national press interpreted as a welcome return to the kind of private benevolence among the wealthy not seen since the days of the monarchy.[27]

Household expenditure surveys show a sharp decline in real per capita consumption between 1990-91 and 1995-96. The proportion of people below the poverty line increased in this period from about 40 percent (urban and rural) to 45 percent in urban areas and over 50 percent in the countryside. Reliable guides to the changing share of consumption by the very wealthy do not exist, since surveys fail to record most of their spending. If household expenditure surveys for 1991-92 are extrapolated to the national level, the figures show the population as a whole spent $15 billion. Yet national accounts give the total expenditure as $30 billion. In other words, about half the country's consumer spending is missing from the surveys. It is plausible that the bulk of these missing expenditures belong to the wealthiest households. Categorized as those spending over £E14,000 (about $4,000) per year, these households represent 1.6 million people or three percent of the population. One estimate suggests that this small group may account for half of all consumer spending.[28]

The inequalities are greatest in the countryside, where neoliberal reforms first began in 1986, directly targeted at those with minimal resources. Neoliberal reforms ended agricultural rent controls and eliminated tenants' security. Reviewing the first decade of agrarian neoliberalism, the reformers acknowledged that its consequences included "growing unemployment, falling real wages, higher prices for basic goods and services, and widespread loss of economic security."[29] They might have added to this list: stagnant agricultural growth (real output in 1992 was lower than 1986), repeated crises of under- and over-production, the growth of monopolies and price-fixing, a shift away from export crops such as cotton, and a decision by most small farmers to move away from market crops and grow more food for their own consumption.[30] The latter, a decidedly sensible decision, reminds us again of the imaginary nature of neoliberalism's successes.

Reform for a Change

Alternative strategies to the neoliberal agenda must begin in the countryside. The first priority is a far-reaching land reform program, redistributing land holdings of more than five acres. This would improve living conditions immediately, increase agricultural output, and reverse the growing landlordism and merchant monopolies that are returning the countryside to the conditions of the first half of the twentieth century. Redistributing agrarian resources would provide a powerful stimulus to local investment and wealth creation. At present, with consumption of commodities other than food so heavily concentrated among the affluent and super-rich, much of the country's demand for goods can be satisfied only by imported luxuries. The new wealth of ordinary households would create a vibrant demand for local services and local manufactures. Given the relative importance of workers' remittances from the Gulf (in 1996-97 they amounted to $3.26 billion, more than double the amount of Western portfolio investment and almost five times the paltry level of direct investment by transnational corporations), this is clearly the level at which radical initiatives are needed and can make a difference.[31]

The other priority is political reform. Neoliberalism in Egypt, as elsewhere, has been facilitated by a harsh restriction of political rights. Its results include a parliament more than 100 of whose members the courts declared fraudulently elected, but which announced itself above the law in such matters; and in which the handful of opposition deputies are increasingly deprived of opportunities to question the government.[32] Neoliberalism has consolidated a regime that denies Egyptians the right to organize political opposition or hold political meetings, while forbidding the few legal opposition parties to hold public activities. Neoliberalism has meant a steady remilitarization of power, especially as control shifts away from ministries, many of which are now run by technocrats, to provincial governors, most of whom are still appointed from the upper echelons of the military. And it includes the repeated intimidation of human rights workers and opposition journalists by closures, court cases and imprisonment. Meanwhile, the US refuses every appeal to speak out in public on these issues, declaring no concerns beyond the endurance of the regime and its neoliberal reforms.

What Egypt most needs is not the emergence of so-called civil society (which often means giving the educated and the well-to-do the opportunity to organize and speak on behalf of those they consider in need of "development"). The real need is to stop those in charge, both inside and outside the regime, from preventing neighbors, co-workers and communities from getting together, addressing problems, deciding and arguing for what they want, and exposing the corruption, inanities and injustices of those who hold wealth and power. Like land reform, this is not a new idea; it simply isn't visible through the narrow window of the neoliberal imagination. ■

Author's Note: The author wishes to thank David Sims, Max Rodenbeck, Boutros Wadie', Kris McNeil, Ethel Brooks and Lila Abu-Lughod. None is responsible for the views presented here.

Endnotes

1 *Al-Ahram*, January 1, 1999, p.40.

2 *Al-Wafd*, January 12, 1999, pp.1, 3.

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4 IMF, "Egyptian Stabilization," p. 5.

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7 Robert Springborg, *Mubarak's Egypt: Fragmentation of the Political Order* (Boulder, CO: Westview Press, 1989).

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10 On similar problems faced by the Indian state in the same period, and the importance of discipline, see Prabhat Patnaik and C.P. Chandrasekhar, "India: *Dirigisme*, Structural Adjustment, and the Radical Alternative," in *Globalization and Progressive Economic Policy*, ed., Dean Baker, Gerald Epstein, and Robert Pollin (Cambridge, 1998), pp. 67-91.

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12 The following is based on Yahya Sadowski, *Political Vegetables: Businessman and Bureaucrat in the Development of Egyptian Agriculture* (Washington, DC: Brookings Institution, 1991).

13 United Nations Conference on Trade and Development, *Trade and Development Report 1988* (New York and Geneva, 1999), p. 55.

14 IMF, "Egyptian Stabilization, " p.31.

15 Ibid., p 35; Economist Intelligence Unit, *Country Report: Egypt*, 3rd quarter 1998, p.19-20. Other benefits were transferred to the banks in 1991, including a reduction in reserve requirements (a source of fiscal income) from 25 percent to 15 percent. Mohieldin, "State Intervention," p. 13.

16 Handy, *Egypt: Beyond Stabilization*, p.59.

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18 *Financial Times*, January 15, 1999, p. 40.

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22 IMF, "Egyptian Stabilization," p.12.

23 *Cairo Times*, December 10, 1998, p. 12.

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25 Osman M. Osman, "Development and Poverty-Reduction Strategies in Egypt, " *Working Papers of the Economic Research Forum for the Arab Countries, Iran and Turkey*, No. 9813. Cairo, 1998, pp. 7-8.

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28 The estimate is based on the assumption that all the missing expenditure belongs to this group. The plausibility of the assumption rests on factors such as the character of the missing expenditures and the relative proportion of incomes that different groups spend of food. Ulrich Bartsch, "Interpreting Household Budget Surveys: Estimates for Poverty and Income Distribution in Egypt," *Working Papers of the Economic Research Forum for the Arab Countries, Iran and Turkey*, No. 9714. Cairo, 1997, pp. 17-19.

29 Lehman B. Fletcher, *Egypt's Agriculture in a Reform Era* (Iowa City: Iowa State University Press, 1996), p.4.

30 For details see Timothy Mitchell, "The Market's Place," in Nicholas Hopkins and Kirsten Westergaard, eds., *Directions of Change in Rural Egypt* (American University in Cairo Press, 1998).

31 EIU, *Country Profile*, Table 28, p.54. The World Bank and USAID have set up programs to provide loans to the small businesses and micro-enterprises denied access to the formal financial sector. But these programs ignore the question of redistributing wealth to create the demand for such enterprise.

32 Gamal Essam El-Din, "MPs rage over erosion of parliamentary power," *Al-Ahram Weekly*, January 7-13, 1999, p. 3.