

# Electoral Budget Cycles under Authoritarianism: Economic Opportunism in Mubarak's Egypt

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## Abstract

Do authoritarian regimes manipulate economic policy in the run-up to elections? Implicit in traditional models of electoral budget cycles is the idea that voters hold their politicians accountable for poor economic performance in democratic societies. I argue that authoritarian rulers manipulate the economy in many of the same ways that democratically-elected leaders hope to, though with a significant advantage — authoritarians are seldom subject to the same institutional norms of independent economic policymaking found in democracies. I investigate the existence of opportunistic electoral budget cycles in Egypt — the most populous and politically significant country in the Middle East — during the twenty-five years of electoral authoritarianism under current president Hosni Mubarak. I describe the specific mechanisms by which the regime courts three important constituencies: public sector employees, farmers, and the urban poor. Quantitative analysis suggests that these budget manipulations have a number of tangible effects including election-year inflation, a pre-election drain on reserves, and even a higher level of per capita calorie consumption in election years.

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Do authoritarian regimes manipulate fiscal and monetary policy in the run-up to elections? While most of the academic literature on electoral budget cycles has focused on democratic countries (with mixed empirical results), researchers are now turning their attention to the existence of electoral budget cycles in autocratic countries, whose highly centralized processes for economic policymaking and fewer independent economic institutions, make them prime candidates to exhibit such patterns. In this paper, I investigate the existence of opportunistic electoral budget cycles in Egypt — the most populous and politically significant country in the Middle East — during the twenty-five years of electoral authoritarianism under current president Hosni Mubarak. While most research on electoral budget cycles focuses exclusively on econometric analysis of economic data, I supplement this approach with a detailed discussion of the specific mechanisms used by the regime to court voters. This focus on the microfoundations reveals particular patterns and strategies for orchestrating economic incentives. In Egypt, the main budgetary manipulations take place to benefit state employees, farmers, and the urban poor. From an econometric perspective, Egypt's electoral budget cycle is apparent in five areas 1) inflation is higher in election years 2) calorie consumption is higher in election years 3) total reserves drop in the six months prior to the election 4) claims against the government increase following elections and 5) exchange rate devaluations tend to take place after elections.

## 1 Electoral Budget Cycles under Authoritarianism

Since the seminal contributions of Nordhaus (1975) and Tufte (1978), a rich empirical and theoretical literature has developed surrounding the existence of electoral budget cycles. This literature has tried to explain how governments use expansionary fiscal and monetary policy tools in the run-up to elections and the subsequent effects that these actions have on inflation and other outcomes. Theoretic models of this phenomenon have evolved over time with the increasing emphasis on rational choice theory. While early models assumed that myopic voters viewed economic policies in a retrospective fashion, fully rationalized models of these cycles have focused on how economic policy can signal incumbent competence (Rogoff and Silbert 1988, Rogoff 1990, Persson and Tabellini 1990, Lohmann 1998). Both theoretical perspectives lead to the expectation that politicians will prime the economy to favor their reelection prospects if given the opportunity and that this will have observable implications on indicators like inflation and budget deficits.

Empirical evidence for electoral budget cycles has been mixed, in both industrialized and developing countries.<sup>1</sup> For example, Ames found considerable evidence for the existence of

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<sup>1</sup>There are a number of possible reasons for the lack of empirical support for these theories. Schultz has argued that manipulation of the economy can be costly and the need to manipulate may vary from election to election (1995). This would suggest that the study of electoral budget cycles needs to be more context specific. Similarly, Shi and Svensson propose a moral hazard model of electoral cycles and they find that the magnitude of electoral cycles of government spending increase in politicians' rents of staying in power and the size of uninformed voters.

electoral budget cycles in Latin American countries (1987). Remmer on the other hand finds evidence for post-election acceleration of inflation and exchange rate depreciation, rather than the more traditional expectations of pre-electoral priming (1993). Recently, Persson and Tabellini find that tax decreases take place before elections in a sample of 60 democracies (2002).

Implicit in models of electoral budget cycles is the idea of voters holding their politicians accountable for poor economic performance. Yet some of the strongest recent evidence for electoral budget cycles has been found in authoritarian countries. Krueger and Turan (1993) argue that Turkey exhibited electoral budget cycles between 1950-1980 and Block (2002) finds evidence for fiscal and monetary manipulation in a mixed panel of 44 sub-Saharan African countries. Grier and Grier (2000) and Gonzalez (2002) find evidence of cycles in Mexico during the period 1958-1997.<sup>2</sup> Magaloni also finds evidence of increased government spending around the time of elections in Mexico (2005). In addition, Shi and Svensson find pre-electoral increases in the budget deficit in a wide sample of democracies and non-democracies (2002b). These recent findings suggest that authoritarian rulers may manipulate the economy in many of the same ways that democratically elected leaders hope to, though with a significant advantage — authoritarians are seldom subject to the same institutional norms of independent economic policymaking found in democracies.

Egypt — with a highly centralized process for economic policymaking and no independent economic institutions — would likely exhibit such patterns. This paper describes in greater detail the mechanisms by which these electoral budget cycles take place as well as which constituencies are specifically targeted. My econometric findings are consistent with some of the predictions of both rational and traditional opportunistic business cycle theory.

## 2 Economic Decisionmaking in Egypt

The highly centralized nature of economic decisionmaking in Egypt lends itself to potential manipulation of the economy. Egypt is a presidential regime where the President is the nation's chief legislator and the dominant source of significant policy innovation; both informal and formal political institutions dictate that the President is the dominant political and governmental authority in Egypt and any important policy or project must have the President's blessing. In addition, previous president Anwar Sadat empowered the President with the ability to issue laws by decree on all economic matters.

More broadly, the executive branch consists of the President and the cabinet. The cabinet is headed by the Prime Minister, who is serves at the discretion of the President, and is composed mainly of technocrats with academic backgrounds. Essentially, the President is responsible for making policy and the members of the cabinet implement these policies. In this way, the cabinet is like a part of the "expanding Egyptian bureaucracy which executes the

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<sup>2</sup>While Block (2002) refers to the countries in his sample as "nascent democracies" due to the existence of competitive or semi-competitive legislative elections, many do not offer the possibility for a freely elected head of state on a consistent basis.

decisions taken at the apex of the authority pyramid” (Fahmy 2002, 46). While the president may delegate decisionmaking to a trusted economic advisor on the more technical aspects of economic policy, the President together with his ministerial council determine economic policy and supervise its execution. Special interest groups made up of businessmen may exert influence on the process through elite advisors to the President (Sadowski 1991). The legislature plays a minimal oversight role since the President has the power to initiate and propose laws, approve them, or return them to the National Assembly for reconsideration. In addition, the legislature serves completely at the will of the President and it may be convoked or dissolved at his discretion (Vitakiotis 1991, 404).<sup>3</sup>

Fiscal and monetary policy authority, therefore, is highly centralized in the executive with the President and his cabal of experts free to act without restriction. The regime is not accountable to any domestic oversight agencies or an independent central bank, though international financial institutions do have influence over the overall course of economic policy in the country.

