On 5 July 2014, the Egyptian government announced its decision to reduce fuel subsidies as a first step in a framework for ending the system of government subsidies. The subsidy reduction hit several sectors of the community and resulted in public protests following the announcement. This paper examines the potential scenarios by which public anger towards subsidy reduction may be expressed. In the medium and long term, we anticipate one of two scenarios to evolve, though they are not mutually exclusive. First, the people and sectors affected by these austerity policies may resort to strategies focused on sustainable, longer term efforts, joining together in leagues or unions to defend their social interests with the ultimate goal of exerting pressure on the state to draw up a new social contract. This will push the system as a whole onto a more democratic and stable course that is based on greater comprehensive social partnership. Second, the absence of channels of communication and intermediate structures may lead to the eruption of random social uprisings similar to the social explosion witnessed in Egypt during the rule of President Sadat in 1977. Economic pressures may also lead to more sectoral and sporadic social protests similar to those seen in the country in recent years. These social protests or uprisings may force the regime to halt further austerity measures, at least temporarily. However, it is not anticipated that the protests or uprisings will force the regime to make substantial changes in the nature of its long term socio-economic policies. Therefore, if those sectors of the community impacted by the current economic policies wish to have a say in shaping policies to serve their interests, they need to find a way to engage in coalitions and unions that are better organized and capable of exerting an influence. As for the state, it needs to facilitate the process of social organization and the formation of unions. Today more than ever, the state needs community structures capable of managing social conflict.
On 5 July 2014, the Egyptian government announced its decision to reduce fuel subsidies as a first step in a framework for ending the system of government subsidies. The fuel subsidy made up around 20% of overall government expenditure since 2008. Reform of the fuel subsidy system has been an urgent necessity for some time, especially as this subsidy contributed to the rise in the state budget deficit (totalling 12-13% of GDP according to estimates by the current Finance Minister) and in recurrent expenditure, leaving available a very small percentage of public funds for investment. Despite this, none of the governments in power following the January 25th Revolution succeeded in taking serious steps in this direction due to fear of potential social unrest against unpopular measures. Although the need for reform of the subsidy system is not in question, the means by which the system should be reformed so that it protects the poor, who would be impacted by the ending subsidies, remains a major controversial issue. The current regime faces tremendous financial pressures, especially as the deficit currently financed by the Gulf countries is unsustainable. It was detrimental to some social sectors, however, to start the removal of part of the subsidies without also introducing a package of other economic policies to raise state tax revenues for alternative and effective infrastructure (transportation and road networks), the formation of social welfare networks (such as food coupons and financial support), and the protection of the vulnerable. Some social sectors were furious at the new policies of the government, as demonstrated by the protests following the announcement of the decision. For example, there were protests by drivers of cabs and small coaches who staged partial strikes and sit-ins.

Economic suffering is apparent in several sectors of society such as labourers, students and the unemployed. In this context, this paper aims to address the potential scenarios for expression of social anger emanating from the gradual process of reducing subsidies and the ramifications of the subsidy reduction.

The current regime plans to introduce additional policies to reduce the financial and economic role of the state, transparently dismantling the Nasserite Pact in which the state has always supported its relationship with social groups such as workers, employees, and the poor and lower middle class. Under Nasser, the state traded political loyalty from these social sectors in return for a guaranteed level of living conditions. In practical terms, this relationship created a serious dilemma that has dominated the process of shifting to a free economy in Egypt; the state has been incapable of implementing decisive measures towards economic liberalization and reducing its economic and financial support because the cost of such measures could lose...
it the support of its main social bases. Economic liberalization started during the reign of President Sadat in the 1970s, but its intensity escalated in 2004 with the new government of Ahmed Nazif, known for his neo-liberal approaches. The Nazif government moved towards economic liberalization, particularly in privatization schemes and the sale of public companies. The current removal of state fuel subsidies under President Sisi is an attempt to implement the structural economic reforms that were deferred for two or three decades, but have now become an urgent necessity.

In this context, some social groups are resentful towards a state that is moving gradually but purposefully towards dismantling its traditional relationship with them. In the medium and long term this could lead to one of two scenarios.

1) Greater organization and cohesion: towards drafting a new social contract?

Those affected by the austerity measures may develop sustainable strategies to defend their interests and may come together in coalitions or unions that uphold their social interests. In other words, increased and unremitting economic pressure may push these sectors to think about building trade union organizations capable of lobbying and defending economic policies that protect their long term interests. These sectors and classes may exploit social anger by establishing channels that can express their interests in a more organized and sustainable manner, aimed ultimately at pressuring the state to draft a new social contract in which these unions would participate in the formulation of economic policies.

