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The Welfare State in Egypt, 1995– 2005: A Comparative Approach

Ahmed Ezz Eldin Mohamed | Aug 2014

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Abstract

This article applies the typology of welfare state regimes developed by Esping-Andersen in 1990 to the welfare state in Egypt as an example of developing countries. The study surveys the relations between the state, the market, and society from 1995 to 2005, a period characterized by a shift towards a market-oriented economy, challenging the historical legacy of the state's social role. The methodology employs a combination of quantitative and qualitative analysis while examining the characteristics of seven main welfare schemes and social safety nets in Egypt. The findings suggest that the Egyptian current welfare state can be best described as "conservative/informal," where social benefits are tied to employment in the formal sector, leading to the family, religious institutions, and clientelistic networks taking on important roles to meet the social needs of the larger informal sector. In addition, the study proposes amendments to the Esping-Andersen typology in order to better understand the welfare programs of developing countries. Mismanagement, quality considerations, the gap between stated goals and implementation, disparities created by gender and urbanization differences, and the role of informal sector should be systematically considered when analyzing welfare regimes in general, and those of developing countries in particular.

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Introduction

Since the 1990s, the literature on the variations of welfare regimes has been growing. Esping-Andersen triggered the debate when he published his typology of the Western welfare states in 1990, which was followed by a series of modifications to his original typology.¹ The debate has remained largely confined to the developed world. However, the welfare regimes of some developing countries have recently been studied, including Latin American and Eastern European states as well as China and Turkey. As a continuation of these studies, this paper places the Egyptian welfare state within the existing typologies. The analysis of the Egyptian welfare state shows similarities with the Latin American, Chinese, and Turkish models, which suggests the possibility of forming an analytical category for developing countries' experiences of welfare. However, this would require introducing some amendments to the original typology in order to make it more suited to the welfare regimes in question.

This paper surveys seven main welfare schemes and social safety nets in Egypt. The analysis focuses on the period from 1995 to 2005, a decade which witnessed the increasing privatization of the public sector alongside the growing impact of globalization. It does not overlap with major international shocks like the First Gulf War and the financial crisis, and thus represents the core of the Mubarak era stability. Another reason is that detailed data and studies on the Egyptian economy during this period are readily available. In addition, no major social policy changes with the effect of restructuring the Egyptian welfare state occurred between 2005 and the end of the Mubarak regime in 2011. However, when appropriate, the time period has occasionally been extended. The first section summarizes the relevant literature. The second section presents a history of the Egyptian welfare state and analyzes its components. The last section places Egypt's experience within the existing typology and offers important concluding remarks about the typology and its possible future extensions.

The Typology of Welfare Regimes

Most of the existing literature on the subject, the applied studies in particular, focuses on the welfare states in developed countries. A few attempts have been made to

¹ Esping-Andersen, *The Three Worlds of Welfare Capitalism*.

extend the models to incorporate the experiences of developing countries in Asia, Latin America, Eastern and Central Europe.² These have introduced some modifications to the original models and provided useful insights. To our knowledge, no classifications have been made of the welfare states in the MENA region or in Africa, nor in most of the Asian developing countries.

Esping-Andersen bases his classification on two main concepts: de-commodification and social stratification. De-commodification refers to the degree to which individuals can maintain a socially acceptable standard of living independently of market participation.³ Social stratification refers to how the welfare state creates a system of strata in its own right. Social policy may create social divisions, especially if it is restricted to the less well-off and if it is stigmatizing. It can be an explicit form of class politics and represent a consolidation of existing divisions among wage earners.⁴ In addition, de-familialism, a related concept, describes the extent to which an individual's welfare is independent of his or her household status.⁵ Modern welfare regimes have thus been classified through empirical investigation of a set of developed countries using these main concepts.

In order to assess the level of de-commodification of a welfare regime, three dimensions should be studied. The first concerns the rules that govern people's access to benefits: eligibility rules and restrictions on entitlements. A program has a high de-commodification potential if access to it is easy and the right to an adequate standard of living is guaranteed regardless of previous employment record, performance, needs, or financial contributions. The level of income replacement constitutes a second dimension. A benefits recipient is likely to get to work sooner if the benefit level falls substantially below his normal earnings, or below the adequate standard of living in the society. Thirdly, the range of entitlements provided is of crucial importance. The highest of the entitlement schemes is a social wage paid to citizens regardless of the cause, but

² Gough and Wood, *Insecurity and Welfare Regimes in Asia, Africa and Latin America*; Kwon, "Beyond European Welfare Regimes: Comparative Perspectives on East Asian Welfare Systems"; Barrientos, "Latin America: Towards a Liberal-Informal Welfare Regime"; Fenger, "Welfare Regimes in Central and Eastern Europe"; Choi, Y.-J., "Coming to a Standstill?"; Barrientos, "Labor Markets and the Hyphenated Welfare Regime in Latin America."

³ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 37.

⁴ Lelkes, "A Great Leap towards Liberalism? The Hungarian Welfare State," 93.

⁵ Esping-Andersen, *Social Foundations of Post-Industrial Economies*.

it also includes unemployment, sickness, disability, and old age benefits.⁶ Following these criteria, three welfare state models were originally identified. The liberal model offers entitlements where there is demonstrable or abject need by focusing on needs and on the use of means- or income-tested social programs. The second type of welfare state, the conservative model, conditions the right to entitlements upon a blend of labor market participation, financial contributions and the logic of actuarialism. The third type, the social democratic model, is based on the idea of the rights of citizenship, regardless of the degree of need or work performance. Eligibility usually depends on being a citizen of the country or a longtime resident.⁷ There appears to be a clear overlap between high de-commodification and strong universalism in the Scandinavian social democratic model. There is an equally clear coexistence of low de-commodification and strong individualistic self-reliance in the liberal Anglo-Saxon nations. Finally, the continental European countries adhere more to a conservative model, with a strong corporatist and statist basis, as well as modest levels of de-commodification.⁸

The second basis for classification is the social stratification caused by each of the three regimes (liberal, conservative, and social democratic). The system of stratification in the liberal system leads to population division where there is a minority of low-income state dependents, and a majority of people able to afford private social insurance plans. Women are encouraged to participate in the labor force, especially in the service sector, due to the individualistic nature of the society. The conservative model features three important characteristics of stratification. First, the direct influence of the state is restricted to maintaining income benefits related to occupational status. Second, labor force participation of married women is discouraged to maintain the traditional family structure. Third, the state will only intervene when the family's capacity to aid its members is exhausted, which is called the subsidiary principle. This tends to preserve status differentials. For instance, in its statist version, civil servants have special rights, while in its corporatist manifestation, social insurance schemes depend on social status. The role of churches is also highlighted in this regime.⁹ Finally, the social-democratic

⁶ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 47.

