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Rural-to-Urban Migration and Informal Sector Expansion: Impediments to Egyptian Development

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INTRODUCTION*

Week after week, in the summer of 1997, we waited for the dire news about the impending crisis in rural Egypt. October is the month for annually modifying contract arrangements concerning rents, tenancy, and land usufruct. This particular October was to witness the climax of a five-year grace period during which time farm land prices and rents gradually rose to their free-market value. It was to culminate in the government's "unreform" program. This scheme gave new unrestricted rights to land owners but critically limited the personal economies of those who rents had been artificially lowered by a long string of laws appearing since the famous 1952 land reform program under Gamal `Abd al-Nassir. But in the months leading up to October, throughout that crucial summer, the newspapers merely reported a flare-up here, an outburst there, a demonstration in this or that village. Surprisingly, October came and went with only a whimper, not a bang. The revolution that was suppose to start in the Egyptian countryside had fizzled out. The orthodox left explained the non-event by pointing to false "peasant" consciousness. Others blamed the heavy hand of government repression for crushing potential unrest. Still others saw the anemic weakness of Egyptian democracy and its eviscerated political party system as unable to mobilize effective opposition (El Tantawi 1999).

In fact, the matter was that farmers were simply not interested any more. Indeed, Law 96, which codified all these new economic relations, was merely one more nail in the coffin of Egyptian agriculture. It continued a long line of legislation and state policies that not only reduced the ability of Egypt's countryside to produce adequate amounts of food and export crops, but more important severely limited its capacity to generate adequate living standards and promising futures for its residents. Farmers were no longer interested because over the last 30 years they had shifted away from relying solely on agriculture and into diversifying income sources. Many have left farming altogether, registered statistically as a substantial drop in the proportion of the agricultural work force from 57 percent in 1960 to 31 percent in 1996 (Department of Statistics and Census 1963; CAPMAS 1999).

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Starting with the import substitution policies of `Abd al- Nassir, followed by the open door policy of Anwar al-Sadat and concluding with the structural adjustments under Husni Mubarak, this long line of government policies, then, has contributed to wave after wave of rural to urban migration.

The purpose of the present paper, then, is to understand what this migration of rural workers has meant to Egypt's economic growth. In particular, it discusses the impact that such relocation has had on urban employment, both informal and formal, and its effect on workers to organize successfully in protecting their rights and benefits.

In the 1960s the flood of workers out of the countryside did not automatically mean their transfer to urban areas, fortunate since the cities were ill-prepared to provide jobs for such an onslaught. Instead, migrants found employment in building the High Dam in Aswan and reclaiming the desert in Tahrir Province (Toth 1999:227-228). However, with the High Dam completed in 1964 and land reclamation mired down in corruption and inefficiency, workers began viewing urban employment as the next reasonable step to relieving their poverty and providing a sustainable future. Held back by the seven lean years 1967- 1974 when Egypt's economy remained paralyzed by the war of attrition against Israel (Waterbury 1983:112), they afterward inundated Cairo, Alexandria, the Canal Zone cities, and provincial capitals and towns to find jobs that were, simply by definition, forever better than those back in the village. Replacing workers who emigrated abroad in response to the oil boom and then later emigrating themselves, they emptied the Egyptian countryside (relatively speaking) and inadvertently created an urban surplus labor army that wreaked havoc with Egypt's labor markets. Urban Egypt was still unprepared for such substantial employment, and so workers squirmed and squeezed their way into informal sector activities, involuted in the ways that Clifford Geertz once depicted for Indonesian agriculture (1963), but now located in urban interstices.

And despite scholarly pronouncements of a dual economy and segmented labor market that presumably erected an impervious barrier preventing those in the informal sector from accessing jobs in the formal economy, workers themselves frequently traversed the permeable boundary that separated the two. This gave rise to an uneasy and unstable employment situation for those in the formal sector, and a rivalry and scramble to those in micro-enterprises who threatened to take their jobs.

Enter the unions. In principle, such labor organizations limit the size of a particular labor force sector so as to keep wages high, and negotiate with management so as to secure benefits and demarcate obligations for both sides. But in Egypt, labor unions are undermined from the start by this "threat" from the informal sector. Companies then cavalierly dismiss these organizations as they fight viciously for every piaster in Egypt's version of brutal Yankee capitalism. In so many examples in capitalist societies, labor radicalism has appeared only in legalizing unions. But once accepted, unions become tame, docile labor-control mechanisms, and radicals go elsewhere, onto other crusades. Companies in Egypt, however, have chosen to oppose unions and to forfeit such control in favor of diluting their formal work force with aspirants from the informal sector, a training ground for those who are later used to weaken labor's organizational might.

RURAL OUT-MIGRATION

Long before Law 96 emerged from Parliament in 1992, Egypt's countryside had encountered earlier policies that had squeezed agriculture of capital, crops, and contadinos. As early as 1957 Egypt had begun to nationalize foreign and domestic companies in a bid to jump-start its stagnant economy. By 1960 it was clear that the private sector would not cooperate in government plans for sustainable growth. On July 23, 1961, President `Abd al-Nassir dramatically announced a startling array of nationalizations, sequestrations, and confiscations. Hand in hand with this industrialization policy came controls over agricultural property, commerce, and prices that jeopardized the livelihoods and authority of landlords up and down the Nile valley. The government, discontented with the meager results of the 1952 land reform law that had netted only 3.6 percent of land and distributed it to merely 5 percent of rural producers, announced further estate expropriations, halved the ceiling on land ownership, and limited owner compensation (Toth 1999:104-105, adapted from Abdel Fadil 1975: 9, 125). In addition, the state either started or advanced four other policies - Aswan High Dam construction, land reclamation, farm price controls, and agricultural cooperatives - that guaranteed problems would appear in agriculture that would have a lasting impact on national development (Toth 1999:Chapter 5).

Two of these programs involved infrastructural mega-projects that had first emerged shortly after the Free Officers assumed power in 1952. But due to international intrigues, diplomatic difficulties, and the Suez War, High Dam construction remained moribund until 1960. Meanwhile, the land reclamation program became embroiled in charges of corruption and mismanagement which suspended operations until the same year, 1960. Once restarted, both called for vast numbers of unskilled workers recruited primarily from the Egyptian countryside.