This approach began several years prior to the January 25th Revolution through the creation of new unions independent of the Egyptian Trade Union Federation, which belongs to the state. The neo-liberal policies of the Nazif government (2004-2011) succeeded in raising macroeconomic growth, but failed to improve the living conditions of workers, employees and other poor sectors; on the contrary, it led to a serious deterioration in their real salaries and purchasing ability. An independent union for the employees of real estate tax authority was established in 2009. Following the revolution and the subsequent climate of political freedom, these sectors expanded their efforts to establish independent unions. Despite this new trend, direct opposition was not aimed at the social and economic policies of the state.

---

7 Ibid, p187.
because the focus was basically on achieving the short-term demands of union members such as wage increases, food allowances, and increased profits.

Although the state withdrew from its commitment to safeguard a reasonable standard of living, social protest movements and independent trade unions preferred not to change their previous clientele relationship with the state. The refusal of the trade union movement to establish relationships with political parties and forces deprived them of forming a framework that could defend and lobby for alternative economic policies in a broader political vision. Prior to the January 25th Revolution, social protest and trade union movements feared that politicizing their demands would attract oppression. This actually happened, for the first time since 2004, in the strike by 24,000 workers of the Ghazl el-Mahallah company on April 6, 2008, when political forces and youth movements expressed solidarity with the strike and used Facebook to call for a general strike in Egypt. The leaders of the trade union in the company were subjected to oppression and harassment.9 After the revolution, the independent trade unions preferred not to be linked with political forces and youth movements because they feared that this cooperation would lead to the exploitation of their demands for political purposes that would benefit the politicians more than the workers.

This stance was consolidated by the fact that the political forces were weak and failed to stand as a useful ally with the trade union and social protest movements in lobbying to achieve their demands: on the contrary, the opposite could be true.10 The new trade unions were also plagued by structural problems that prevented them from building powerful organizations capable of effectively including and representing different sectors of society. Their presence remained limited and highly focused on civil servants (such as tax authority employees) and some public sector workers in services, particularly those in the public transportation commission. This weakened their capacity to exert organized or broader pressure on the state to draft a new social contract.11

In this context, rising prices resulting from the removal of subsidies could lead these social sectors to two conclusions:

(1) Demands for immediate rights are inadequate to force the state into formulating new economic and political policies that serve their interests in the long term;

(2) The state will not accept trade unions and coalitions as partners in the decision making process unless it is forced to do so; i.e., if it faces organized and large scale pressure from coalitions and unions that speak on behalf of extended social networks.

So far, a law on trade union freedoms has not been enacted; such a law is needed to legitimize and rationalize trade unions and professional coalitions outside the ambit of the Egyptian Trade Union Federation, which is still considered the sole legitimate and legal body to


10 Nadine Abdalla, “Egyptian Labor and the State,” Middle East Institute, 1 July 2014, available at: [http://www.mei.edu/content/egyptian-labor-and-state-0](http://www.mei.edu/content/egyptian-labor-and-state-0)

11 Ibid.
represent workers under Law No. 35 of 1976. The ability of social protest movements to act on these two conclusions will determine not only the extent to which these movements impact economic policies, but also their influence in pushing the entire regime towards a more democratic and stable course based on community partnership and the integration of broad social sectors in the decision and policy making process, at least economically and socially.

2) Sectoral protests or social explosion: the situation remains unchanged?

If the state continues to move ahead rapidly with austerity measures and take firm steps against freedom of organization, particularly trade union organizations, this could lead to social unrest without any structures capable of expressing this anger in an organized manner. The situation could deteriorate if the newly emergent independent unions remain weak and incapable of organizing themselves and engaging with society more effectively to exercise their natural right to social interaction and mediation. In such a scenario, we can expect to see one of two social protest models, or both together:

(1) The first model reflects the normal form of protest by social groups and workers in Egypt since 2004, as referred to earlier in the context of the expansion of economic liberalization policies. This means more community protests across all social sectors (workers, professionals, workers in unofficial sectors, etc.) in the form of sit-ins or strikes organized separately by each sector to achieve their own demands without coordination with other sectors. Such protests can certainly impede economic life and divert political attempts at improvements. However, it is unlikely that they would cause any structural threat to the existing regime or even its policies. As we have seen since 2004, such mobilization is likely to become part of routine protests faced by the regime, which either makes concessions, ignores them or puts pressure on social leaders to moderate or retract their demands, according to the nature of each case.