⁷ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 48.

⁸ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 77.

⁹ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 27.

regime focuses on social solidarity with the aim of maximizing capacities for individual independence. Women are encouraged to participate in the labor force, especially the public sector.¹⁰

Three main criticisms have arisen against Esping-Andersen's concept of de-commodification and its classifications. The first concerns his classification of the southern European states of Italy, Spain, Portugal and Greece; while he ignores the last three, he classifies the first among the corporatists. However, according to other researchers, the southern European welfare states can be seen as a separate cluster.¹¹ The main characteristics of this group are the proclamation of the right to welfare and work, the semi-institutionalized promise of the welfare state, the fragmented system of income guarantees linked to one's job, generous benefits without an articulated net of minimum social protections, healthcare as a right of citizenship, particularism in cash benefits and revenue, financing through contributions and cash benefits, a high percentage of social expenditure financed through contributions, and low social expenditure as a percentage of GDP. A second criticism of Esping-Andersen was his classification of the antipodes as liberal regimes due to their high dependence on means-tested social programs. However, according to Castles, they have a more particular and inclusive approach to social protection than the standard liberal welfare regimes.¹² A large part of the population receives some means-tested benefits as a result of the relatively high thresholds for recipients. Also, redistribution has been traditionally pursued through wage controls and employment security rather than social programs. Esping-Andersen reacted to this by adding a fourth category, the radical welfare state regime. The third criticism regards the gender dimension, missing in the classification. Gender analysis suggests that there are whole areas of social policy that the Esping-Andersen typology misses, including women's exclusion or inclusion in the labor market, discrimination in social rights, and the gendered division of paid or unpaid work.¹³ Orloff argues that in order to understand gender de-commodification based on

¹⁰ Esping-Andersen, *The Three Worlds of Welfare Capitalism*, 28.

¹¹ Leibfried, "Towards a European Welfare State?"; Ferrera, "The 'Southern' Model of Welfare in Social Europe"; Bonoli, "Classifying Welfare States"; Trifiletti, "Southern European Welfare Regimes."

¹² Castles, *Comparative Public Policy*.

¹³ Lewis, "Gender and the Development of Welfare Regimes"; O'Connor, "Gender, Class and Citizenship"; Orloff, "Gender and the Social Rights of Citizenship"; Sainsbury, *Gender, Equality and Welfare States*; O'Connor, Orloff, and Shaver, *States, Markets, Families*.

state-administered social programs, two supplementary dimensions need to be addressed: access to paid work, and ability to maintain an autonomous household.¹⁴ Also, with regard to the family, Daly and Lewis argue that different styles of social policy have incorporated key aspects of social welfare differently.¹⁵

The work of Esping-Andersen has thus triggered a burgeoning literature on the classification of welfare states. Leibfried, Castles and Mitchell, Siaroff, Ferrera, Korpi and Palme, and Bonoli have developed similar models based on the original classification.¹⁶ Most of them have adopted an approach and a conceptual scheme similar to Esping-Andersen's, though a few have attempted a different approach to classification. For instance, Bonoli rejects the de-commodification concept entirely and looks rather at two other factors: the extent of the welfare state (social spending as a proportion of GDP), and the way the welfare state is financed (the percentage of social expenditure that is financed through contributions).¹⁷ An important reaction to this wave of defining studies is a strong criticism of the idea of classification altogether. Kasza argues that most countries "practice a disjointed set of welfare policies due to the following typical features of welfare policy making: (1) the cumulative nature of welfare policies, (2) the diverse histories of policies in different welfare states, (3) the involvement of different sets of policy actors, (4) variations in the policy making process, and (5) the influence of foreign models."¹⁸ As a result, as a country's policies multiply and age, the possibility of classifying them in a coherent regime becomes more unrealistic.

In addition to these modifications and criticisms, attempts have been made to extend the model beyond the initially studied set of countries. Kwon and Jones identify an East Asian or Confucian welfare state regime which is characterized by "conservative corporatism without Western-style worker participation, subsidiarity without the church,

¹⁴ Orloff, "Gender and the Social Rights of Citizenship."

¹⁵ Daly and Lewis, "The Concept of Social Care," 289.

¹⁶ Leibfried, "Towards a European Welfare State?"; Castles and Mitchell, "Worlds of Welfare"; Siaroff, "Work, Welfare and Gender Equality"; Ferrera, "The 'Southern' Model of Welfare"; Korpi and Palme, "The Paradox of Redistribution"; Bonoli, "Classifying Welfare States."

¹⁷ Bonoli, "Classifying Welfare States."

¹⁸ Kasza, "The Illusion of Welfare Regimes," 277-280.

solidarity without equality, laissez-faire without libertarianism.”¹⁹ Simply, it’s a household economy welfare state with a traditional Confucian style. It should be noted that this model was mostly confined to the Asian Tigers which makes it still largely inapplicable to many less developed Asian countries.