Then, a year later when the government announced its nationalization of rural properties, it also announced a program in agricultural price controls and para-statals. With the subsequent restrictions on income and power, farm employers were in no position to stop the massive exodus of rural workers and small tenants moving south to Aswan or north to make the desert bloom.

The government was intent on providing cheap food for low-paid urban consumers and cheap capital to finance its thirst for industrial growth. But the price controls and para-statal monopolies that provided these inexpensive commodities negatively affected rural incomes and deftly engineered an artificial poverty. With non-farm wages for the unskilled three to ten times those found in agriculture, laborers and small farmers left the countryside in droves. The squeeze on the agricultural terms of trade made farming and farm employment a losing proposition.

Surprisingly, government bureaucrats were unaware of the problems they were creating. In fact, most middle-class Cairenes who staffed state offices saw the countryside absolutely teeming with unlimited numbers of surplus workers (Toth 1999:50-54, 160). This withdrawal of labor, they concluded, presented no problem. Yet I have estimated elsewhere (*Ibid*, 106-108) that up to 80 percent of rural Egyptians were in need of the extra income provided by construction and reclamation projects and their ancillary activities. So as plans proceeded, workers continued to relocate, and employers remained unable to bring them back home.

Indeed, in 1964, labor unrest on these two national mega- projects threatened to bring their operations to a halt. In response, the government created a national labor organization - the General Union of Agriculture and Migrant Workers - that attracted even larger numbers of farm workers by offering tangible benefits, higher wages, and social dignity. Begun at a provincial level in 1961, this union was soon elevated to a national level and became a national cause celebre. Elections in the summer of 1964, while corrupt, nevertheless held promise that rural workers could escape the misery and poverty of the countryside in favor of better work conditions and income in Aswan and in the desert. Even as Egypt suffered a critical recession in 1965-1966 - its annual growth rate, which had increased since 1960 at a healthy 5 percent, dipped ominously at mid-decade to 0.3 percent - the government continued to encourage workers to leave the countryside and to find employment (with the High Dam completed) in land reclamation. The effect on agriculture was not short of shocking. Bereft of food and export crops, Egypt's balance of payments suddenly collapsed. Short of foreign currency and imported spare parts, Egypt was in no position to finance and support the machinery of war. The war of June, 1967, put an end to Egypt's dreams of being the regional hegemonic power (Toth 1999 : Chapter 6).

CONSTRUCTING MORE URBAN JOBS

After the Six-Day war, rural workers were in no less need than before of improving their income and living standards. But the cities had simply stopped hiring, and although this never stopped those before or since, the calamity of the war generated a physical and psychic immobility. Egypt's economic development remained paralyzed until yet another war unblocked the imagination and sparked another massive labor movement, this time out of the cities to Libya and the Gulf and then out of the countryside to replace those urban workers who had left the country.

Yet more significant than any feeble attempt to regain the Sinai, the war of October 1973 compelled supportive Arab countries to raise oil prices that expanded these petroleum economies and attracted massive numbers of expatriate workers. Since 1968, new investment capital had begun financing economic growth throughout the developing world. Plant and infrastructural construction required both skilled and unskilled workers even before Organization of Petroleum Exporting Countries (OPEC) boosted its prices to record levels. High rates of emigration for construction workers had already appeared two years earlier in 1971 (Choucri, *et al*. 1978: 63). For many had grown disenchanted with Egypt's retrenchment such that the flow of skilled workers began reaching impressive proportions even before petroleum price hikes triggered a far greater exodus.

Thus the 1973 price increases that were sparked by, and in support of, Egypt's October war, greatly accelerated labor emigration. By 1976, as much as 60 percent of Egypt's labor force in the construction sector was employed abroad. In 1978 this proportion may have risen to as high as 80 percent (Hansen and Radwan 1982:89; Choucri 1980:83). "There is little doubt," two veteran economists concluded, "that emigration is now dominated by construction workers, unskilled workers, and farmers, and represents a much broader sample of the Egyptian labour force" (Hansen and Radwan 1982:89). This sector displayed such a voracious appetite for manual workers that subsequent domestic vacancies were promptly filled by workers moving out of agriculture employment. Workers no longer tolerated the dismal conditions of farm work. Instead they wanted permanent, full-time, high wage, contractual jobs in the city. A large proportion of these rural-to-urban migrants found jobs in urban construction.

But this enormous drain of labor from the countryside was not merely an automatic response to the freely operating forces of regional supply and demand impersonally operating across international borders. Instead it was the outcome of a deliberate government policy that, however, was not formulated in a disinterested fashion, but was one that was finally adopted under intense pressure from numerous workers demanding higher incomes and a better standard of living. Egypt's emigration policy turned out to be the result of increased labor agitation coming primarily from skilled workers in the construction trades.

Initially, the government, under pressure from construction companies, responded by prohibiting all skilled craftsmen from leaving the country. In July 1974, just nine months after OPEC raised its prices, the government announced travel restrictions for all craft trades (*al-Ahram* July 7, 1974). The Housing and Labor Ministries ordered travel bans and decreed that all workers must carry identity cards and legal documents clearly stamped with their occupation and travel authorization. Passports, visas, military and security clearance documents became obstacles used to prevent emigration (Dessouki 1978:22).

Workers did not accept such restrictions calmly. They bribed government officials to overlook identity card stamps; paid others to have their card altered, and many gave false occupations when renewing "lost" cards. Once their status was "revised" to a more harmless category, craft workers left Egypt in unprecedented numbers, traveled abroad, and sought and accepted foreign employment.

Challenged by the unauthorized departure of such large numbers of workers, the government finally capitulated in the fall of 1974 and abandoned its adamant opposition. As Parliament demanded changes in ministerial regulations, the only viable option left was to permit open travel. Documenting departures became simplified and encouraged many who did not actually hold contracts to leave and find employers once abroad (Messiha 1980:12).

As the Egyptian government saw the fiscal advantages of migration and remittances, its initial hesitation gave way to support. In 1975, Parliament ratified a number of formal treaties governing the movement of laborers in Iraq, Libya, Qatar, and Saudi Arabia, not only to protect them against exploitation and bad working conditions, but also to stop the flow of unregistered workers.