### **3 Elections and Economic Manipulation under Mubarak**

Egypt has been ruled by the current regime for more than fifty years and for a quarter of a century by Hosni Mubarak alone. Sadat introduced a multi-party system in 1979 just two years before his assassination and Mubarak held semi-competitive parliamentary elections in Egypt in 1984, 1987, 1990, 1995, 2000, and 2005. The regime in Egypt might be considered an electoral authoritarian system (Linz 2000) or competitive authoritarian system (Levitsky and Way 2002) and enjoys some of the traits of a hegemonic party system (Magaloni 2005).

Why do authoritarian regimes like Egypt even choose to hold elections? In recent years, Egypt has come under pressure from the United States and international financial institutions to democratize and this is clearly part of the incentive to maintain the appearance of democratic competition. The domestic reasons for holding elections are perhaps even more compelling. Gandhi and Przeworski contend that by allowing the opposition to compete in elections and take office in parliament they become vested in the regime (2001). Magaloni argues that elections disseminate public information about the strength of the regime and helped the PRI in Mexico create an image of invincibility, thus deterring potential entrants to the political market (2005). Magaloni also argues that elections provide information to the regime about supporters and opponents. Geddes adds that elections can provide leaders with information about the performance of local officials, providing a channel for upward mobility of ambitious local officials (2005).

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<sup>3</sup>The ability of lower levels of the bureaucracy to implement the policy set forward by the executive may be limited. By the time orders from Cairo descend to the local level, implementation and interpretation of the directive can vary (Sadowski 1991, 89-90). For the purposes of electorally-time economic interventions, the policies are generally implemented in a straightforward manner (across-the-board bonus for public sector employees) or the announcement of the economic change precedes the election with the actual implementation to follow.

Running for and winning political office is appealing to political entrepreneurs for a number of reasons. In addition to the prestige and social status associated with holding office, parliamentarians have the opportunity to petition the government for any number of goods and services for their constituents which can then be “traded” for votes or money. Parliamentarians are also given opportunities to run businesses that benefit from government largesse. Serving in parliament can also serve as a stepping stone for higher political office and cabinet positions. Perhaps one of the most compelling reasons to seek political office is that parliamentarians enjoy immunity from prosecution for graft and corruption under Law 38 of 1972 and Egyptian opposition newspapers often describe this as the most important benefit of holding office.<sup>4</sup> As a result, winning a place in parliament is a much-valued commodity and there is stiff competition both within the ruling party and between the ruling party and opposition for seats.

While the regime is willing to allow the opposition to win some percent of seats, the incumbent leaders have no interest in seeing the opposition win enough seats to block any action they might be interested in taking. For example, constitutional amendments need to be approved by two-thirds of the People’s Assembly (*Majlis ash-Sha’ab*). In addition, in order to maintain the appearance of hegemonic control, the regime seeks to maintain a dominant majority of seats in the legislature. Recent parliaments have seen a clear majority for the regime’s party, the National Democratic Party (NDP). Upwards of 85 percent of parliamentarians elected in 2000 were associated with the NDP.<sup>5</sup> In 2005, the NDP majority dropped to about 70 percent, though this is still sufficient for meeting the crucial two-thirds needed to pass constitutional changes. Since engaging in fraud is a potentially costly strategy for the regime, both domestically and internationally, economic manipulation is one strategy employed to ensure that the NDP maintains its dominant position in parliament.

As elections became routinized under Mubarak, the timing of giveaways became increasingly routine as well, closely following the electoral calendar.<sup>6</sup> Since presidential elections were uncontested until 2005, electoral budget cycles centered around parliamentary elections where the NDP competes for seats with opposition parties and independent candidates.<sup>7</sup> In

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<sup>4</sup>Article 99 states that “no judicial or legal action can be taken against any member of parliament without the approval of two thirds of parliament’s members.”

<sup>5</sup>This includes individuals that ran as independents but rejoined the NDP after winning office.

<sup>6</sup>The regime had an established pattern of economic manipulation that preceded Mubarak. Waterbury writes, “Authoritarian regimes, no less than democratic polities, buy incumbency through strategically timed giveaways. In Egypt the tactic followed has always been to give publicly and take away indirectly. The giveaway is a one-shot affair, while the indirect take is permanent...Sadat was thoroughly at home with the giveaway. Because his incumbency was so closely associated with rapid inflation, he had little choice” (1983, 228). These giveaways included strategically-timed minimum wage hikes, tax exemptions and salary bonuses (Waterbury 1983, 228-9). After elections were introduced, election years became the focal points for these government giveaways.

<sup>7</sup>Presidential ‘elections’ prior to 2005 consisted of an up-down referendum on Mubarak. The amendment to Article 76 of the Egyptian constitution in May 2005 allowed for direct, multi-candidate presidential elections for the first time, though under conditions that stack the deck heavily in favor of the NDP candidate. For more on this change see Lisa Blaydes “*Al-Mu’assasat al-siyasiyah al-rasmiyah wa-ghayr al-rasmiyah fi*

this section, I describe the primary mechanisms by which the regime courts various constituencies. A first part describes the benefits made to public sector employees in the run-up to elections, particularly announcements made regarding decisions to increase *'alawaat* (bonuses) and *ma'ashaat* (retirement benefits). Second and third parts discuss benefits to rural and urban constituencies, respectively. Exchange rate policy is discussed in a fourth section. While all mechanisms are not used in every year, the strategies discussed below tend to appear repeatedly.

### 3.1 Courting the Public Sector

Following the 1952 coup, Egypt's public bureaucracy began to grow rapidly and extensively. The regime's expansion into industrial activities, welfare services, and free education was particularly apparent (Ayubi 1980, 6). Under Nasser, elements of the public bureaucracy gained a reputation for good performance, particularly those engineers and public servants involved in the building of the High Dam at Aswan. Over time, however, the Egyptian bureaucracy grew to an enormous size and became widely known as an unproductive apparatus. Beginning with Nasser, the public bureaucracy began to employ the bulk of Egyptian university graduates, many of whom hold second jobs after fulfilling their minimal public sector obligations. This practice largely continues until today, even two decades after the introduction of an IMF-sponsored structural adjustment program.