Esping-Andersen’s typology and its extensions have also been employed to study some of the welfare regimes in developing countries. In order to study Latin American countries, a distinction was made between the periods before and after the 1980s. During the first period, the Latin American welfare regime resembled the conservative European model in southern European countries.²⁰ Social policy focused on supporting the male breadwinner of the family through an occupationally stratified social insurance scheme and job protection. However, it differed from the European model in the sense that in Europe, social insurance and job protection did not go beyond the formal sector; therefore the Latin American model, in that era, is described as “conservative/informal.”²¹ With regard to stratification, an individual’s type of employment was the primary factor since formal employment was the gate to social welfare. After the lost decade, market provision increased which introduced a shift in the system to a “liberal/informal” model.²² Similarly, the Turkish welfare regime is characterized by Bismarckian formal social security, with a certain incorporation of informality, family aid and clientelism. It shows a strong resemblance to the southern European model, or more accurately the “conservative/informal” model of Latin America.²³ In a different context, Ringen and Ngok have studied the Chinese welfare regime and drawn attention to the state’s mismanagement, creating a gap between the policy goals of universalism and the results which may be biased toward certain groups.²⁴ The hybrid nature of the Latin American and Turkish regimes, their incorporation of the informal sector, and the consequences of state mismanagement

¹⁹ Kwon, “Beyond European Welfare Regimes”; Jones, “The Pacific Challenge.”

²⁰ Barrientos, “Latin America: Towards a Liberal-Informal Welfare Regime.”

²¹ Barrientos, “Latin America: Towards a Liberal-Informal Welfare Regime.”

²² Barrientos, “Labor Markets and the Hyphenated Welfare Regime in Latin America.”

²³ Bugra and Candas, “Change and continuity”; Grutjen, “The Turkish Welfare Regime.”

²⁴ Ringen and Ngok, “What Kind of Welfare State is Emerging in China?”

observed in the Chinese welfare system are factors that could be relevant in many developing countries.

Despite these criticisms, the standard typology can still provide relevant insights about welfare states. As Arts and Gelissen argue, such criticisms are unfair as the typology meets three important conditions.²⁵ The first is that the typology is a valid and reliable instrument for classifying welfare states. The second is that the typology is a means to an end, not an end in itself, since it aims, and manages, to explain cross-national variations in social behavior and attitudes. The third reason is that the construction of the theory of the welfare state is still in its infancy. Having said that, it is crucial to point out that the welfare state cannot be regarded as the sum total of social policies; it is more than a numerical accumulation of discrete programs.²⁶ Accordingly, this framework allows for an approximate understanding of welfare states, but a full understanding of the welfare regime of a country must go beyond the limitations of a classification scheme.

Historical Background of the Egyptian Welfare State

Since the military coup in 1952, economic and social policies have occupied a major part of the Egyptian political agenda. Egypt started by adopting state-led development with a strong focus on fighting poverty and inequality, during the Nasser era. Then, the economy underwent liberalization through the open door policy implemented during Sadat's reign which fostered growth at the expense of economic equality. This shift represented an alteration of the preferences and attitudes of the state towards economic and social policies. Economic liberalization continued during Mubarak's time, especially when the government resorted to IMF loans and partially accepted its neoliberal recipe for development, the Economic Reform and Structural Adjustment Program (ERSAP) in 1991.

The history of the Egyptian Republic starts with the 1952 coup, founding Nasser's socialist authoritarian regime that consolidated power for almost two decades.²⁷ The Nasser era is marked by a state-led economy, wide redistribution policies, and

²⁵ Arts and Gelissen, "Three Worlds of Welfare Capitalism or More?" 140.

²⁶ Esping-Andersen, "Welfare States and the Economy," 712.

²⁷ Kassem, *Egyptian Politics*.

nationalization. Nasser nationalized major companies and industries, banks, foreign assets, newspapers and the Suez Canal. The Land Reform Law in 1952 and its consequent amendments led to widespread redistribution of lands from the rich landlords to the poor, a policy which played a major role in creating a new middle class. This came along with asserting the state's social responsibility towards the welfare of its citizens and the adoption of a universalistic approach to social policies. Free public healthcare and education, social services targeting lower income groups, subsidies for state resources, and labor reforms with regard to minimum wages and labor rights characterized the new Egyptian state. In addition, the state guaranteed employment for university graduates and provided national social insurance.²⁸ This led to a high rate of social mobility in Egypt during the Nasser era.²⁹

The high state expenditures and the lack of foreign investments, however, led to a slowdown in economic growth by the end of Nasser's reign. His successor, Anwar El Sadat, sought a solution in promoting the private sector, foreign investment and international trade. The shift had a positive outcome on economic growth but a negative impact on social policy, which created instability. The implementation of Law 65 in 1971 was the first step, providing tax exemptions in order to attract domestic and international investors.³⁰ This was reinforced by Law 43 passed in 1974, the open door policy, that "guaranteed against sequestration, nationalization, or transfer to public use without compensation; it also stipulated that projects based on it are private enterprises irrespective of the shareholders."³¹ This private sector favoritism was not complemented with progress in social policies. Citizens were left to choose between decreasing their wages and securing employment, or risking salary instability and unemployment. This led to rising income inequality and unemployment. State efforts to industrialize were curbed by shifting to a rentier state with the economy dependent on revenues from natural resources, the Suez Canal, tourism, and the construction sector. This led to collective action efforts against the state, mainly because subsidies were cut back, characterized by the "bread riots" in 1977, which were repressed by the state.

²⁸ Bebber, *The Policies of the State and Targeting the Poor in Egypt*, 51.

²⁹ Amin, *Whatever Happened to the Egyptians?* 14.

³⁰ Kassem, *Egyptian Politics*, 24.

³¹ Abdel-Khalek, "Looking Outside, or Turning Northwest?" 397.

As a reaction to this declining social role of the state, two forms of informal social safety nets appeared. First, many Egyptians migrated to the oil-rich Arab countries and sent remittances back to their families, remittances that grew from 0.927 of GNI in 1977 to 2.18 in 1981, according to IMF Statistical Yearbook. This raised the effectiveness of the family as a form of social protection. Second, the gap left by the state represented an opportunity for religious groups and charities, like the Muslim Brotherhood, to provide social services to the poor and enhance their social base.³² Although most of the previous social policies were still in action, the economic changes and population growth reduced their effectiveness and created a welfare gap that led to an increased role of informal social safety nets.