Labor emigration exhibited four distinct phases (Assaad 1991:152). In the beginning, during the first half of the 1970s, workers went to Libya where overland travel reduced transportation costs and thus attracted those who were less prosperous and were not yet so well funded. By the second half of the decade, workers' remittances began underwriting the more expensive movement to the Gulf. Emigrants were predominately skilled and urban, but many had earlier moved from the village to replace their urban counterparts and had acquired enough skills and connections that they, too, could travel abroad. Then in the early 1980s, the outbreak of war between Iraq and Iran raised the demand for unskilled emigrants to replace those drafted into the Iraqi army. This third phase saw an increase in the flow of workers moving directly out of the countryside. Until the mid-1980s, the average duration abroad was 1½ years (Hansen and Radwan 1982:86).

However, in 1985, when world oil prices began to decline, workers' duration abroad began to fall and fewer workers were actually able to find jobs outside Egypt. Many returned to Egypt to stay, although they still continued to work in urban construction. Occasionally, returning expatriates did replace and bump out their less qualified and less connected colleagues, but a reverse chain reaction did not send workers back to the countryside to expand the ranks of the agricultural labor force. Instead, when workers did leave construction, many shifted into employment in the informal manufacturing, transportation, and service sectors (Assaad 1991:149-150).

Arriving at accurate numbers for Egyptian emigration is a difficult task. No single government bureau has maintained adequate records; the actual figures are scattered throughout a number of offices in Cairo and conflict with each other. Nevertheless, a number of sources agree on the following figures. From 1968 to 1972, the annual migration rate numbered between 50,00 and 80,000 individuals. By 1973 this had risen to 157,000. Estimates for 1975 vary from 375,000 to 600,000 to one million. In 1980 anywhere from 500,000 to one million laborers worked abroad. By 1982, 2 million Egyptians were abroad and by 1985, 3 million (Hansen and Radwan 1982:86-87; Halliday 1984:8, and *al-Ahram*. November 3, 1985). The overall labor force in 1980 was approximately 12 million workers.

Between 1974 and 1978, construction wages increased three- to five-fold and, in the same years, grew to levels three times higher than those in agriculture (Hansen and Radwan 1982:74-75). By 1973, there was over 1.5 million unskilled rural workers in an agricultural labor force of 4 million - half the 1960 number - who were still in need of better wages and living conditions.

In the 1960s, rural to urban migration to Cairo alone involved over 700,000 people annually. During the next decade, that level rose to over one million. By the end of the 1980s, the figure had more than doubled to include 1.43 million migrants (Ibrahim 1996:100). And while these figures do not include those who relocated to Alexandria, the newly reopened Canal Zone cities, and the provincial capitals and towns throughout the country, these urban areas expanded rapidly as well. Many workers used the know-how they had acquired in "on-the-job-training" in their villages to find similar jobs in urban construction. Not all urban migrants, of course, were workers, for many farm family members also diversified out of agriculture into skilled labor and professional employment. But those looking for urban employment exceeded the ability of cities to provide full-time, permanent, satisfying work.

Thus as the expanding labor market called for more construction workers, first for petroleum exporting nations, and then later for their domestic replacements, local companies increasingly began recruiting those with lesser skills from the ranks of farm laborers. Because of such rapid turnover, building jobs were eventually filled by low qualified replacements from the countryside (The General Organization for Housing, 1981 vol. 2:121). Buildings were poorly constructed, resulting in the newsworthy collapses of apartment houses reported throughout the 1990s.

GOVERNMENT INVESTMENT POLICIES

Yet in the long run, a viable labor market, future job generation, and income growth in the construction sector critically depended on private and public investments. This flow of capital in turn heavily depended on effective government financial and investment policies.

After Egypt's victory in the October 1973 war, the government had formulated a pro-western open door investment policy that aimed to capitalize on the new petroleum wealth. Cairo maintained that the combination of Egyptian labor, Arab capital, and western technology was the solution to the nation's economic ills. Henceforth Egypt would open its door to new trade, investment, and technology, reorient its economy away from the barter commerce with the Soviet Union and east Europe, and align it instead with trade from the United States, western Europe, and the non-communist community. Such a policy had been under discussion since 1971 but it was the October war that made it not only politically feasible but also economically imperative. In June 1974, Parliament endorsed the open door policy by passing Law 43, which made foreign investment more attractive and more profitable.

This policy encouraged investment by authorizing joint ventures between foreign capital and local private and public sector firms. Low exchange rates that had benefitted state transactions became graduated in order to facilitate capital transfers from abroad. The government legalized private bank operations, foreign land ownership, lower personal and business taxes, and higher land ownership ceilings. Although Law 43 did not explicitly call for dismantling the public sector, it was clear that in time, targeted sectors such as industry, mining, energy, tourism, transportation, land reclamation, housing, insurance, and banking would be disassembled and sold to private investors, local or otherwise. The new foreign and mixed sectors, together with a reinvigorated private sector, would compete with what remained of the public sector, resulting in either its greater efficiency or its bankruptcy (Waterbury 1978:206-223).

Many joint venture projects were proposed and approved, but few were actually completed. By the end of 1976, only 66 projects valued at £E36 million and 3,450 employees had actually begun operations, although projects totalling 20 times that capital amount had been approved. Serious entrepreneurs were stymied by complicated authorization procedures, inadequate review personnel and frequent staff changes, and the open hostility of public sector officials. This allowed well-placed expediters to profit from lucrative payoffs and kickbacks paid to facilitate project approvals. Even President al-Sadat became impatient with the slowness of the response to Law 43. In June 1977, Parliament modified Law 43 with Law 32 to make currency transactions, tax abatements, and investments even easier. New enterprises were also exempted from the existing labor laws. In anticipation, the state authority accelerated its project review process, approving over 100 applications in just a single day.

By the end of 1978, 134 projects, worth £E440 million were underway, although this represented only a quarter of the £E1.66 billion initially committed. Most Law 43 projects were in investment companies, banks, tourism, and luxury housing. Yet other than banking and hotels, their efforts were not very noticeable. Few invested in productive enterprises. What the government needed were big joint ventures in manufacturing with well-known multinational corporations (Waterbury 1978:227-229; 1983:132-133, 142-146). However, these were not forthcoming.

Investment problems continued and industrial development remained static. The state was unable to draw upon domestic savings since its own banks were not securing foreign remittances which went instead into the "own-exchange" system of private importation and currency transactions, and later in private Islamic investment companies. Currency laws, credit regulations, and import requirements were revised time and time again so that the national banks could increase their deposits of remittances and so that the state could access and use this growing volume of hard currency. Meanwhile, in order to compensate for capital shortages, state officials relied on short-term commercial credit at very high interest rates (Waterbury 1978:305; Sadowski 1991:209).