Table 1 shows the public sector employment figures for each of Egypt's 26 governorates in 2001. Individual electoral districts also exhibit considerable variation with regard to state employment, but in sum, it is clear that the state is the single largest formal sector employer in Egypt and typically employs between one-fifth and one-half of workers in areas across the country. This suggests that state employees, and their dependents, are an important political constituency in the country and the constituency that is perhaps the most susceptible to government intervention in the economy. The following section describes the specific mechanisms by which the regime courts these public sector employees.

#### 3.1.1 Bonuses (*'ilawaat*)

The most commonly used and flexible instrument at the disposal of the government is the *'ilawa* (bonus) given periodically to public sector employees. In addition to annual bonuses that are given to public sector employees, there are also exceptional bonuses that are occasionally offered.

The regime has long increased *'ilawaat* (pl.) in the run-up to elections. In 1984, the baseline annual bonus was increased by 33 percent from 75 to 100 LE.<sup>8</sup> Later that year, the

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*Misr*" [Formal and Informal Political Institutions in Egypt], Al-Ahram (International Edition), November 15 2005.

<sup>8</sup>Al-Ahram January 29 1984, page 1 (Source note: Al-Ahram, an Arabic language daily, is the newspaper of record in Egypt and the most important source for official government announcements. Page numbers are provided for all articles until Al-Ahram went on-line and no page numbers are subsequently included.)

Table 1: Public Sector Employment Across Egyptian Governorates, 2001

Governorate	Government Employment (%)	Governorate	Government Employment (%)
Cairo	38.3	Beni Suef	25.1
Alexandria	38.1	Fayoum	18.9
Port Said	45.8	Menia	21.7
Suez	45.9	Assiout	25.2
Damietta	24.8	Suhag	23.0
Dakahlia	28.3	Qena	27.3
Sharkia	29.4	Aswan	37.8
Kaliyoubia	34.5	Luxor	32.1
Kafr al-Sheikh	22.8	Red Sea	31.5
Gharbia	34.1	Al-Wadi al-Gedid	59.7
Menoufia	32.9	Matrouh	20.3
Behera	24.1	North Sinai	37.3
Ismailia	38.1	South Sinai	35.6
Giza	30.9		

government announced an additional five LE exceptional bonus for government employees.<sup>9</sup> It was also announced that public sector employees would get the same bonuses as government employees and soon thereafter, it was announced that armed forces employees would be equivalently compensated.<sup>10</sup> Prior to the 1987 parliamentary elections, the government announced that public sector employees would be getting their full bonus, as opposed to a partial bonus commonly given.<sup>11</sup> The *'ilawa igtima'i* (social bonus) was increased 15 percent prior to the 1990 parliamentary elections<sup>12</sup> and shortly thereafter it was announced the private sector employees would get the same level of bonus as the public sector employees.<sup>13</sup> The public sector's quarterly bonus was increased by 5 percent and it was also announced that college graduates who were supposed to get public sector jobs would get "credit" toward retirement for the year that they spent working in other jobs instead.<sup>14</sup> In 1995, the

<sup>9</sup>Al-Ahram March 12 1984, page 1

<sup>10</sup>Al-Ahram March 10 1984, page 1; Al-Ahram April 13 1984, page 1

<sup>11</sup>Al-Ahram November 26 1986, page 1

<sup>12</sup>Al-Ahram June 20 1990, page 10

<sup>13</sup>Al-Ahram July 10 1990, page 10. This attempt to achieve parity between the private and public sectors seems to have appeared following Egypt's start on a structural adjustment program to assure workers that had been 'privatized' that they would not suffer in relation to the public sector.

<sup>14</sup>Al-Ahram November 13 1990, page 1. This is significant because it brings these individuals credit toward their retirement as potential public sector employees, should they one day get a job in the government.

government announced a 10 percent increase in government workers' bonuses<sup>15</sup> and the war production industry received an increase as well.<sup>16</sup> Parity between the private and public was also assured.<sup>17</sup> 2005 also saw a number of announcements regarding increases to public sector bonuses as the election season approached. The annual bonus was announced at 15 percent of salary for all public sector employees and retirees and it was promised that after five years, that amount would become part of the base salary.<sup>18</sup> In addition, Minister of Finance Youssef Boutrus-Ghali also announced a 15 percent exceptional bonus (*'ilawa khas*) that would benefit 1.8 million public sector employees.<sup>19</sup> Finally, over the years numerous public sector companies and ministries announced bonuses for their employees, generally premised on higher earnings in that particular year.<sup>20</sup>

### 3.1.2 Retirement pensions (*al-ma'ashaat*)

A second tool used by the government to influence voters is through improvements to retirement services and benefits for former public sector employees. Prior to the 1984 elections, considerable incentives were offered to retirees. Those who retired after 1974 received a 20 percent increase in their retirement benefits while those who retired prior to 1974 received a 10 percent increase.<sup>21</sup> In addition, the required number of months of civil service was reduced from 180 (15 years) to 120 (10 years) before a particular level of retirement pension would be achieved and it was announced that everyone who retired in 1984 would get the benefits of an additional year of civil service credit.<sup>22</sup> In the run-up to the 1987 elections, retirement requirements were lessened.<sup>23</sup> In particular, the number of years required for full retirement benefits was reduced from 35 to 31 years.<sup>24</sup> In 1990, retirement payments were increased 15 percent and in 1995 a cost of living increase was approved for all retirement benefit holders.<sup>25</sup> 2005 witnessed considerable discussion of retirement benefits for former public sector employees as election season approached. Beginning in March, the government

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<sup>15</sup>Al-Ahram June 12 1995, page 10

<sup>16</sup>Al-Ahram July 31 1995, page 12

<sup>17</sup>Al-Ahram June 4 1995, page 1

<sup>18</sup>Al-Ahram March 19 2005

<sup>19</sup>Al-Ahram April 28 2005 with additional details May 5 2005

<sup>20</sup>Examples of sectoral bonuses prior to the 1987 parliamentary elections include the Ministry of Transportation (Al-Ahram December 22 1986, page 8), rice production companies (Al-Ahram Dec 26 1986, page 8), drug company employees (Al-Ahram December 28 1986, page 8), public petrol company (Al-Ahram January 3 1987, page 8), the Ministry of Supply (Al-Ahram January 14 1987, page 8), industrial public sector companies (Al-Ahram January 23 1987, page 1), the public electricity company (Al-Ahram February 1 1987, page 8). This type of incentive was also offered prior to the 2000 parliamentary elections for employees of the public electricity company (Al-Ahram October 8 2000) and the public petrol company (Al-Ahram November 15 2000)

