1 "The House the Boom Built": The Informal Economy and Islamist Politics in Egypt

In the mid-1970s, the oil boom in the Arab oil-producing states resulted in a dramatic transformation of the economic and political landscape of the major labor-exporting countries of the Arab world, and Egypt is a prime example of this phenomenon. The quadrupling of oil prices in 1973 drastically altered the regional context in which labor emigration took place in the Middle East and North Africa (MENA) region. In contrast to other regions, in MENA, the regional demand for labor was limited until the 1970s oil boom. As oil prices spiked in the aftermath of the 1973 war, huge revenue windfalls accrued to the oil-producing states like Iraq, Libya, and the Gulf States. Using these revenues, oil-producing states launched massive infrastructure and development projects that required more labor than the national states could supply. As a result, oil-producing states sought additional labor from outside to complete their projects. Arab workers spoke Arabic, were geographically close, and were abundant in number, and in the early decades following the oil boom, they proved to be ideal candidates to work in the petrodollar projects.

In Egypt, the combination of the jump in oil prices and the onset of economic reforms in the mid-1970s resulted in a dramatic emigration of Egyptians to the oil-producing states, and what became the largest source of foreign exchange: remittances. By the early 1980s, at the very height of the boom, there were an estimated 3 million Egyptians working in the Arab oil-producing states. Moreover, while in 1970 recorded remittances from migrant workers were estimated at US $30 million, by the early 1980s official government estimates of these capital flows ranged from US $3 billion to US $18 billion.[1] The reason for the discrepancy in official estimates was that workers sent their earnings primarily through informal familial and friendship networks rather than through official banking channels. This was mainly because of the continued overvaluation of the Egyptian pound and the mistrust that many workers had of formal banking institutions back home. As in other labor exporters, the avoidance of official banking channels resulted in the emergence of a large "hidden," or parallel, economy, in remittance inflows that were

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controlled by a network of currency dealers (*tujjar 'umla*) who effectively institutionalized a "black market" in informal finance.

The economics and demography of transnational migration in the 1970s and 1980s illustrate with dramatic statistical details the larger story of the millions of unskilled and skilled and professional workers who traveled to the Arab oil-producing states to take advantage of new opportunities for work, welfare, and social mobility. However, as demonstrated by the sheer volume of remittances in this period, it is also important to emphasize that the majority of migrants did not cut their individual ties with their families back home.

Magdi Mahmoud Ali is illustrative of the fate of millions of youth (mostly young men) who emigrated during the oil boom in order to seek better opportunities in the oil-producing Arab states of the Gulf, Iraq, and Libya. Mr. Ali migrated to Libya in 1974 at the very beginning of the oil boom. He returned to Egypt nine years later because he lost his job as a result of the regional recession which led to the drying up of opportunities for labor migrants throughout the Arab region. Mr. Ali, a plumber by profession, departed his hometown of *Marsa Matruh* (in the Delta) in 1974. He first traveled to Libya, which he said at the time offered better opportunities for Egyptian labor migrants than the Gulf region. Like so many young men in the 1970s and early 1980s, Mr. Ali traveled illegally to Libya because, as he put it, "he had heard everyone [in Libya] could acquire a car and a nice apartment," and added that "in Libya I earned between 5,000 and 6,000 dinars a month at a time when 1 dinar equaled three Egyptian pounds."[2] In 1987, Mr. Ali relocated to Saudi Arabia to work for a Public Water Works factory, worked and resided in Riyadh for two years, and then returned to Egypt in 1989. In the late 1980s, the combination of the effects of the regional recession and perceived domestic security threats compelled Gulf countries to implement new emigration policies that favored Asian over Arab labor. Consequently, Mr. Ali returned to Egypt in 1989 and noted that while he was earning 2,700 riyals a month in Saudi Arabia, he had to eventually leave the country since Asian workers who were brought in "accepted" wages as low as 700 riyals for the same position.

Importantly, like millions of young men working abroad, Mr. Ali did not cut his social ties with family and kin back home in *Marsa Matruh*. By his own estimation, he sent approximately 600 riyals a month to his mother and family, and he utilized two primary means to remit part of his earnings back home. The first method was to simply buy products and give them to Egyptian "suitcase merchants" (*tujar al-shanta*) traveling from the Gulf to Egypt who would deliver the equivalent value of the products in cash to his mother. The second means was more common in

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the 1970s and 1980s. This entailed the reliance on what Mr. Ali termed “personal contacts” who he would ask to deliver his remittances to his family directly thus evading the official banking system.