When Mubarak came to power in 1981, Egypt was facing many problems including the failure of the public sector, inflation, foreign debt, budget imbalances, unemployment and a decline in trade. This pushed the government to cooperate with the IMF and World Bank in adopting the ERSAP in 1991, which established neoliberal economics in Egypt by focusing on privatization, trade liberalization, and deregulation. Although this led to correcting some problems, achieving financial stabilization and spurring economic growth that reached 5 percent, poverty and inequality still prevailed.

Poverty, Inequality, and Social Spending, 1995–2005

Poverty ratios (at a poverty line of \$2 PPP) decreased from 26.31% of the population in 1996 to 19.37% in 2000, but the rate of decline then slowed, ending the decade under study at 18.46% in 2005. This paralleled a similar trend in the poverty gap. The distribution of poverty in Egypt is uneven: in 2005, three quarters of the poor lived in rural areas, with 55% in rural Upper Egypt. The majority of the poor work in the agricultural and construction sectors, which absorb most of the informal workers, with poverty risks of 26.3% and 26%, respectively.³³

For the same decade, according to the World Bank database, the Gini index increased from 0.3013 in 1996 to 0.3276 in 2000, and then declined slightly to 0.3214 in 2005. More explicitly, the income share of the highest 10% rose from 26.04% in 1996 to 28.34% in 2000 before declining to 27.64% in 2005. In contrast, the income share of

³² Farah, *Egypt's Political Economy*, 77.

³³ World Bank, *Egypt: Towards a More Effective Social Policy*.

the lowest 20% declined from 9.51% in 1996 to 8.95% in 2000 and stayed almost constant for the second half of the decade. These trends can be understood by tracing the GDP growth rates that increased in the first half of the decade and then declined, leading to an increase in unemployment from 9% in 2000 to 9.9% in 2005.

Social spending increased from an average of 7.5% of GDP between 1996-2000 to approximately 9.8% between 2001-2005.³⁴ For instance, in FY04, approximately 10.8% of GDP was spent on subsidy systems and social security programs, a figure which represents more than 30% of public expenditure. The budget for this high spending is unequally divided between cash transfers (0.12% of GDP), and social development fund programs (0.18% of GDP), on one hand, and in-kind subsidies on food (1.7% of GDP) and energy (8.1% of GDP), on the other.³⁵

Main Egyptian Welfare Programs, 1995–2005

Seven components of the Egyptian welfare state can be identified. The first two involve the large food and fuel subsidies which provide in-kind transfers that are accessible, at least in theory, to all citizens. The next three include the historical legacy of state pensions, free health services and free public education. The government has furthermore adopted targeted programs to combat poverty and provide basic necessities. Finally, besides these traditional welfare components, employment in the public sector and informal social networks have played a major role as safety nets that increase an individual's ability for de-commodification and shape the social stratification.

Food & Fuel Subsidies

Subsidies of food and fuel constitute the largest welfare program provided by the state with a budget that makes up around 10 percent of the GDP. This high level of expenditure is reflected in the low consumer prices of the subsidized goods. The program lacks eligibility criteria, making it universally accessible to all citizens, and it therefore has high de-commodification potential. However, given the characteristics of the subsidized goods, the program tends to preserve the existing social stratification.

³⁴ World Bank and Ministry of Economic Development, *Arab Republic of Egypt: A Poverty Assessment Update*, 61.

³⁵ World Bank, *Egypt: Towards a More Effective Social Policy*.

The subsidy program in Egypt has two main components: food and energy. Food subsidies provide “cheap, high-calorie foods to protect the income of particular groups, especially the poor, children, and pregnant mothers.”³⁶ Most of the subsidized inferior goods like flour and Baladi bread are universally available and accessible to all citizens without the need to meet any specific administratively monitored criteria. However, as the subsidized goods are inferior in quality, food subsidies are implicitly targeted to more disadvantaged groups. Adams has estimated the rates of subsidies in 1996/1997 for Baladi bread, Baladi wheat flour, oil, and sugar to be 59%, 47%, 56%, and 62%, respectively.³⁷ Although the goal of these subsidies is to tackle poverty, their targeting outcomes have not been very successful and have varied between urban and rural populations. In urban areas, total income transfers from subsidized foods as a share of total expenditure declines with income level, from 8.7% for the poor to 1.4% for the rich. In absolute terms, the lowest urban quintile receives LE 1.83 per capita per week from food subsidies versus LE 1.6 for the highest. On the other hand, in rural areas, the lowest quintile group receives LE 1.62 per capita per week while the top quintile gets LE 1.86.³⁸ This variation in targeting outcomes between rural and urban areas shows that urban and rural populations may not have the same idea of what is considered inferior. At the end of the decade under study, the richest quintile was receiving 24% of food subsidies, while the poor was receiving only 17%.³⁹ Food subsidies thus seem to be largely targeted in practice despite their universal accessibility, but, unfortunately, they are targeted to the least needy.

Energy subsidies mostly cover gasoline, kerosene, diesel oil, natural gas, and electricity. Similarly, there are no preset criteria or limitations for obtaining subsidized energy, which makes it universally available. The self-targeting goals of the energy subsidy seem to be less evident than those for food. The richest quintile receives 34% of the subsidy, and the poorest receives 13%, close to a third of what the wealthy receive.⁴⁰ In addition, although energy subsidies represent around 75% of total subsidies, they

³⁶ Bebber, *The Policies of the State and Targeting the Poor in Egypt*, 85.

³⁷ Adams, “Self-Targeted Subsidies.”

³⁸ Adams, “Self-targeted Subsidies,” 16-18.

³⁹ World Bank, *Egypt: Towards a More Effective Social Policy*.