<sup>21</sup>Al-Ahram March 5 1984, page 1

<sup>22</sup>Al-Ahram March 14 1984, page 1; Al-Ahram March 23 1984, page 1

<sup>23</sup>Al-Ahram January 13 1987, page 8

<sup>24</sup>Al-Ahram April 6 1987, page 8

<sup>25</sup>Al-Ahram June 12 1990, page 10; Al-Ahram July 28 1995, page 1

announced that retirement funds would be put into a special account and the government began to run articles about the increased number of families covered by these benefits and the total dollars spent on retirement benefits.<sup>26</sup> Retirement benefits were raised from 60 to 80 LE per month with an additional bonus of 20 LE per month per student in the family.<sup>27</sup> Widows, who previously had received the retirement benefits of their deceased husbands until they remarried, were also given additional funds when they married.<sup>28</sup> Finally, a special bonus for retirees was announced; this covered both public sector retirees and retirees from the armed forces.<sup>29</sup>

### 3.1.3 Other

In addition to bonuses and retirement benefits, there are numerous other means by which the government can influence public sector employees, especially through incentive and overtime pay for particular sectors.<sup>30</sup> Prior to the 1984 parliamentary elections, special incentives were offered to members of the teachers syndicate; teachers were given overtime compensation (*al-badalaat*) costing the government 21 million LE for 400,000 public school teachers.<sup>31</sup> In addition, 15 - 25 percent incentive pay (*al-hawafez*) was offered for workers in government ministries.<sup>32</sup> In 1987, post office employees were offered incentive pay as well.<sup>33</sup> In 1995 just prior to parliamentary elections, the government announced that base salaries for public sector employees could ever be reduced.<sup>34</sup> In the run-up to the 2000 parliamentary elections, ministry of religious endowments (*awqaf*) employees received 25 percent of their salaries as stipend (*mukafa'a*) and some public sector employees were bumped up on the civil service scale.<sup>35</sup> Prior to the 2005 elections, Mubarak announced that the government would double the salaries of low-ranking civil servants and increase the salaries of higher ranking government employees by 75 percent.<sup>36</sup>

## 3.2 Agricultural Sector Incentives

Economic incentives during election year are not limited to public sector employees. Rural Egyptians in the agricultural sector were also the beneficiaries of strategically timed giveaways. These benefits fall into three main categories. The first is through improved benefits

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<sup>26</sup>Al-Ahram March 24 2005; Al-Ahram April 26 2005; Al-Ahram May 11 2005; Al-Ahram May 16 2005

<sup>27</sup>Al-Ahram May 11 2005; Al-Ahram June 15 2005

<sup>28</sup>Al-Ahram May 27 2005

<sup>29</sup>Al-Ahram June 13 2005

<sup>30</sup>Sectoral benefits may be provided either through a particular ministry or through a syndicate, associations for a particular professional groups.

<sup>31</sup>Al-Ahram April 29 1984, page 1; Al-Ahram April 30 1984, page 1

<sup>32</sup>Al-Ahram May 15 1984, page 8

<sup>33</sup>Al-Ahram March 22 1987, page 8

<sup>34</sup>Al-Ahram September 18 1995, page 1

<sup>35</sup>Al-Ahram August 6 2000; Al-Ahram November 28 2000

<sup>36</sup>Egyptian Gazette September 2 2005, page 1

by way of the farmers' syndicate, the professional association in rural areas that provides members with insurance and retirement benefits. The second avenue for influencing the rural sector is through debt forgiveness and increased loan capacity from Egypt's Principal Bank for Development and Agricultural Credit (PBDAC). The PBDAC, a development bank financed by the Egyptian government, was created by former president Gamal Abdel Nasser to provide farmers and rural households with financial services. PBDAC has branch offices in almost every community in Egypt and serves as the 'village bank' in most of rural Egypt.<sup>37</sup> Given the pervasiveness of the PBDAC in rural Egypt, enhanced services by the bank are of significant benefit to the rural sector. The third means by which the regime uses economic incentives to influence votes in rural Egypt involves eased restrictions on specific crop production. In many areas in Egypt, cultivation of water-intensive crops may be limited or prohibited with severe fines and penalty of imprisonment for those that violate the restrictions. For example, rice production is not permitted in the governorate of Kaliyoubia since growing rice involves significant water resources. Prior to elections, the regime may 'forgive' farmers who cultivate restricted crops.

Examples are illustrative. Prior to the 1987 parliamentary elections the farmers' syndicate increased retirement benefits from 25 to 40 LE per month and health benefits increased from 50 to 200 LE, depending on the operation or procedure needed by the individual patient.<sup>38</sup> In addition, the PBDAC announced 50 percent debt forgiveness for farmers with outstanding loans and an increase in the funds available for low interest loans from 200 to 500 million LE.<sup>39</sup> In 2000, the ministry of agriculture announced that individuals who illegally cultivated rice would not be fined or put in prison.<sup>40</sup> Just prior to the 2005 parliamentary election, Al-Ahram ran a front-page article with cheering farmers who had been given an opportunity to reschedule their debt to the PBDAC at a reduced interest rate.<sup>41</sup> These strategically timed giveaways to the rural sector are generally accompanied by announced spending increases to help the regime's final mass constituency, the urban poor.

### 3.3 Assistance to the Urban Poor

The urban poor in Egypt have typically been a group to fear from the perspective of the regime. In 1977 following the announcement that subsidies would be lifted on some goods, riots broke out leading to numerous deaths; these riots changed the perception of Egyptians as 'quietist'. In recent years, the Egyptian 'street' has proven that it is increasingly willing to protest vocally regarding particular issues, like the US invasion of Iraq. As a result, the urban poor is an important constituency that the regime needs to both assure that subsidies

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<sup>37</sup>PBDAC provides start-up loans for activities like poultry raising and vegetable trading. Microloans are typically valued up to 1500 LE and the term of the loan is generally one year with up to a seven month grace period. For more information see the United Nations Capital Development Fund report on Egypt.

<sup>38</sup>Al-Ahram February 7 1987, page 8

<sup>39</sup>Al-Ahram March 30 1987, page 8; Al-Ahram March 26 1987, page 8

<sup>40</sup>Al-Ahram September 26 2000

<sup>41</sup>Al-Ahram November 7 2005, page 1

will not be further eliminated and promise additional funds and benefits.<sup>42</sup> Regime incentives offered to this group typically involve increased benefits for low-income families, unemployed youth, and in recent years through better insurance coverage. In addition, the regime uses the services of the Nasser Bank — a state assistance bank aimed at urban Egyptians — in a strategic manner.<sup>43</sup> The urban poor have been an increasingly important constituency since the 1990s as Egypt's participation in an IMF-sponsored structural adjustment program left many individuals formerly dependent on government employment without public sector jobs.