(2) The second model is expressed in the eruption of random and disorganized social protests where angry groups take to the streets to protest against the deterioration of their living conditions and their failure to cope with the soaring prices. This type of protest would not resemble the January 25th Revolution when young middle class people took to the streets chanting slogans and demanding “social justice, freedom and human dignity”, followed by other groups representing different social sectors; the new form of protests will be closer to the social explosion witnessed in Egypt in 1977 during the reign of President Sadat when the masses took to the streets in a random and disorganized manner to protest against soaring prices, especially of food.

Today, the middle class, which was the driving force behind the peaceful demonstrations of January 25th with their political and social demands, is becoming more restrained rather than

---

12 This situation, however, did not prevent the emergence of hundreds of independent unions, though these unions were deprived of the legal legitimacy needed to negotiate on behalf of workers.

13 For more information, see Joel Beinin, 2011, op. cit.
rebellious because successive protests in the country did not produce constructive changes in policy, but harmed the economic interests of this class. The most probable scenario is the eruption of random protests expressing the anger of specific social classes against economic policies that have impoverished them to an unbearable extent. Such a social explosion may force the regime to halt the imposition of further austerity policies for a period of time, as during the reign of President Sadat. Or it may force the regime to make further concessions, whether economic (financial incentives) or political (changing government officials), but these protests are not expected to cause structural changes in the nature of long-term economic and social policies. This would require the presence of strong organizations capable of negotiating with the regime regarding the content of economic reform policies and their social costs.

3) Conclusion and recommendations

The removal of subsidies will put the country at a crossroads, not only economically, but also politically and socially. It could allow an opportunity to establish a social contract that reflects a more democratic relationship between the state and the social sectors affected, although the ghost of unrest over social conditions still looms heavily. The fact remains that the course assumed by the state depends on the options open to the current political regime and also on the will and capabilities of social protest movements themselves. If the state chooses to close all channels of social interaction and mediation and press ahead with painful social measures, a social explosion, or at least ongoing protests, will be inevitable.

However, the state’s fear of explosion, combined with concern by certain community sectors over loss of rights and deterioration in living conditions, may bring about a historical opportunity to draft a new social contract that rewrites the relationship between them in a manner that ensures both stability and reform. The success of the economic austerity measures introduced by the state depends on avoiding threats of social unrest. The potential of the impacted sectors to influence structural changes depends on their ability to organize themselves. Today more than ever, the state needs community structures that can manage social conflict, which is anticipated to intensify in the future. Therefore, the state should facilitate the process of social and trade union organization by at least issuing a law ensuring trade union freedoms. If the social sectors affected by the current economic policies wish to participate in amending policies to represent their interests, the only way is to engage in coalitions and unions that are highly organized and possess the means to engage and work within society; they also need to be more flexible to draft their demands within the framework of a more comprehensive political structure.
About ARI

The Arab Reform Initiative (ARI) is a consortium of policy analysis institutes that mobilizes research capacity to advance knowledge and nurture home-grown programs for democratic reform in the Arab world. ARI seeks to generate, facilitate, and disseminate knowledge by and for Arab societies. In the quest to build free, just and democratic societies, ARI focuses on the current revolutionary processes in the Arab world, on the new patterns of interaction between political forces, governments and societies, on today’s political, socio-economic and cultural transformations, and on social justice. It opens a space for diverse voices and brings in the key actors in the transformation processes at play: intellectuals, activists, women, civil society representatives, human rights groups, social movements, political parties, the private sector and the media.

ARI produces policy research, supports networks of young scholars, convenes policy dialogues and organizes regional platforms on critical issues related to the transition processes.

www.arab-reform.net

About the Author

Nadine Abdalla is a non-resident fellow at the German Institute for International and Security Affairs (SWP) in Berlin. She holds a Ph.D. from Sciences-Po Grenoble in France and an MA in International Relations from Sciences-Po Paris. She has worked with several Egyptian and European think tanks and research centers, such as the Arab Forum for Alternative Studies (AFA), Al Ahram Center for Political and Strategic Studies (ACPSS), and the Center for Studies and Research about the Arab World and the Mediterranean (CERMAM) in Geneva. Her research interests include social movements, labour and youth movements, social and political change in Egypt, and the transition to democracy in a comparative perspective. Nadine writes a weekly column for the Egyptian daily Al-Masry Al-Youm.

The Arab Reform Initiative does not take institutional positions on public policy issues; the views represented herein are the author’s own and do not necessarily reflect the views of the Initiative, its staff or its board. Copyright of this publication is held by the Arab Reform Initiative. You may not copy, reproduce, republish or circulate in any way the content from this publication except for your own personal and non-commercial use. Any other use requires the prior written permission of the Arab Reform Initiative.

©Arab Reform Initiative August 2014

contact@arab-reform.net