⁴⁰ World Bank, *Egypt: Towards a More Effective Social Policy*.

mostly benefit higher income groups who own means of transportation or industries. Households consume only 5.5% of total energy from petroleum products, while the rest goes to energy-intensive industries and generating electricity. Another aspect of unequal distribution is that the urban population benefits more from the energy subsidies than the rural population, and within this urban-rural disparity, distribution is skewed towards the higher income groups. The richest urban quintile takes in 33% of these subsidies, while the poorest urban quintile benefits from only 3.8%. Similarly, in rural areas, the richest quintile receives 12.8% of petroleum subsidies while the poorest quintile gets 5.6%. Despite these inefficiencies due to the unequal distribution of direct benefits, there is an important indirect universal benefit of the program which has to do with its impact on price levels in the general economy. Inflation acts as a tax on money holdings, and has an even higher impact on the poor due to their limited real incomes which is mostly carried in cash. A complementary way to assess the universal impact of the subsidies is thus to look at its spillover effects on the average individual's welfare. Cutting subsidies translates directly into an increase in domestic energy prices, and subsequently in the prices of all goods and services. For instance, removing all the energy subsidies and selling products at the domestic cost is expected to raise CPI inflation by 36.9%, which would cause households to lose around a third of their real incomes. If subsidies were reduced by 75% through limiting them to only household consumption, the level of consumer prices would still increase by 27.6%.⁴¹ These simulated scenarios point to the indirect impact of subsidies in preserving individuals' real income, and thus their welfare, by restraining inflation. In a sense, the subsidy system results in a certain level of protection from market price fluctuations in basic commodities essential for an individual's welfare, and this phenomenon is universal.

In general, the subsidy program reinforces the existing social stratification due to its unequal distribution of benefits and poor targeting. The poorest quintile of the population receives only 16% of the welfare and subsidy resources, less than their share of the population, while the richest quintile receives 28% of the resources. In other words, the current subsidy system gives almost twice as much to a rich person as to a poor person.⁴² There are some reasons for this stratification. Geographical constraints lead to unequal access to benefits; for instance, fewer fuel stations and

⁴¹ Abouleinein, El Laithy, and Kheir-El-Dein, "The Impact of Phasing Out Subsidies," 13-19.

⁴² World Bank, *Egypt: Towards a More Effective Social Policy*.

subsidized bakeries are located in rural areas. Also, the energy component is most highly subsidized, and it is mainly consumed by affluent groups.

Based on the lack of eligibility criteria and the scope of potential direct and indirect benefits it provides, the food and energy program can be described as a universal scheme due to its high de-commodification potential. However, due to its social stratification impacts, this concentration could be challenged and rather oriented towards a corporatist form of conservative welfare. The in-kind transfers allow for the more affluent social groups, with geographical advantages and energy-dependent businesses, to benefit more from the program than the poor. The net result is the preservation of existing social stratification.

Social Security Pensions

In 2004-2005, compared to an average of 30% in the MENA region, the Egyptian pension system covered 93% of formally employed workers and approximately 7.5 million pensioners and their eligible survivors, according to official records. It protects against risks that could prevent work such as disability, old age, and death. This coverage is legally required for government employees, public and private sector workers, self-employed workers, and casual workers, under Laws 79/1975, 108/1976, and 112/1980. There also exists an optional pension system for Egyptians working abroad. Individual contributions – covering pensions, healthcare, and other programs – is high for government employees as well as public and private sector workers: up to 40% and 35% of workers' basic and variable salaries, respectively. This is much higher than in the other MENA countries like Algeria, Libya, Tunisia, Morocco, and Jordan where it ranges from 8 to 14 percent. In order to be eligible for benefits, a worker has to have at least 10 years of service on a basic salary and 20 years on a variable salary, with a maximum of 36 years on a basic salary. It has an accrual ratio of 1/45 of the worker's average monthly salary throughout the last two years of his/her service, at a maximum rate of 80 percent. The contribution of casual workers (who represent 27% of the current workforce) is LE 1 per month, while the retired worker receives LE 80 in monthly pension.⁴³ The system requires 20 years of contributions for the individual to be eligible for early retirement. The retirement reduction rates increase if the person retires at a younger age. However, this is far less than its actuarial equivalent. Moreover, the ratio of pensioners to contributing workers in the pension system is high

⁴³ Helmy, "Egypt's New Pension System," 3-10.

(39%) compared to the MENA average (27%), Latin America (25%), and Asia (11%). The number of new entrants is decreasing while the number of pensioners is increasing, which leads to a widening deficit in the program. As a result, although the current pension system was supposed to be fully autonomous, it is increasingly dependent on government support to pay the accrued pension benefits. This is due to the lack of an automatic mechanism that protects the value of pensions from erosion over time, and a weak link between individual contributions and actual individual pensions. Also, the government has been funding pension increments since 1987. The public treasury contribution to pension liabilities reached LE 8.4 billion in 2005, in addition to its contributions as an employer.

Despite the program's wide coverage and the government's commitment to it, the large informal employment sector remains outside of the pension umbrella. According to the Central Agency for Public Mobilizations and Statistics (CAPMAS) informal employment reached 8.3 million people in 2004, and rose to 9 million in 2005, representing 47% of total employment. Women make up around 20% of informal workers, representing 48% of total female employment. This means that half of female employment is pensionless. Informal employment is defined by the nonexistence of legal contracts and the size of the private enterprise. Most informal employment is found in the agriculture and construction sectors, which have high poverty rates. The state pension program thus excludes almost half of the total employment in the economy, almost half of female employment, and most of the poor workers.

The pension system in Egypt is tied to the employment of the individual, his/her previous contributions, and his/her age and health conditions. In principle, it should cover the majority of workers. In practice, the coverage umbrella is much smaller since it excludes the informal sector, or half of Egyptian workers. Accordingly, it has moderate de-commodification ability. Its stratification outcome maintains the privileges of formally employed workers, which is a characteristic of conservative welfare regimes, especially in their statist form.

Health Care

The services of the Ministry of Health are provided to all citizens mostly free of cost. However, public health care provision faces some challenges. The healthcare budget in Egypt is underfunded, amounting to around 3.8% of GDP in 2000, compared to an

average of 5.3% for countries of similar per capita income.⁴⁴ Between 1994 and 2002, public health spending increased and then started to decline. In 1995, public expenditures were skewed towards the richest quintile which received 23.6% compared to 16.4% received by the poor. Moreover, there is an unwise allocation of financial resources. For instance, in spite of the prevalence of communicative diseases, 56% of the budget was allocated to curative services.⁴⁵ This underfunding and misallocation of resources is reflected in the general performance of the public health sector which is commonly blamed for its low standard.