As early as the spring of 1975, the International Monetary Fund, the IMF, had drafted a stabilization plan to resolve these problems. As part of a larger US Middle East peace initiative, the plan attracted much attention. But when US diplomatic efforts faltered, Egypt sought short-term credit from Saudi Arabia and the Gulf states instead. Once these oil-producers agreed to ease Egypt's economic plight, the IMF plan was tabled.

Yet by 1976 Egypt had fallen behind in repaying its short-term debt. Fund-raising trips to the Gulf were arranged once again, but now even Egypt's Arab bankers began insisting that Cairo comply with the IMF plan before they would extend more credit. Their lukewarm promises to contribute emergency aid, finance additional investments, and extend loans to cover debt servicing failed to provide sufficient capital. At last, that spring, the government capitulated and agreed to accept the IMF stabilization plan and its program of fiscal austerity.

The plan included currency devaluations, tax reductions, duty free industrial zones, more joint ventures, higher land ownership ceilings, budget freezes, and subsidy reductions. Cairo adamantly rejected devaluing the pound and proposed instead a two-tier currency system. It initially refused to reduce consumer subsidies, arguing that it would contribute to rising inflation and to destabilizing the country. But IMF pressure forced the government to retreat (Waterbury 1978:306-310). In general, the IMF adjustments benefitted exporters and foreign investors, but left the vast majority of Egyptian income earners and consumers destitute. Legislative approval for the plan was postponed until after the parliamentary elections of October 1976.

The January 1977 Cairo riots, the Camp David peace process, and a presidential assassination suspended any action on economic reform. Yet financial difficulties continued to intensify such that by 1987, Egypt was again on the brink of another major recession. The IMF was the last resort. But the IMF was not the only source of pressure for reform. Egypt's bilateral and private lenders were also insisting that Cairo implement the IMF-mandated reform package in order to receive more credit. The IMF conditions for extended credit and financial assistance insisted on an Economic Reform and Structural Adjustment Program (ERSAP) that required reducing budget deficits, reforming banking practices, raising prices, and eliminating consumer subsidies.

The IMF package proved extremely inflationary. First it demanded higher exchange rates which meant devaluing the Egyptian pound. This, the IMF argued, would improve Egypt's balance of trade, reduce its imports, increase foreign demand for its exports, and shift capital from the black to the official market. Second, the IMF insisted that interest rates rise to match or exceed the rate of inflation. This would enable state banks to attract more deposits and spur investment, but it would also raise the cost of credit to the government and cause numerous private bankruptcies. Finally, the IMF urged Egypt to cut its budget deficit by eliminating costly consumer subsidies and raising government tax revenues. In May 1987, after the Parliamentary elections, the administration relented, devalued the pound 40 percent, and froze consumer subsidies at their 1986 level. The IMF then agreed to an 18-month standby agreement that provided new lines of credit and a new timetable for repaying Egypt's $40 billion foreign debt.

The standard IMF procedure was to offer loans by degrees (tranches), rewarding progress in implementing reforms or penalizing delays and noncompliance. Soon IMF officials were complaining that Cairo was reneging on reducing subsidies, raising commercial exchange rates, and dismantling the public sector. Egyptian officials replied that already the IMF reforms were triggering social disorders like those that had erupted in January 1977. Further pressure, they warned, would result in large-scale riots. To avoid an automatic cut-off of US financial assistance, Cairo agreed to reduce fuel and food subsidies (Sadowski 1991:35, 215-219; Springborg 1989:260 and 266). In January 1991, Egypt finally but reluctantly signed an austere IMF structural adjustments agreement.

The ERSAP package had already made an overall negative impact on the agricultural economy, even apart from, and before, Law 96 was implemented so as to raise rents and land prices to free market levels. Granted, crop prices were liberalized and rose to international free market levels, but so did the cost of inputs. The price for domestic and imported fertilizers, pesticides and herbicides, seed, equipment, credit, and labor rose faster than the price for cotton, wheat, soybean, corn, rice, vegetables, and a whole host of other crops. The terms of trade, always set at a disadvantage for most farmers by the government, now declined even further. Thus whereas before, the state and its price policies had squeezed the farmer and created an artificial poverty, now it was the free market that turned the vise to squeeze him even more. Add on the increases in land rents and the insecurity of unnotified land sales, and the farmer's situation worsened even more.

One analyst predicted that this new, free market economy would "eventually lead to the small holder's disappearance" (Abou-Zeid 1997:25). She further argued that those few (10 percent) owning five feddans or more might be able to weather this decline, while those with less (90 percent) could very well sell their holdings to those who could buy them, and leave the countryside altogether

Already most farmers had long since diversified the income sources of their households. Diversifying incomes sources is a common mechanism found among agricultural families that insures that a variety of jobs reduces the risk that any one occupation by itself might fail to generate sufficient income. Finding employment in other sectors, however, does depend on its availability, individual abilities, personal information and connections, and the family development cycle. Yet farm families continuously compare the emerging skills and pursuits of their members against the prevailing trends of the outside labor market, and adjust their consumption and standard of living accordingly. Families may well scrimp and save in order to elevate a particularly bright teenager into a valuable career (Toth 1999:59).

At no time has such diversification been altogether impossible, although there were lean years, such as the Great Depression of the 1930s, when it was extremely difficult (*Ibid*., 103). Yet even before the recent emergence of new jobs in urban construction, informal enterprises, and services, there were local non-farm activities in trade, crafts, transport, building, and repair work. However, since 1974, more and more farm families had given up hope that working in the village could ever be a viable occupation. With improvements in transportation, many diversified by migrating or even commuting to urban areas. By 1992, when Law 96 was legislated, most farm families had members working in other sectors. The vise-grip, then, of the new "free market" in crops, inputs, rents, and sales and the dismal possibilities for a viable future in agriculture merely encouraged families to shift more and more into non-agriculture employment. Increasing numbers found work with informal construction companies and family firms.