Prior to the 1990 parliamentary elections, for example, the Nasser Bank announced that there would be a 75 percent increase in funds available for loans.<sup>44</sup> In addition, the regime was promoting its youth program (*mashrou'a ash-shabbab*) whereby college grads who were promised public sector employment became eligible for cut-rate loans instead of jobs at the end of their university educations.<sup>45</sup> This program was aimed largely at unemployed young men in urban areas. Just prior to the election, it was announced that the size of these loans would be increased from 1000 LE to 3000 LE.<sup>46</sup>

In the run-up to the 1995 parliamentary elections, the regime promoted special tax breaks for small enterprise where businesses developed as part of the youth program would not have to pay taxes for ten years and would also enjoy some tariff breaks on imported goods.<sup>47</sup> During this period, the regime also promoted new poverty alleviation schemes for low-income families.<sup>48</sup> Coverage under health insurance became an increasingly important issue as well with the regime promising more money to be dedicated to insurance coverage for students and promises to provide insurance coverage for all public sector employees and retirees.<sup>49</sup>

The 2000 parliamentary election season also witnessed promises concerning health insurance coverage, particularly a widening of government programs to cover insurance for all children.<sup>50</sup> In addition, it was announced that 600 million LE would be spent on social security payments to low-income families who would be receiving between 50 and 70 LE per month.<sup>51</sup> The Nasser Bank also made extra funds available and announced that individuals

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<sup>42</sup>Subsidies have a long and complicated history in Egypt. In 1980, the food subsidy system included 18 goods; at present, this system has been carefully downsized and currently includes just bread, wheat flour, sugar, and cooking oil (Ali and Richards 1996).

<sup>43</sup>The Nasser Bank was established in 1972 with a small budget and as of 2002, it had 350 million LE, 90 branches, and 500 *zakat* branches (Al-Ahram November 10 2002). The Nasser Bank gives loans to people who want to engage in small enterprises, like handicraft production (Al-Ahram December 4 1998), runs a project called *ash-shagr at-tayiba* which gives small farmers funds to grow gardens (Al-Ahram December 4 1998), helps women get alimony payments (Al-Ahram December 23 1998), and subsidies individuals who transition from gasoline to natural gas (Al-Ahram August 20 2001), for example.

<sup>44</sup>Al-Ahram June 24 1990, page 10

<sup>45</sup>Under Nasser and Sadat, public sector employment was promised to all college graduates.

<sup>46</sup>Al-Ahram November 18 1990, page 7

<sup>47</sup>Al-Ahram July 13 1995, page 1

<sup>48</sup>Al-Ahram October 17 1995, page 1

<sup>49</sup>Al-Ahram September 29 1995, page 1; Al-Ahram November 2 1995 page 1

<sup>50</sup>Al-Ahram October 27 2000; Al-Ahram November 16 2000

<sup>51</sup>Al-Ahram June 13 2000; Al-Ahram July 27 2000

seeking loans to prepare for weddings and to buy apartments would receive between four and ten thousand LE.<sup>52</sup>

Prior to Egypt's most recent election season in 2005, government announcements related to subsidy provision and insurance benefits were aimed at urban constituents. Professional syndicates promised to find a way to insure all currently uninsured syndicate members and the government promised to investigate the possibility of universal health coverage for all citizens.<sup>53</sup> The government promised that more families would fall under the country's social security scheme in the future as well.<sup>54</sup> The minister of finance assured citizens that the subsidies on gasoline would remain in place and this was followed by a later announcement that all subsidies on goods and services would remain.<sup>55</sup>

In a section to follow, I discuss the economic impact of these spending programs, loan expansion schemes, and other spending strategies used by the regime to increase its support for the single party and its candidates prior to elections. First I examine another aspect of Egyptian economic policy whose timing has been affected by elections — decisions regarding the timing of exchange rate devaluations.

### 3.4 Exchange Rate Policy

During the 1980s, Egypt maintained a complex system of multiple exchange rates. As part of the country's structural adjustment related reforms, the Central Bank began the process of unifying these exchange rates in the late 1980s and allowed a managed peg by 1991 when the government allowed the pound to trade within a narrow band.<sup>56</sup> This move largely eliminated the need for an unofficial parallel market until the late 1990s when a black market began to emerge again. In January 2003, the Egyptian pound was allowed to “float” though the currency is still managed by the regime to maintain a rate considered politically acceptable.

Various commentators have argued that Egypt's exchange rate policy is subject to political considerations. Editorials in major opposition newspapers have discussed the politicization of Egyptian exchange rate policy.<sup>57</sup> Schamis and Way argue that choice of exchange rate system — fixed or floating — is decided opportunistically based on an electoral calendar (2003). This argument is related, but significantly more complicated than the one I will make about Egypt's exchange rate policy during the Mubarak era. I argue that in Egypt, currency devaluations of the exchange rate are generally after, rather than before, elections. Commentators on the Egyptian economy have speculated that exchange rates are susceptible to election calendars (Dowell 1999).

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<sup>52</sup>Al-Ahram May 30 2000; Al-Ahram June 7 2000

<sup>53</sup>Al-Ahram April 4 2005; Al-Ahram April 25 2005

<sup>54</sup>Al-Ahram May 19 2005

<sup>55</sup>Al-Ahram May 5 2005; Al-Ahram November 19 2005

<sup>56</sup>Daily Star July 21 2003

<sup>57</sup>Al-Ushoua August 13 2001; Al-Wafd December 1 2003; Al-Arabi August 17 2003; Al-Arabi December 28 2003

For example, the government slowly devalued the exchange rate during the first half of 2001 in the six months following the parliamentary elections. By the time the government was finished with its devaluation, the Central Bank of Egypt confirmed that the pound was approximately 22 percent less valuable than in August 2000, just before the election.<sup>58</sup> Chief Executive Officer of HSBC Bank Egypt said, “I think that it is the right move although it should have taken place six months or 12 months before, however better late than never.” An empirical section examines the validity of this pattern more broadly.

## 4 Income Redistribution and Vote Buying

Simultaneous with the regime’s macro-level manipulation of the economy, a parallel process is taking place at the level of the individual candidate. While this cycle is not reflected in the budgetary trends of the economy, it is pervasive and far-reaching. In particular, numerous informants and countless newspaper articles and books cite the income redistribution that takes place between candidates running for parliament and their constituents in the run-up to parliamentary elections. These wealth transfers take place between candidates and family heads and individuals and can appear in many different forms.