Another dimension of the program has to do with the coverage, structure, and contributions scheme of the health insurance program. In principle, Egyptian public health insurance aims at achieving universal coverage, but it is still far behind its goal. Between 1994 and 2008, the percentage of the population insured by the Health Insurance Organization increased from 35% to 55%. In this, Egypt lags far behind Tunisia (99%), Iran (98%), and Jordan (83%).⁴⁶ Despite this fact, the poor fared better than other groups in Egypt, as 80% were covered in 2002.⁴⁷ It is also important to note that there is gender disparity with regard to access to health services and health insurance. Abou Habib has shown that women have greater difficulty to access insurance coverage even when they are employed in the same sector as men.⁴⁸ The gender gap also has a rural-urban dimension as women in southern and northern areas and in border villages have very poor or even no access to health services, especially among female-headed households.⁴⁹ Moreover, the Egyptian public health insurance system is highly fragmented and provided through various laws covering different population groups, with separate rules for payment of premiums and management of benefits, which leads to inefficiencies. It also provides broad and generous benefits packages including inpatient care, plastic surgery, and treatment abroad. With regard to contributions, the role of the Health Insurance Organization as a financing agent

⁴⁴ Galal, "Social Expenditure and the Poor in Egypt," 3.

⁴⁵ Galal, "Social Expenditure and the Poor in Egypt," 8.

⁴⁶ Ministry of Health, *Egypt, and Health Systems 20/20*, 13.

⁴⁷ Galal, "Social Expenditure and the Poor in Egypt," 8.

⁴⁸ Abou-Habib, "The Right to Have Rights."

⁴⁹ Abou-Habib, "The Right to Have Rights," 445.

declined from 12% to 8%, while the share of out-of-pocket costs within total health spending rose from 51% percent to 60 percent. In general, the main source of fund to the Egyptian health care system is the household funds that increased their share from 51 percent in 1994/1994 to around 60 percent by 2001/2002 before it started to decline. This was paralleled with a decline in the share of Ministry of Finance, the second main contributor, from around 35 percent to approximately 29 percent (Ministry of Health)

Despite the insufficient health insurance coverage, Egypt has managed to achieve great success in certain health indicators. By 2001, public health expenditures allowed immunization to be extended to 98.3 percent of the population, and the number of physicians per 1000 to be increased. There has been a notable improvement in life expectancy at birth and mortality rates in both urban and rural areas, with a greater pace of improvement in poorer regions.⁵⁰

The healthcare system has managed extensive achievements in some aspects, and is still lagging behind in others. In principle, it is a universal system of coverage. In practice, coverage is still limited and gender biased, but it is constantly moving towards universality. The insurance system's high individual contribution rates are balanced with generous entitlements. In principle, the system provides some sort of basic health services to all the population based on citizenship, and thus can be classified as a universal welfare program.

Education

Egypt has a public education system that provides free education to all citizens at all educational levels. There are no eligibility criteria to receive the educational services provided by the state, which extend to the higher education level. Although Egypt is still far from eliminating adult illiteracy, it has managed to achieve high enrollment rates for primary education, which is promising in terms of future literacy. The gender and rural/urban gaps have also been narrowed; however, these two dimensions are still problematic in terms of attaining universal access to education.

The ratio of public expenditures on education to GDP increased from 3.1% in 1990/91 to 4.6% in 1999/2000 and remained stable for the rest of the decade under study.⁵¹

⁵⁰ Galal, "Social Expenditure and the Poor in Egypt," 5-9.

⁵¹ Galal, "Social Expenditure and the Poor in Egypt," 3.

This rise has been reflected in educational indicators. Adult literacy rates went up from 55.6% in 1996 to 71.4% in 2005. Gross primary enrollment increased to almost 100% by the end of the decade. However, the gross enrollment level for all levels combined (except pre-primary) was still around 75%, according to the World Bank.

Improvement in education has been accompanied by the reduction of disparities between different social groups. According to the World Bank, the gender parity index for adult literacy improved during the decade to increase from 0.65 in 1996 to 0.71 in 2005, but the gender gap remained wide as the female literacy rate was 59.4% compared to 83% for males in 2005. The gender parity index for primary gross enrollment improved from 0.88 in 1995 to 0.94 in 2005. Gender parity in tertiary education also improved to achieve 0.83 in 2005. In primary education, as noted above, there is perfect gross enrollment for both males and females. The net attendance rate for primary schooling was higher for males than females, but the gap was narrowed during the decade. The same positive trend applies to the disparity between urban and rural areas. The Gini coefficient of average years of schooling was higher for females than for males (0.59 versus 0.41 in 1995), but it went down at a higher pace for females during the decade to be 0.5 to 0.35 in 2005. Similarly, the Gini coefficient of average years of schooling was higher for rural areas than for urban ones (0.59 versus 0.39 in 1995), but it went down at a higher pace for rural areas during the decade to be 0.49 to 0.33 in 2005.

Despite these positive elements, quality is still a major challenge in public provision of education. Large class sizes and the low quality of educational facilities are prevalent problems in the public school system. The issue of quality in the Egyptian public school system has led many families to send their children to private schools or private tutoring classes. This has led to a high share of personal expenditure on education: 19.7% among the poor groups, according to the Institute of National Planning. The growing reliance on private tutoring has placed heavy socioeconomic pressures on households

The Egyptian state provides universal educational services to all its citizens without demanding any contributions, except for taxes, while offering relatively generous educational entitlements. Although quality is problematic, basic educational needs are met by the state for all of its citizens. The gender and urbanization disparities are being tackled effectively. Therefore one may approximately classify Egypt's educational system as universal.