THE CONSTRUCTION SECTOR

What was it about the domestic construction sector that attracted so many village workers? The wide variety of urban construction jobs spanned a continuum from consecutive casual labor trips, to roving, acephalous teams of independent workers, to foreman- or contractor-led gangs, to permanently-employed crews moving from one site to the next for the same employer. This employment established strong social bonds, higher wages, and congenial work conditions. The high demand for their labor, the steady employment it initially generated, and the fixed composition of work groups made urban construction jobs coveted occupations. Moreover, the paternalistic form of labor control in small construction operations enabled workers to keep their position long after the time when building activity and investments declined.

Since the 1970s, Egypt's construction sector has contained three types of enterprises:

- a small number of very large public sector companies nationalized after 1961 that operate in Egypt and throughout the Arab world,

- a larger number of small domestic private firms that operate both independently and as subcontractors to the larger companies, and

- a much larger number of informal builders and individual subcontractors who supply local specialty craft and labor-only services.

The relationship between public sector companies, private firms, and independent subcontractors involves contracts and agreements to supply products and services, supervision and labor, and finance and credit. Public sector companies clearly dominate the sector, but are very often too large and unwieldy to be efficient. Their management involves large administrative bureaucracies which are constrained by government regulations that reduce their versatility, particularly in the areas of financial control and manpower staffing.

Subcontracting, however, gives these companies flexibility, which is essential, if they are to adjust to sharply fluctuating demands. The steady increase in subcontracting after 1972 shifted the economic burden of this adjustment onto the shoulders of small private firms and informal businesses. Subcontracting permits large numbers of workers to be quickly employed and easily dismissed by relying on less capitalized companies and labor-only subcontractors. Here management involves a single family or just one man. The same staff is used at the job site as well as in the home office, so little is spent on administration. Frequently these firms perform double duty, operating as subcontractors to large public enterprises during the day, and working independently as main contractors to smaller private jobs in the afternoon (The General Organization for Housing 1981 vol. 2:120 and vol. 3:G.4-6, 34).

The proliferation of these smaller firms is the result of monetary ceilings the government imposed in 1961 that limit the size of subcontracts tendered by public sector companies in order to reduce favoritism and corruption. But since then, many private firms have expanded their operations instead by establishing related sister businesses that specialize in different complementary activities - labor, skilled crafts, building materials, finance, design. This enables a number of related, but technically independent firms to win contracts that, were they combined, would exceed the legal limit (Koch, et al., 1978:5).

Both public and private construction companies rely heavily on labor subcontractors to provide them with workers despite the presence of their own small but ordinarily specialized work teams. Such subcontractors specialize in recruiting and supervising both skilled craft specialists and unskilled manual laborers, and on occasion provide them with tools and equipment. Although their number is large, their capital assets are negligible and their monetary contribution to total production is small, consisting mostly of wages. Even though most business relations in construction involve formal legal contracts, labor subcontractors usually operate instead with personal, verbal agreements. Because they mostly work for just one or a few main contractors, effective business depends on mutual familiarity, trust, and dependability (The General Organization for Housing 1981 vol. 3:G.18-19).

Specialized laborers are hired at village gathering places, urban coffee shops, and familiar street intersections. Workers either (1) attach themselves to individual brokers who contract them out to large companies that switch job sites on a continuous basis, (2) stay together as independent but acephalous labor teams that go on to new employers according to prior arrangements, or else (3) if disbanded, use collegial networks to attach themselves to new brokers or join new labor gangs (Koch, et al., 1978:42).

In 1987, nearly 65 percent of Egypt's domestic construction work force was not permanently employed. Ninety percent (both permanent and temporary) lacked formal contractual arrangements, relying instead on personal patron- client ties to contractors. Egyptian labor law protects permanent workers from arbitrary dismissal and entitles them to benefits like retirement pensions. Laborers with permanent or even temporary contracts are entitled to paid vacations, sick leave, and disability compensation. But the vast majority of workers are employed by small private firms that, as part of the informal sector, ignore contract agreements, official registration, labor and social insurance laws, and tax requirements. This informality allows them to quickly adjust to rapid changes in demand, wages, locations, and contractors (Assaad 1991:137). And although it reduces high permanent labor costs for prime contractors, it also reduces job security and employment stability for workers.

While small firms and individual subcontractors depend heavily on public sector companies for credit, funds, and subsidized building materials, this relationship is extremely erratic. Many find it difficult to get paid. Bills can be as much as three years in arrears and are frequently five to six months late. Some firms carry unpaid government debts for years. Technically public sector companies can allocate 30 percent of their project funds to advance to subcontractors. But because of bureaucracy, insufficient budget allocations elsewhere, and cash flow problems, such funds are seldom passed along. Intermediate payments and final settlements are frequently delayed as well.

Yet at the same time, subcontractors are required to pay cash for building materials and advance payments and disbursement of workers' wages. Prices are determined when agreements are first negotiated, but since labor and materials procured later usually involve higher costs, subcontractors have to absorb any losses unless they receive credit. Labor costs are particularly vexing, with huge differences arising between the original and later wage bills. When prime contractors delay paying advances and later, in settling intermediate and final charges, subcontractors have to either borrow or else slow down or even halt work activities. Resuming work once laborers have left to go home or have gone on to new jobs adds additional expense to project costs. Retaining an available but inactive work force can resolve this dilemma and can prevent paying penalty fees, but at the risk of further depleting scarce capital. Delays in delivering materials often force contractors into the black market where they pay higher prices in order to ensure speedier consignment so as to adhere better to fixed completion dates.

This squeeze between immediate payment for labor and materials, and delayed reimbursement by clients or prime contractors is critical. It makes working capital and cash flow a major constraint in construction operations. Frequently subcontractors initiate a large number of contracts simultaneously so that the many advance payments provide them with enough operating capital to execute just a single project. Meanwhile, other contracts, although formally begun and partially paid for, are delayed while other clients settled their accounts. In turn, subcontractors withhold making payments to their own suppliers and workers when possible in order to keep their existing operations running (Koch, et al. 1978:38, 46, 51).

Thus contractors are inclined to accept as many jobs as possible in order to accelerate their cash flow, yet they have little incentive to finish the work underway since to do so means settling their own outstanding debts. Contracts are therefore constantly juggled, and actual work proceeds slowly as start-ups and slow-downs postpone job completion. This seriously disrupts continuous activity, with work teams frequently shifted to different sites and alternatively experiencing vigorous speed-ups and idle unemployment. But it also raises the overall numbers employed or available in order to have a potential work force that can start or resume work quickly when financial bottlenecks clear up. Paternalism keeps numerous workers attached to specific subcontractors when the latter are unwilling to pay wages in periods of unemployment or are unable to pay them at moments of financial constriction, but are still able to promise jobs and perquisites to loyal and familiar workers once operations and cash flows start up again.