Since these income transfers take place unofficially, documentation of this phenomenon tends to be found in journalistic and other sources.<sup>59</sup> In a well-known Egyptian novel entitled *The Yacoubian Building*, for example, a character running for parliament secretly distributed tens of thousands of pounds to poor families in his constituency; following his victory, he distributes the meat of three butchered cows to the same families (Al-Aswany 2004, 123). A magazine article describes the pile of free shoes given to supporters of an opposition candidate running for parliament while a candidate from the regime’s NDP passed out job applications for public sector employment in the prestigious ministry of finance to supporters (Ehab 2005).<sup>60</sup> In addition to shoes, candidates give away everything from CDs, pens, mobile phones, meat, and even offer to pay phone bills.<sup>61</sup> In a political cartoon by Saad al-Deeb, citizens are beating a candidate with sticks complaining that the TV sets that they received in exchange for their votes were black and white instead of color.<sup>62</sup> In 2005, typical vote buying cost between 20 and 500 LE, depending on the competitiveness of the district and newspaper reports suggest that it is not at all unusual for a campaign to cost in the six

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<sup>58</sup>Washington Times, International Reports, Egypt 2001

<sup>59</sup>Theoretically, the candidates are not permitted to spend more than 70,000 LE (Egyptian Gazette November 27 2005).

<sup>60</sup>In addition to the wealth transfers that take place, individuals running for parliament can also win the votes of families and even entire villages by securing the release of men arrested on suspicion of being involved with insurgent activity. For more details see former Brigadier General Hamdy al-Batran’s exposé of regime activity in the Egyptian countryside, *Yowmiyat dabit fi al-Aryaf* (The Diary of an Officer in the Countryside), pages 24 and 92.

<sup>61</sup>Al-Ahram Weekly November 10-16, page 5

<sup>62</sup>Egyptian Gazette November 21 2005, page 3

digits.<sup>63</sup>

The trading of food for votes is a popular strategy employed by candidates. Candidates often pay for communal suppers in a village guest house to drum up support (Kassem 1999, 153). In 2005, for example when campaigning fell during Ramadan, candidates became philanthropists by sponsoring free meals at tables set up along the sidewalks of poor neighborhoods and even delivered meals to homes for families that were concerned about the embarrassment of being seen at a free meal table.<sup>64</sup> In addition, sacks of foodstuffs emblazoned with candidate logos were delivered to potential voters.<sup>65</sup> Families were also given vouchers to claim a free chicken in some districts.<sup>66</sup> Some districts have also seen fast food provided to potential voters. In Cairo and Giza, for example, 400,000 ready meals were distributed to voters on the first day of parliamentary elections.<sup>67</sup> Finally, a political cartoon shows a parliamentary candidate being interviewed by a newspaper reporter and saying that his philosophy is to give constituents food in return for their votes.<sup>68</sup> The empirical section below investigates one implication of this qualitative observation.

## 5 Data and Results

The qualitative data described above suggest a pattern consistent with an electoral budget in Egypt. In this section, I investigate the existence of quantitative evidence pointing to the existence of these cycles as well. There are a number of observable implications if we believe that such a cycle exists in Egypt. The first is that we would expect inflation to be higher in the months before and perhaps after elections as voters benefit from government giveaways. We might also expect that financial claims against the government would increase in the months around the election and the government may draw down its reserve base to fund spending. I have argued that the Egyptian government strategically times devaluations of the country's fixed exchange rate. Finally, if income is redistributed in election years from (often wealthy) candidates vying for seats in parliament to constituency voters we would expect that voters live 'better' in election years than non-election years. I test this hypothesis by examining calorie consumption in Egypt over time.

### 5.1 Description of Variables

In this section, I describe the variables that I use in the data analysis. In particular, I describe and define five variables that might indicate the existence of an electoral budget

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<sup>63</sup>Egyptian Gazette November 27 2005. This figure does not include additional funds candidates pay out to be the list candidate from a particular party.

<sup>64</sup>Egyptian Gazette October 9 2005

<sup>65</sup>Ibid.

<sup>66</sup>Egyptian Gazette October 18 2005

<sup>67</sup>Al-Goumhuria November 10 2005

<sup>68</sup>Al-Akhbar October 17 2005

cycle in Egypt. Each is described in turn, first with the two variables measured at the yearly level, inflation and calorie consumption, and the others, total reserves, claims on the government, and the exchange rate, are at the monthly level. I also describe the coding for the key independent variable, the election

### 5.1.1 Dependent Variables

One important indicator of the existence of an electoral budget cycle is a rate of inflation that varies with the political calendar. As in many countries, however, inflation is a highly politicized indicator, changes in which attract considerable attention as a bellweather of economic health and consumer strength. In general, consumer price inflation is measured by examining prices of a weighted basket of representative goods and services. In Egypt, however, many analysts have become increasingly skeptical of using the CPI as a basis for analyzing inflation. For example, economists have argued that the way consumer price levels are determined in Egypt is flawed, pointing out that 40 percent of the items included in the Egyptian basket of goods as determined by CAPMAS (Central Agency for Public Mobilization and Statistics) are items immune to any price change and that the representative basket of goods is outdated (Lindsey 2003). In addition, opposition newspapers have argued that the government manipulates the rate of consumer price inflation to hide the truth about rising prices.<sup>69</sup>

Rather than using the traditional consumer price inflation data as published by the Egyptian government, I use inflation calculated based on the GDP deflator which provides a much broader price index than the CPI. Hibbs and others have also suggested that the CPI is problematic since it does not allow for shifts in consumption from goods with rising relative prices to goods with falling relative prices while maintaining consumer satisfaction (Hibbs 1987). Therefore, changes in consumption patterns or the introduction of new goods and services are automatically reflected in the deflator. Finally, this data is less vulnerable to manipulation by the regime if it seeks to underestimate price increases in the country for political reasons. This data is at the yearly level and the variable used in analysis is percent increase in the GDP deflator, conventionally known as inflation as measured by the GDP deflator.

The rest of the dependent variables in the analysis are measured in conventional ways. The other variable measured at the yearly level is average daily calorie consumption. This data is provided by the relevant agency of the Egyptian bureaucracy to the United Nations Food and Agriculture Organization (FAO). This variable ranges from 2997 to 3349 calories per person per day. From 1981 until present, the progression in calorie growth has been upward but not steadily so. Since this variable is a level that increases incrementally every year, I transform it to percent change increase in calorie consumption to mitigate problems of autocorrelation from one year to the next. Yearly percent change also emphasizes the increase in consumption.