Targeted Programs

The state has 78 social development projects which target families and children, including investments in nurseries, libraries, youth clubs, centers for rural children, and early childhood development projects. Some programs are also targeted at empowering underprivileged groups. For instance, the substitute care family program seeks to reduce child labor and extend care to working children. The family cottage industry project intends to develop the economic resources of low-income families. In 2005, this program served 1.8 million people, with over 12,000 families joining in 2006. The Nasser social bank provides aid and loans to the poor. The national social housing program provides residential units for low and middle income Egyptians. Moreover, the national program for improving the poorest 1000 villages implements public works projects to help those in severe poverty. This was developed using demographic poverty indicators such as employment, health, utilities, and education. It targets one million of the poorest households with the aim of providing basic needs. Similarly, the national program targeting poverty geographically aims to address the standard of living of the severely poor. It intends to develop "the formal education infrastructure, conduct literacy classes, develop health and new housing units, provide potable water, sanitation, electricity and roads, and improve environmental conditions in areas of highest poverty and greatest need in Egypt,"⁵² It has a pilot phase cost of LE 3.4 billion and serves 151 villages. Finally, the new cities development program has served 2 million people by providing training programs, funding, and entrepreneurship among disadvantaged groups.⁵³

These programs have high stratification consequences due to their targeted nature. Their de-commodification potential should be analyzed individually for each program, which would be out of the scope of this study, but it can be roughly described as moderate. The most important observation in this regard is that these programs focus on the family as the main social unit rather than on the individual, which is a characteristic of conservative welfare regimes.

⁵² United Nations Development Program, *Egypt Human Development Report 2005*.

⁵³ Bebbler, *The Policies of the State and Targeting the Poor in Egypt*, 102-104.

Public Employment

Public employment is a non-traditional form of welfare provision by the state. It is considered one of the strongest historical safety nets in Egypt, dating back to the Nasser era. It has some advantages that make it socially appealing. First, public employment is relatively secure due to the very low incidence of firing, compared to the private sector. Secondly, it opens the door to several other economic and social benefits. For instance, most civil servants as well as army and police officers get cash and in-kind benefits around the year, along with access to social clubs as well as specific pensions and healthcare systems. Finally, the fact that the public sector is oversaturated leads to low workloads, enabling most civil servants to gain additional sources of income alongside their stable jobs.

In addition to these advantages, Assaad has shown that wages in the government and public enterprises are higher than those in the domestic private sector.⁵⁴ Said elaborated on this observation using 1998 to 2006 labor surveys, and found that bonuses are given to public sector workers, irrespective of gender. Bonuses increased from 1996 to 2006. El Ghamrawy and Amer offer a justification for this, arguing that the public sector plays a social rather than merely economic role.⁵⁵ Public sector wages do not depend on education level, and artificially high salaries may be related to the social and political role played by this sector. On the other hand, wages in the private sector are more aligned with education and related skills.

Moreover, the public sector is administered and directly supervised by the government, and so it benefits from “formality,” which the private sector does not widely enjoy. The formality differential is reflected in wages. El Ghamrawy and Amer have classified employment sectors into government, public enterprise, foreign private, joint-venture private, and domestic private.⁵⁶ Government wages are significantly above domestic private wages, and they are slightly below the other two private employment sectors. The wage difference between the public and domestic private sectors can be explained by the latter’s widespread use of informal employment. Informal workers are likely to be denied most of the wage and non-wage benefits that formal workers enjoy. Around

⁵⁴ Assaad, R., “The Effects of Public Sector Hiring and Compensation Policies on the Egyptian Labor Market.”

⁵⁵ El Ghamrawy and Amer, “The Public Wage Premium in Egypt,” 23.

⁵⁶ El Ghamrawy and Amer, “The Public Wage Premium in Egypt,” 6-7.

75.1% of workers in the domestic private sector do not have a legal contract, while 97.6% of government workers do. Informality is also closely linked with the size of the company. Around 61% of informal workers are employed in small businesses of 1-4 people, and 15% in firms of 5-9 people. Since the private sector contains 69.7% of the employed workforce, informal labor has become a serious problem, and this makes public employment an attractive option. That is, the inability of the government to efficiently regulate the labor market and private sector employment has made public employment a natural recourse for citizens seeking to protect their legal rights as employees.

In a country with high unemployment, limited administrative capacities, and at an early stage of industrialization, public employment is a strong and effective safety net. Although it also comes with benefits, the social welfare and job security of the workers remain strong reasons for desiring it. It provides formal contracts to its workers as well as an open door to other benefits, which creates social stratification in favor of public sector workers. Accordingly, it can be classified as a conservative statist welfare program. ***Informal Welfare Networks***

In a highly collective society with a strong religious basis, informal welfare networks, including the family and religious institutions, play a major role in providing social services. The extended family provides social protection such as mediation in conflicts, substitution for parental loss or absence, preferential employment of kin, and aid for the costs of healthcare.⁵⁷ In lower income and rural areas, families are involved in almost all aspects of an individual's life. They participate in educating children, childrearing, securing employment, negotiating the bureaucracy and the political elite, establishing and maintaining businesses, saving money, distributing resources and information, securing credit, and organizing migration.⁵⁸

Religious institutions, Islamic or Christian, are also resources for many low-income families seeking social support. Religious charity donation practices such as zakat and waqf are important sources for funding health and educational projects for the poor. Zakat and waqf have helped to fill some gaps in social protection left by the government. For instance, the 57357 Hospital for children's cancer, the Magdy Yacoub

⁵⁷ Okasha, El Kholly, and El Ghamry, "Overview of the Family Structure in Egypt," 163.

⁵⁸ Singerman, *Avenues of Participation*.