Throughout the 1970s and 1980s, this pattern of finance and labor control generated a momentum that maintained abundant work activity long after actual investments declined. Construction remained an active employment sector because it was buoyed up by government plans (1) to build apartments and subsidize the costs of a financially pressed urban labor force searching for limited (and therefore expensive) housing, and (2) to erect facilities and infrastructure in preparation for as yet unrealized promises from international investors to relocate their operations if such state subsidies were forthcoming. This assured constructions workers that high levels of employment and wages would continue even as real investment growth began to decline after 1985.

Multiple start-ups, a myriad of subcontracting agreements with several large companies, complex credit and cash flow arrangements, and effective patron-client ties kept the sector very active. Because of this vitality, the inflated size of the work force, the intermittent nature of construction work, and the paternalistic ties to employers, laborers who became momentarily unemployed still waited in anticipation of further work instead of returning to the countryside. But even after 1985, when the construction sector began to slow down, many deactivated workers found urban jobs in the informal sector or in services, averse to ever going back to agriculture.

DUEL ECONOMIES

The plethora of large companies and firms, and small subcontracting family businesses mirrors the dual economy and segmented labor markets analyzed by Charles Sabel, Michael Piore, and Peter Doeringer (1982, 1984, 1985). In the Middle East and North Africa [MENA] specifically, Alan Richards and John Waterbury recently concluded that "most MENA countries experience a kind of `labor market-dualism,' with two radically different labor- market mechanisms (1996:140). Such a dual economy consists of two kinds of firms, glossed as stable and unstable segments within any particular industry. The first type includes big, formal operations that produce for a steady consumer market and therefore involve a constant work force of skilled operators frequently organized into legal labor unions. The second kind contains small, informal establishments that receive the unsteady overflow of orders emanating out of the bigger firms, and use a fluctuating labor force employed in labor-intensive activities. The first type of labor market hires skilled workers trained on-the-job or in trade schools. The second seeks unskilled workers who require little, if any, training. Thus the informal sector appears not only as the serendipitous outcome of massive urban migration and mismanaged investment shortages, but also as the result of stabilizing formal sector employment and production in light of erratic consumer markets. It arises, therefore, not only out of neglect but also out of design. Such schemes use sub-contracting and out-sourcing to realize this binary relationship.

This dual economy presumes that the labor force is separated and segmented into "two different worlds" (Sabel 1982:48). Each world, Sabel argues, has a completely different career path and a totally different social psychology. He notes that skilled workers are rarely recruited from among the unskilled, although the reverse happens repeatedly. Under pressure from Taylorization and debasement, formal labor is often threatened with deskilling. A lucky few are able to escape this downward trend and reskill, either shifting into maintenance jobs or, reschooled, adopting new skills. Meanwhile, the unlucky majority, displaced by machines, sinks further down into the depths of skill-lessness.

However I would argue that important links exist between these two "segments" in the labor force that parallel the relationship between the stable and unstable industries, the formal and informal businesses, which they staff. Just as informal enterprises receive the overflow production from formal companies, so too does the formal work force receive the labor overflow from the informal sector. That is, formal companies very frequently do recruit new employees from these small casual operations, notwithstanding Sabel's remarks to the contrary. Thus regardless of where the formal work force is in the Taylorization process - and, of course, the further down, the easier - they can be replaced by bringing in workers from the informal sector. The total wage bill is substantially reduced by discharging formal sector workers (and senior veterans in particular) and replacing them with lower-paid workers recruited from the informal sector. This is particularly advantageous, from management's point of view, in a raging economy of privatization, streamlining, and stiff domestic and foreign competition.

In Egypt, this supposedly rigid segregation and segmentation of the urban labor force is frequently transgressed. Intervening factors such as casual training, company proximity, personalized labor networks, and paternalism help traverse the presumably rigid boundary that separates these two heretofore separated labor forces.

Much of the replacement of the formal work force by those from the informal sector depends on training the unskilled. The more advanced the mechanization process, the fewer are the skills needed when hiring new employees. Daily on-the-job instruction and previous training in a national work corp may suffice for employment. In Egypt's own construction sector, skills and training are not so difficult and unskilled workers can, with some ease, obtain the proficiency needed to move across the divide. Previous military service often provides what schools neglect, and many workers relish their time in the army for the vocational training and the personal networks it provides. Moreover, if workers are recruited for trust and reliability instead of their know-how and productivity, then the emphasis on work skills can be reduced even further.

Formal and informal businesses operate together at the same building sites, and workers live cheek by jowl in the same low-rent neighborhoods. Communications is facilitated, therefore, and workers easily exchange information about job opportunities, work conditions, wages, and personalities. At work sites, intermittent breaks, rest periods, and work stoppage and slowdowns allow space and time for mingling, conversations, and information-sharing. Outside and off-duty venues exist as well. Coffeehouse connections prove very important and are much more salient than any ties established in union halls. These neighborhood leisure spots are the "men's club" for the poor while the distant "central" union offices seldom exist, much less support socializing. In Cairo, cafes are skill specific: the plumbers have their own designated spots; carpenters, too, visit specific coffee houses; brick layers also frequent known locations, and so on. The unskilled who wish to find better employment, then, know where to go to strike up conversations and friendships that can reveal those companies in need of workers. But normally, the unskilled don't use coffeehouses for employment in their own, unskilled occupations. Instead, they gather at city squares and particular street intersections where, in the wee hours of the morning, company recruiters and contractors drive by looking for familiar faces and unfamiliar new ones to hire for day labor. But these sites, too, become channels for job information, as workers talk and chat about all the possibilities they know and can find.

Mosques, too, become important sites where not only workers themselves congregate, but often include those from lower management, particularly those from the same informal businesses that employ these workers during the rest of the week. Mosques are usually neighborhood places, but it is not unknown for men to travel outside their communities to temporarily visit or permanently attend other congregations. Although the official purpose, of course, is to pray and worship God, the mosque is not without its social aspects as well. Arriving early or lingering around after prayers are finished, men stand and chat with each other, discussing work, employment, and new job opportunities. Unlike churches in the West which are more strictly segregated by denomination and therefore by class, mosques include members from a number of different strata, united, presumably, by their common humanity and devotion.