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<sup>69</sup>Al-Wafd July 17 2003; Al-Ahali July 30 2003

In order to determine if the Egyptian government is digging into its reserve base in order to finance election year expenditures, I also test the election effect on Egypt's total reserves. This variable is essentially Egypt's foreign exchange reserves (the deposits held by national banks in 'hard' currencies like the US dollar) plus gold or other holdings. For the case of Egypt, total reserves are almost entirely driven by the foreign currency holdings. This data is at the monthly level and from the International Monetary Fund (IMF). Since the variable is a level that changes incrementally, I transform it to percent change increase. Also, this makes interpretation more straightforward since the percent change in reserves is the quantity of interest rather than the sheer level of reserves.

Another way to test the election year effect is to examine if the claims on the government increase in the proximity of the election. Claims on the government and other public entities comprise of direct credit, most prominently financing of the government budget deficit or loans made to state enterprises. This can also take the form of government bonds held by banks.<sup>70</sup> This data is from the IMF and is measured at the monthly level. Both reserves and claims on the government are avenues for financing spending, therefore, and could be affected as part of an electoral budget cycle.

The final variable that I use in the analysis is the exchange rate as published by the IMF. This data is at the monthly level. The dependent variable used in the statistical analysis is the difference between the exchange rate period  $t$  and period  $t - 1$ . This mitigates problems of autocorrelation in the data and eases interpretation of the results.

### 5.1.2 Independent Variable

The key independent variable in this analysis is related to the year or months surrounding the election. For the yearly variable, I code this variable 1 in election years and 0 in all other years. Parliamentary elections in Egypt have not always occurred at the same time of year; elections took place in the spring during the 1980s and in the late fall since then.<sup>71</sup> I also code for post-election year. For the analysis of the monthly data, I code for the six months prior and post election. For the monthly analysis, I also include month-dummy variables to control for any potential seasonal effects.

## 5.2 Empirical Strategy

All of the data used in this analysis are time series of either monthly or yearly data from 1981 until present. Analysis is conducted using two models for time series analysis. The first is the AR(1) model, which assumes a first-order autoregressive disturbance. A first-order autoregressive disturbance occurs when the disturbance in one time period is correlated with

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<sup>70</sup>Prior to 1992, Egypt offered housing, treasury, and national development bonds. Since then a wider range of instruments have been offered.

<sup>71</sup>The respective dates for each of the election since Mubarak came to office were May 1984, April 1987, November/December 1990, November/December 1995, October/November 2000, and November/December 2005. Elections in the 1990s have taken place in multiple stages across different parts of the country.

the disturbance in the previous time period, plus a spherical disturbance. The empirical literature in econometric analysis of time series is overwhelmingly dominated by this model, for both statistical and practical reasons (Greene 2000, 531). This model can be represented by the following equations:

$$y_t = x_t\beta + \epsilon_t \quad (1)$$

$$\epsilon_t = \rho\epsilon_{t-1} + \mu_t \quad (2)$$

where  $\mu_t$  is independent and identically distributed.

I supplement the AR(1) model with a lagged dependent variable (LDV) model, which is much more common in the political science literature and less common in econometrics. The LDV model is often employed to rid a model of autocorrelation. Keele and Kelly have argued that specification-induced autocorrelation can be eliminated when dynamics are captured with a lagged dependent variable, making the LDV model an appropriate fix in many cases (2005). The LDV model can be represented by the following equation:

$$y_t = x_t\beta + \alpha_t y_{t-1} + \epsilon_t \quad (3)$$

where if we assume that  $\epsilon_t$  is independent and identically distributed, ordinary least squares with a lagged dependent variable is consistent, though biased. I present the results for each of the five variables with each of these two models.<sup>72</sup>

### 5.3 Results

In this section, I present the results of the empirical analysis. Each of the dependent variables is tested in two ways, with the AR(1) model and the LDV model.

Inflation increased 6 percent according to the AR(1) model and 7 percent according to the LDV model in the year of the election (see Table 2). The election result is highly statistically significant in both models. Although I ran each regression with a post-election variable, this variable did not prove to be statistically significant in any of the specifications with the yearly data, so I do not report these results. This differs from other studies of electoral budget cycles where inflation generally occurs in the period directly following the election and suggests that election spending in Egypt typically takes place considerably before the election. In addition, this result may be capturing some post-election inflation since elections in the 1980s took place in the first half of the year.<sup>73</sup> This finding is consistent with the expectation of Egyptian economists who have argued how government moves to increase

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<sup>72</sup>Following Achen (2000), I also ran each of the regressions without the lagged dependent variable and all results were similarly signed with comparable levels of significance.

<sup>73</sup>To ensure that stationarity was not a concern, I also found the same results when the dependent variable was the difference of the inflation rate. This precaution was probably not necessary since inflation itself is already a difference.

Table 2: Yearly data.

Dependent Variable	AR(1)		LDV	
	Inflation	Calorie Consumption	Inflation	Calorie Consumption
constant	7.909 (2.689)	0.290 (0.217)	3.382 (2.158)	0.250 (0.250)
election	6.281 (1.897)	0.918 (0.508)	7.213 (2.693)	1.044 (0.440)
lagged DV			0.528 (0.164)	-0.162 (0.188)
$R^2$	0.31	0.13	0.47	0.30
Durbin-Watson (transformed)	2.23	1.72		
Observations	23	21	22	20

Standard errors are in parentheses.

salaries and retirement benefits have highly inflationary effects.<sup>74</sup> Political cartoonists like Mustapha Hussein have described this phenomenon in satire. One cartoon shows an Egyptian (with the face of a skeleton) being interviewed by a reporter where he says “Prices? Heaven knows what will happen to prices. But what can we do? We are still alive, aren’t we?”<sup>75</sup>

The other dependent variable measured at the yearly level is per capita daily calorie consumption. Both the AR(1) and the LDV models suggest about a 1 percent increase in daily calorie consumption in election years. This effect is statistically significant and is equivalent to approximately 30 additional calories per day per person in Egypt in years that elections take place.<sup>76</sup> If one follows the qualitative literature on elections in Egypt, it would appear that this calorie consumption may have been even higher in the months directly before the election as parliamentary candidates sought to buy votes with money and other handouts. This result is also robust for the dependent variable when measured as a difference of the percent change.<sup>77</sup>

Electorally-related changes in the level of total reserves would suggest government manipulation of the economy (see Table 3). The empirical analysis shows that total reserves are between 3 and half and 4 percent lower in the six months prior to the election, according

<sup>74</sup>Al-Masry al-Yowm August 31 2005

<sup>75</sup>Egyptian Gazette October 18 2005, page 3

<sup>76</sup>This effect is strengthened with the inclusion of a variable measuring growth of the economy to about a one and half percent increase in calorie consumption per Egyptian per day in the year of the election.