Institute for heart surgery, and the cancer institute are examples of major health projects that depend heavily on donations and provide their services free of charge to low income groups. The importance of religious institutions increased significantly during Mubarak's time. Islamic endowments declined during the Nasser era due to state redistribution policies and strong state control of welfare. They were revived by a set of laws under Sadat: the state encouraged the revival and expansion of the waqf system in order to open the door to "Islamic welfare" based on "solidarity between Muslims," according to the Egyptian Parliament. Many private mosques and religious-based charity organizations began to provide social services like education and health, a trend that grew beginning in the seventies. At the end of the eighties, Mubarak asked the Ministry of Waqfs to launch a program to expand small private mosques into cathedral mosques with community centers (Jami) by expanding their provision of social services such as student trainings, professional trainings, and health services. In the nineties, a movement led by many intellectuals and professionals called for the revival of the al-waqf institution as a traditional private welfare provider independent of the state.⁵⁹ In 1992, 5,671 religious non-profit organizations provided social services to around two million families. By mid 1990s, more than 4,000 zakat committees were established in mosques to mediate between donors and recipients. Islamic organizations constitute around 34% of all non-profit organizations in Egypt. Zakat contributions have been increasing both in terms of the number of contributors and the proportion of income donated.⁶⁰

More controversially, other informal networks based on clientelism, cronyism, and nepotism are prevalent sources of social services. In Egypt, this form of networking is commonly called "wasta," signifying "the intervention of a patron in favor of a client in an attempt to obtain sources or privileges from a third party" regardless of the nature of the relationship between the patron and his client.⁶¹ Electoral politics in Egypt during the decade under study was centered on the ability of the candidate to provide clientelistic favors to his voters. This includes facilitating public housing, employment, and licenses for businesses. Voters choose the candidate who can deliver services, not

⁵⁹ Pioppi, "From Religious Charity to the Welfare State and Back," 4-6.

⁶⁰ Anheier and Salamon, *The Non-Profit Sector in the Developing World*, 145-146.

⁶¹ Mohamed and Mohamed, "The Effect of Wasta," 412.

necessarily the one who best legislates or supervises the government's performance.⁶² Elections are perceived as a season for access to state resources. Cronyism and nepotism are also prevalent for similar reasons. Research has shown that most people in the Arab world use *wasta* and view it as having a positive impact on their career.⁶³ More interestingly, *wasta* is viewed more positively by lower socioeconomic groups than by affluent ones, which suggests that it has a particular importance to them.⁶⁴ In a country with strong corruption, inefficient bureaucracy, high social inequality, and rampant poverty, citizens will try to use all possible means to gain access to state resources.

Family, religious institutions, and *wasta* networks are profound social safety nets in Egyptian society, and provide lifetime protection. In many cases, they act as more effective safety networks than governmental ones due to their relative ease of accessibility and their widespread availability. Although they face the problem of free riders, these systems are strengthened because traditional ethical and religious codes favor them. Family-based welfare networks, including *wasta*, resemble those of the southern conservative welfare model, especially with religious institutions focused on maintaining the traditional family structure and gender roles in society.

Defining the Egyptian Welfare System

Through analyzing the different welfare schemes in Egypt, it is possible to place Egypt's experience within the existing welfare regime typology. The Egyptian welfare regime resembles the conservative southern model with respect to the following factors. First, there exists a semi-institutionalized promise of a welfare state; that is, according to the Egyptian constitution, the state's responsibility to its citizens includes guaranteeing equality of opportunity to all Egyptians (Article 8) and guaranteeing cultural, social, and health services (Article 16). Furthermore, Article 7 states that social solidarity is the basis of Egyptian society. The constitution also asserts that both work and education are rights guaranteed by the state (Articles 13 and 18). Second, generous benefits are

⁶² Lust, "Democratization by Elections?" 125.

⁶³ Dobie, Grant, and Knudstrup, "Attitudes and Perceptions of the Role of *Wasta*"; Whiteoak, Crawford, and Mapstone, "Impact of Gender and Generational Differences."

⁶⁴ Mohamed and Mohamed, "The Effect of *Wasta*," 421.

provided by many of the programs, but an articulated social protection net is lacking. Third, healthcare and education are acknowledged as rights of all citizens. Finally, there is a significant role played by the family and religion.

On the other hand, the Egyptian system overlaps with the Latin American model in that formal employment is a doorway to social benefits, while the large informal sector is excluded from social insurance and job security. In addition, it corroborates the observation made in China that state mismanagement of social welfare programs, such as the food and energy subsidies, creates policies that are biased towards certain groups. Moreover, the Egyptian system clearly has a strong universal component in programs like education and healthcare. If one takes into account the indirect benefits of the subsidy programs in terms of controlling inflation, one could claim that they are also strongly universal, especially in that they constitute the largest component of the Egyptian welfare system. However, if one considers only their direct benefits and acknowledges the intrinsic eligibility criteria of the subsidized goods, this claim could be challenged. For its part, the market plays a marginal role in the Egyptian welfare state, which denies it any significant liberal aspect. Finally, similar to the Turkish model, clientelism and *wasta* networks play a major role in terms of access to social services, highlighting the role of informal social networks. Given all these factors, one may say that the Egyptian model belongs to the category of “conservative/informal” welfare regimes, similar to the Latin American model before the last decade, and to the Turkish model. This category would be the closest approximation.

Conclusion

The analysis of the Egyptian welfare state points to the possibility of establishing a new category of welfare regimes that incorporates some of their common properties. The similarities between the Egyptian system and the Latin American, Turkish, and Chinese models support this claim. Extending the standard typology to developing countries in this way implies that the following five points must be carefully considered. First, there is an evident gap between the government’s stated goals and its actual achievements on the ground. Mismanagement, weak monitoring, inefficient allocation of resources, and corruption tend to widen this gap. This relates to the importance of evaluating the quality of service, especially in the context of developing countries. For instance, universal provision of education might be guaranteed, but with low quality, its impact on welfare is questionable. Both management and quality assessment aspects must be clearly imbedded in the classification criteria, detailing clear quantitative methods with

which to evaluate them. Secondly, this analysis reinforces the relevance of the gender dimension to a study of the welfare state in developing countries, where gender disparities can be widespread. Disparities in levels of urbanization play a similar role to gender, and must also be taken into account; the disparities between urban and rural areas in Egypt were found to be severe in some programs due to the state's focus on cities. Thirdly, the informal sector's size and its mechanisms of operation must be analyzed, to assess its impact on welfare provision. Fourth, traditional social safety institutions like the family and religious organizations must be included in a more systematic way in analyses of welfare regimes, due to their prevalence in developing countries and their large impact on de-commodification and social stratification. Fifth, the impact of clientelism and patronage networks needs to be thoroughly taken into account according to their de-commodification and stratification consequences. To conclude, the typology developed by Esping-Andersen and others provides a useful analytical framework; however, to be widely used in understanding the welfare regimes in developing countries, some additional adjustments will be needed.

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