Thus socializing at work, in cafes, and in worship creates and reinforces collegiality, friendship, and kinship, which prove very important in hiring and finding new jobs. Since managers employ workers to maximize trust and not skills, they prefer to hire friends and relatives of those they already know, since this familiarity guarantees, if not diligence, then at least loyalty, security, and the protection of property. In volatile economies with uncertain futures and uncertain markets, maximizing production may not be the most common economic strategy. Better to keep what one has than to worry needlessly about getting ahead, and thus a premium is placed on trustworthiness rather than zeal. Currently employed workers are the first to hear about new job openings, and immediately contact their network and bring in their colleagues, sponsor their application, and endorse them to their boss.

Furthermore, these personal relationships are supplemented by the paternalism that exists between labor and management whereby loyalty and lower wages are conceded in exchange for dependable employment and trust. Paternalism is an age-old mechanism of labor control in Egypt, one that long preceded the more rigid and impersonal bureaucratic style of managing workers that has appeared on the scene only recently. Paternalism provides a mutuality that benefits both patrons and clients, although, routinely, the patron gains more while the client gains less. Patron-managers concede "favors" to their workers, time off, vacation days, and respite from formal rules and regulations. Client-laborers, on their part, give "concessions" too: they work harder and longer, support management's authority, and bring in trustworthy applicants when opportunities arise. Paternalism thus disguises the unequal and exploitative relationships of production with a patina of fraternity and equality. It is a familiar relationship based on close personal understanding between those who are both equals and unequals at the same time. It is a more mutual, personalized way of doing business.

The solidarity that these personal relations fashion is different from the situation found among workers in the West. There, individualism and technology have bred a greater independence, separateness, and isolation that alienate workers from one another, depersonalize relations with management, and accelerate labor's efforts to match the demands of a wide-open market. Company bureaucracies create an impersonal atmosphere based on formal rules and regulations. Seldom do laborers work with friends, neighbors, and relatives. Nor are there the institutional mechanisms like coffeehouses or mosques that reinforce occupational harmony. Bars and churches do provide some occasion for interaction, yet they seldom bring both sides together amicably. In place of these personal relations, workers in the West rely more on impersonal labor unions, government regulations, and job action against employers to raise low wages, improve bad working conditions, and resolve disputes. Grievance procedures, arbitration, and government mediation play a much bigger role than informal companionship. In Egypt, the weak court system, its labyrinthine legal procedures, and the ineffectual unions preclude the use of formal channels for resolving most conflicts of interest. Instead, managers and workers resort to their networks of colleagues, friends, and relatives to settle any disagreements informally. Thus where such formal institutions hardly exist or, when they do, operate inefficiently, workers then use their informal and personalized connections to resolve conflicts, to learn about jobs, and to get ahead.

When workers decide to leave construction altogether, or return from work outside Egypt (which is mostly in the building trades), many have accumulated the money and experience to shift elsewhere within the informal sector: small-scale manufacturing, transportation, and services. But they also carry with them this set of personalized relations - either horizontal ones with friends, neighbors, and kin, or vertical ones to paternalistic managers - that enable them to obtain information and find opportunities for new positions. Notwithstanding the specific skills required for formal sector employment, which are often easily learned on the job from the same sponsors who facilitated their employment in the first place, many workers are eager and eligible for jobs in the formal sector with its higher pay, better work conditions, contractual obligations, benefits, and security.

This porosity in Egypt's dual economy, then, provides the critical link between the formal labor force and the surplus labor army of un- and under-employed workers who flicker in and out of informal sector employment. Workers discharged from factory positions are quickly replaced by the cohorts of those who remain. And while starting wages prove a boon to such beginners, they are frequently at levels lower than those earned by the ex-veterans they replace - an attractive situation to cost-cutting managers, which may well have inspired the original firing in the first place. Moreover, loyalty to these personalized relations supersede the collegiality inside the factory that presumably forms the basis for labor unions. The organizational capacity of unions to restrict the number of potential hiring that allows such organizations to regulate wage levels is severely restricted as external allegiances override internal solidarity. Unions are gutted from within, a self-defeating practice that makes them unable to turn around and protect workers' rights, privileges, and wages from managerial assault.

LABOR UNIONS

One function of labor unions and similar organizations is to stabilize the numerical size of a particular skilled work force so that wages can be maintained at levels satisfactory to workers. This, of course, assumes a "closed shop" such that employers can only hire from within the union rank-and-file. This also assumes that the skills its members possessed are critical and rare enough that employers are forced to negotiate with that particular union due to what John Dunlop once called (1949:179-180) labor's "strategic market position." Moreover, the means for training workers - trade schools, apprenticeship programs, and the like - must respond directly to the requirements set by the union so that the number of entrants to the field, if not at least equal to the number of those retiring, is, nevertheless, under control.

It is also important to keep in mind Paul Thompson's arguments (1983:96) that what constitute skills are actually social constructions that rely on strategies to control recruitment and wages. That is, having "skills" is more a matter of having social power than having innate abilities. Those who have such power, therefore have skills; those who don't have such control are closer to being "unskilled." The logic is circular and self-fulfilling, but at the same time, it points to the critical role of unions in both representing and defining skilled work through its control over labor force size and pay.

Conversely, if unions are unable to regulate the size of the work force it represents, then the subsequent "flood" of non-union workers undermines the capacity of a union to maintain wages and to provide the services its members expect. So should there be an over-supply of workers, due to the unregulated acquisition of skills, problems in professional licensing and authorization, a "prisoners' dilemma" that ideologically divides the work force, the prying open of "closed" shops, deskilling and mechanization, the wide-spread extent of skills, management machinations, and government connivance, then wages could fall. Thus maintaining a strict monopoly over the supply of workers maintains the wage levels that workers demand. Unions that can't do this usually aren't around to do the other things they are expected to do, like negotiating with management, protecting benefits, and entering the political domain.

It is readily seen, then, that in Egypt, the combined effects of rural-to-urban migration, the inflation of the informal sector, its personalized hiring practices, and its paternalistic management style, together with (what will remain undiscussed here) deskilling, mechanization, short-term business strategies, disfunctional schools, and government fear and insecurity have severely undermined the capacity of formal labor unions to resolve even mild, bread-and-butter issues much less the more syndicalist goals of political participation.