<sup>77</sup>Qualitative evidence would suggest that this phenomenon is probably not unique to Egypt. For example, Stokes describes soup kitchens in Argentina that spring up in the months prior to elections (2005). A larger cross-national study of the relationship between calorie consumption and the political calendar is currently underway by the author.

to the AR(1) and LDV models, respectively.<sup>78</sup> These results are statistically significant at the 0.05 level for both models.<sup>79</sup>

I also consider the affect of elections on claims against the government, or loans to state enterprises made to finance the government budget deficit. Claims against the government increase by about five and half percent in the six months following elections. This result is statistically significant at the 0.05 level and similar for both the AR(1) and the LDV models.

Finally, I examine the likelihood of post-election currency devaluations. I find that currency devaluations are more likely to occur in the six months after an election. This effect is statistically significant at the 0.1 level. In both the AR(1) and LDV models, the Egyptian currency appears to be about 0.04 lower. The currency has ranged between 0.7 and 6 pounds to the US dollar during the past 25 years. Together, these statistical findings correspond with the qualitative evidence that I have presented on the existence of electorally-related manipulations of the economy.

These results conform to some of the expectations of both traditional and rational models of opportunistic business cycles. Both models expect that inflation increases in the period before each election and in Egypt this increase was in the 6-7 percent range for the period prior to parliamentary elections. Evidence regarding the financing of pre-electoral giveaways suggest that these manipulations are short-term, consistent with the rational model; in the six months prior to the election, reserves are drawn down to support spending and borrowing appears on the books in the six months after the election. The effects do not appear to begin earlier or linger beyond that time frame as suggested by more traditional models. Neither model makes particular predictions regarding exchange rate devaluations (a likely result of the fact that these models were developed for countries with floating rates), though I find that exchange rate devaluations are more likely in the six months after an election, consistent with the experience of some Latin American countries in Remmer's sample (1993). Finally, I test the novel hypothesis that citizens actually live "better" in election years as a result of income redistribution that takes place at both the national and local level and find that Egyptians consume 30 additional calories a day in the year of an election. Qualitative evidence suggests that this increase is probably even higher in the particular weeks and months leading up to the election. While none of these factors are inconsistent with the traditional model of opportunistic business cycles, the short-term nature of the financing and other effects more strongly support the recently developed, rationalized models.

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<sup>78</sup>These results also hold for foreign exchange reserves.

<sup>79</sup>For the monthly analysis, I also include month-dummy variables to control for any potential seasonal affects. These results are suppressed in the table.

Table 3: Monthly data.

	AR(1)			LDV		
	Total Reserves	Claims on Government	Exchange Rate	Total Reserves	Claims on Government	Exchange Rate
constant	-0.659 (1.852)	-1.953 (2.429)	0.006 (0.022)	-0.501 (1.819)	-1.768 (2.503)	0.006 (0.022)
six pre	-3.494 (1.484)	0.906 (2.444)	0.022 (0.023)	-4.057 (1.772)	0.885 (2.474)	0.021 (0.021)
six post	1.539 (1.555)	5.456 (2.391)	0.039 (0.023)	1.796 (1.864)	5.643 (2.502)	0.036 (0.021)
lagged dv				-0.218 (0.088)	-0.009 (0.079)	0.100 (0.061)
$R^2$	0.06	0.07	0.04	0.07	0.07	0.05
Durbin-Watson (transformed)	1.56	1.69	2.01	264	250	279
Observations	266	252	280			

Standard errors are in parentheses.

## 6 Conclusions

Just two months after the 2005 parliamentary elections, Egyptian newspapers began reporting that public bus fares, previously between 0.25 and 0.50 LE, would be raised to 1 LE. The public bus system transports millions of Egyptians to work every day, five million a day in Cairo alone.<sup>80</sup> Low-income commuters, many of whom are public sector employees, say that the fare price-hikes are part of a larger government effort to decrease subsidies; these reports came just weeks after the prime minister announced that the government would be coming up with a ‘solution’ to the problem of subsidies.<sup>81</sup> Newspaper reports have disclosed that the proposed price increases were supposed to have been submitted to Parliament months ago, yet they were not. By March, the government had unveiled a plan for scaling back subsidies more broadly; in particular the number of beneficiaries would be cut and traditional subsidies would be replaced by less appealing bank loans in a number of cases.<sup>82</sup> These developments are not at all surprising in light of the argument put forth in this paper, which suggests that the authoritarian regime in Egypt manipulates the economy strategically in light of the electoral calendar. To propose public transportation fare increases or subsidy cuts during the parliamentary and presidential election campaigns of 2005 would have been political suicide.

In this paper, I have argued that even in authoritarian regimes, elections matter — and part of the way in which elections matter is related to the electoral budget cycle that these contests induce. While empirical support for the existence of electoral budget cycles is mixed in democratic countries, increasingly the strongest statistical evidence for the phenomenon has been in authoritarian regimes. I have shown that both the qualitative evidence and the empirical analysis suggest the existence of a robust electoral budget cycle in Egypt. In particular, time-series analysis demonstrates that inflation and calorie consumption both increase in election years. Government spending is financed by drawing down the country’s reserve base and increasing the level of outstanding credit owed by the government. In addition, the regime delays exchange rate devaluations until after elections. On the qualitative side, electoral opportunism revolves around transfers made to three key constituencies: government employees, the rural sector, and the urban poor. Finally, in addition to the national level manipulation there is also a massive redistribution that takes place on the individual level as parliamentary candidates offer side-payments to voters. While these effects are short-term, they do imply that elections matter enough to authoritarians that manipulation is a worthwhile endeavor. Elections represent a time of potential vulnerability for authoritarian leaders and it is rational to expect they would engage in whatever behavior is at their disposal to increase the vote share of the ruling party.

The question of why elections matter is the subject of subsequent sections of this research project, though it seems clear that authoritarians need to build coalitions to maintain power

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<sup>80</sup>Egyptian Gazette February 16 2006

<sup>81</sup>Ibid.

<sup>82</sup>Egyptian Mail March 4 2006

in ways similar to what we observe in democratic polities. Given this, the public expenditure and other pre-election policies described in this paper appear to be useful strategies for targeting particular constituencies. Reliance on such strategies, however, has implications for the durability of authoritarianism and the possibility of democratic transition in Egypt. As long as redistribution is taking place at a level that satisfies most the regime's most important constituencies, then the likelihood of revolution remains low. The ability of the regime to increase giveaways in the future is an open question, however. While Egypt enjoys significant external rents as a foreign aid recipient, budgetary constraints combined with a rapidly growing population portend difficulty in the future. Therefore, while this study has suggested that attempts to manipulate economic conditions prior to elections are not exclusive to regime type, the stakes for success in authoritarian regimes may be even higher. A poor performance in semi-free elections may send a signal to the public that the regime's hold on power is weakening.

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