Mr. Ali’s experience as an expatriate worker, as well as the remarkable regularity with which he remitted part of his earnings back home to his family, illustrates the genuinely transnational social ties created by long-distance migration in the era of the oil boom. Indeed, Mr. Ali’s biography nicely dramatizes the direct linkage between the spike in oil prices in the mid-1970s and the central role that the boom in remittance inflows played for individuals and their families. But if Mr. Ali’s experience abroad illustrates one facet of the country’s (and indeed the region’s) political economy, Mr. Ali’s experience upon his return to Egypt, and specifically Cairo, exemplifies yet another phenomenon that altered the very nature and social and political fabric of urban life in Cairo: the boom in informal, unregulated, housing largely financed by the earnings of expatriate workers in the Arab oil-producing countries. Upon his return to Egypt in the late 1980s, Mr. Ali invested his earnings in an apartment building in Ezbat al-Mufti, one of the informal housing quarters in Cairo’s Imbaba neighborhood. He was not able to pursue his profession as a plumber with any regulatory since he had not only spent many years abroad but was also from the Delta region rather than Cairo and had no reliable social networks to find regular employment in his profession. Consequently, he was compelled to join the ranks of informally contracted workers in the construction sector. “Most of us,” he noted, “returned to places like Ezbat al-Mufti and had to work in construction. I do know some men who opened small workshops or a plastic company here but not many.”

The Remittance Boom and the Internationalization of the Economy

As Charles Tilly has noted in another context, the sheer volume of migrant remittances to relatively poor countries underlines the fact that migration flows “are serious business, not only for the individuals and the families involved, but also for whole national economies.”[3] Indeed, Mr. Ali’s personal experience – his social and economic aspirations, humility, and hopes for success for himself and for his family – is one of the many individual backstories of the internationalization and the informalization of the Egyptian economy that began in earnest in the 1970s. These two interrelated changes in the country’s political economy resulted from the coincidence of exogenous economic shocks associated with the jump in oil prices as well as domestic economic reforms. These

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reforms are generally associated with revisions in laws governing foreign investment, trade liberalization, exchange rate adjustments, and the reorganization of the public sector. Understandably, Mr. Ali's personal narrative focused on the immediate social aspirations and possibilities offered by out-migration, but it would not have been possible if it had not coincided with two important developments: the boom in out-migration and remittance inflows, and the economic opening (*infitah*) that President Anwar Sadat introduced in the mid-1970s.

Egypt's economy was dramatically transformed in the mid-1970s as a result of the boom in oil exports and remittances. In his study of the country's political economy in the era of the oil boom between 1974 and 1982, John Waterbury noted that while the regional labor market and the world petroleum market have always been intimately linked, "no one could have foreseen the exuberant growth in oil-export earnings and remittances after 1976."[4] Indeed, Egyptian international migration has always been affected by the labor market and political conditions in the receiving countries. While out-migration of Egyptians started in the mid-1950s, the real expansion of workers traveling abroad began in earnest after 1973. This was due to the dramatic hikes in oil prices in 1974 and again in 1979 that were accompanied by increasing demand for Egyptian workers in the oil-producing Arab states. In the era of the oil boom, millions of Egyptians migrated abroad in search of employment, but it is important to note that this takeoff in emigration was a result of internal and external factors. On the one hand, the vast wealth of the oil-producing states accelerated ambitious development programs that required increasing flows of labor. On the other hand, Egypt was witnessing high population growth and high levels of unemployment that increased incentives for both unskilled and new graduates to emigrate in search of employment. The combination of these "push" and "pull" factors resulted in a sharp increase in the migration of Egyptians. Only a small number of Egyptians, primarily professionals, had left the country in search of employment before 1974. But by 1980, more than 1 million Egyptians were working abroad, and that number jumped to 3.28 million at the peak of labor migration in 1983.[5] The main destination of migrants was to the Arab Gulf states, followed by other Arab oil-exporting countries. By 1991, 53.3 percent of the total migrants were working in the Gulf countries, 32.9 percent in other Arab countries, and 3.2 percent in the rest of the world.[6]