Currently the government is discussing a new labor law which finally provides workers with the right to strike in exchange for allowing employers the right to fire. Management, somewhat correctly, fears unreasonable and unbridled strike action and so has pressured the state to severely limit these possibilities to the rarest of circumstances. Labor, somewhat correctly, fears unreasonable and uncontrolled firings and streamlining, particular when employment alternatives prove so rare in an economy where the government has failed to attract sufficient investment and hence job generation. Thus both labor and management still continue to rely on government. The mediational functions of unions keeps labor-management negotiations in the realm of the public domain instead of as private initiatives. Ironically, the invigoration of unions as independent, responsive, democratic organizations has not even been raised. Nor will it as long as unions remain unable to fulfill its basic function of maintaining the size of an industry's work force and thereby fix its wages.

Thus eviscerated, unions currently are mired in the mud of corruption, influence peddling, illegitimacy, and powerlessness. It would be wrong to suggest that labor recruitment from the informal sector provides the only obstacle to strengthening the unions in Egypt since it is only one of the many deterrents mentioned above. Yet those who have interrogated the history of Egypt's labor movement (Lockman and Beinin [1987], Goldberg [1986], and Posusney [1997]) often fail to appreciate the breaching of Sabel's segmented labor force for its ability to undermine organized, formal labor.

For it is the large informal sector that serves as the migrant's first introduction to the city, that threatens the formal organized work force with those able (and perhaps willing) to undermine its wage levels, and that weakens the capacity of unions to therefore do their job. Neglecting this connection between the two has led to underestimating the importance of the reserve labor army in the informal sector in explaining the dismal political clout of organized factory workers against the state (Posusney 1997), the discrepancy between industrial organization and political consciousness (Goldberg 1986), and the vast gap between rank-and-file workers and their more educated, middle-class, and secure organizers (Beinin and Lockman 1987).

KAFR AL-DAWWAR: A SMALL CASE STUDY

Thus an engineered rural poverty has generated a vast outpouring of rural-to-urban migrants who have expanded the ranks of urban informal sector establishments and have therefore weakened the performance of Egypt's labor unions. The repercussions of this chain of events can be illustrated by examining a small case study of recent labor unrest that took place in Kafr al-Dawwar in 1994.

On September 30, workers employed at the government Egyptian Spinning and Weaving Company in this northwestern Delta town staged a massive sit-in. They were protesting management's firing of 2,000 workers over the previous year, withholding salary adjustments and fringe benefits, reducing job security, and their union's weakness. New management had recently been appointed to streamline this and two other factories in anticipation of their privatization. Workers considered the union local entirely ineffective, and during the strike, they beat up two union representatives when they refused to convey the workers' demands to the company. Initially, the strike was peaceful, but on October 1, workers from sister factories in nearby Mahmudiya and Kum Hamid seized company buses and drove to Kafr to support the strike. The next morning, the police surrounded both the factory and adjoining workers' housing, and fighting broke out. For two hours, troops and workers clashed, one using live ammunition, the other using stones and bottles. Four civilians were killed, anywhere from 30 to 60 workers were reported wounded, and 75 protesters were arrested. The strike and strife stopped on October 2 when workers agreed to resume work in exchange for management personnel changes (*Middle East Times* [Cairo] October 9-15, 1994).

But such unrest threatened to spread throughout the Delta and to the rest of Egypt as well. At the same time, four thousand workers at the Nasr Cement Company in Suez threatened a sit-in to demand their monthly bonuses. In al-Mahalla al-Kubra, police, fearing more trouble in Egypt's flagship textile factories, began arresting activists. Workers were claiming that holidays, bonuses, health benefits, and wages were being withheld, and excessive deductions were being imposed for minor infractions. Some 600 privately-owned textile factories had closed over the previous two years. Repression, however, prevented any job action, and union and political party activists were powerless to stop the government (*Middle East Times* [Cairo] November 20-26, 1994).

Meanwhile, in the bureaucratic halls of Cairo, government officials prudently and quietly raised cost-of-living allowances, boosted bonuses, and gradually increased basic wages. And shortly thereafter, officials were to create an early retirement program that would buy off workers discharged in attempts to reduce work rolls, increase profits, and attract foreign investors (*Ibid.*).

Kafr al-Dawwar, however, remains somewhat unique. Towering up from the surrounding farm fields, it was abruptly created in the 1940s out of nothing and does not contain the profusion of small enterprises that could receive overflow orders from the formal sector or absorb workers cast off when factories reduce their operations. Some workers could switch to firms in nearby Alexandria, but this meant relocating their entire family. In other industrial towns like al-Mahalla, Shubra al-Khayma, and Helwan, workers could use their contacts with colleagues in adjacent workshops to procure new employment. However, the closure of 600 businesses in al-Mahalla may well have jeopardized this possibility, raising pressure that could only be relieved by violent job action. Reports from Kafr al-Dawwar indicated that had its workers had alternative employment, their anger over streamlining would have dissipated. For many realized that their productivity was severely reduced by the employment expansion in the 1960s and relished finding sound, productive jobs. But as along as the formal job market remained limited, and as long as it remained inflated by the surplus army from the informal sector, textile workers became desperate to keep what they had. Given the pathetic performance of the labor unions, the only alternatives were protests, strikes, and violence.

CONCLUSION

I'm reminded of a recent group of American scholars visiting Cairo to study its urban problems. At one point in the discussion I asked whether they were going to visit village Egypt as well. They smiled and said they hadn't the time. Yet I hope I have established here the intimate and strong connection between what takes place in rural agriculture (which is by no means the entire countryside, but is, still, sizeable), rural-to-urban migration, the expansion of the informal sector, its threat, potential and real, to formal urban industrial enterprises, and its weakening of Egypt's labor movement. I'm also reminded of the government attempts in the 1930s to administer and regulate the countryside that came after cries were raised about how crowded Cairo had become, how rural migrants were despoiling such a beautiful city, and that something just had to be done. For unlike the visiting American scholars, these doomsayers did understand that the roots of Cairo's problems, and those of the other cities and towns throughout the country, began in Egypt's 4,0000 villages, radiated outward as wave after wave moved to more modern places, and succeeded in undermining the efforts of labor, management, and government to develop both the urban and the national economies.

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