To be sure, the boom in labor migration served to alleviate some of the pressure on domestic employment, but their departure resulted in an enormous "brain drain" for the country. This is because emigrants tended to be highly educated professionals, including doctors, engineers,

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and teachers. For example, one study that compared the educational levels of a large sample of nonmigrants and migrants estimated that 61 percent of migrants have secondary or higher education as compared to 53 percent of nonmigrants. This suggests that there is a high level of selectivity of migration by education. Moreover, individuals working in the public sector are less likely to migrate. Less than 8 percent of the migrants used to work in the public sector before leaving Egypt, compared to more than 27 percent of the nonmigrant group.[7]

Nevertheless, while the majority of expatriate workers tended to be generally more educated, their social profile reflected a distinct regional bias. Specifically, by the late 1980s, Egyptians living in the poorer and more rural parts of the country tended to migrate to the Arab Gulf in greater numbers than their urban counterparts. By 1991, migrants from rural areas represented 62.8 percent of those who migrated as compared to 37.2 percent of urban residents. However, it is important to note that these migrants represented both educated and illiterate Egyptians. Up to 1991, 30.3 percent were illiterate while 20.6 percent had a university degree and above.[8] Moreover, since Egyptian migrants were often married males from rural areas who tended to work abroad in order to send support to their dependents in Egypt, the heads of households receiving remittances were less likely to be wage workers and more likely to be inactive or unpaid family workers.[9] Understandably, millions of Egyptian households came to depend on remittances from family members. A study conducted in 1986/1987 in Minya government showed that remittances accounted for 14.7 percent of the total household income of recipients. Another study found that 74 percent of households receiving remittances use the money on daily household expenses, 7.3 percent use this money to build or buy a home, and 3.9 percent use remittances for the education of a family member.[10]

As millions of Egyptians came to rely on remittances from their expatriate relatives to invest in their family members' education, welfare, and economic livelihoods, the cumulative effect of these capital inflows emerged as a central component of the national economy. Indeed, throughout the 1970s and 1980s, four major items represented the backbone of the national economy: oil, receipts from the Suez Canal, tourism, and workers' remittances. Their share in total resources (gross domestic product [GDP] plus net imports) rose from 6 percent in 1974 to approximately 45 percent by the early 1980s. However, more significantly, by the mid-1980s remittances became undeniably the country's major source of foreign currency. In 1984, for example, they amounted to US $4 billion equivalent to Egypt's "combined revenue from cotton exports, Suez Canal receipts, transit fees and tourism."[11] Table 1.1 summarizes the

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Table 1.1 *Summary of Egypt's balance of payments, selected years, 1979–1985 (in millions of US dollars)*

	1979	1985
Current account	602	409
Exports of goods and services	589	897
Tourism	4,210	7,405
Suez Canal	5,401	8,711
Other	**2,445**	**3,496**
Total	n.a.	26
Net current transfers	n.a.	3,522
Workers' remittances	−1,915	−4,735
Other	−19.8	−14.3
Total	−11.2	−13.6
Current account balance		
Trade balance as percentage of GDP		
Current account balance as percentage of GDP		

Source: World Bank, World Debt Tables, for selected years.

balance of payments in the boom period between 1979 and 1985 and shows clearly the magnitude of remittances in the context of other sources of revenue. However, the volume of remittance inflows was far larger than those reported by official local and international sources represented in the table.[12] This is because, as noted earlier, expatriate workers remitted part of their earnings back home, through informal, decentralized, and unregulated banking systems that were often, but not always, in contest with the state.

It is important to emphasize that since all four main sources of revenue, remittances included, were exogenous sources (i.e., they had little relation to labor productivity in the country), they were highly vulnerable to external market forces, and engendered dramatic social and political changes beyond the control and purview of the state.

Infitah and the Politics of Economic Reform

There is a clear consensus that Egypt's economy was dramatically altered in the mid-1970s as a result of the coincidence of two related developments: the oil price hikes that precipitated a boom in remittance inflows and economic liberalization initiated by President Sadat in the mid-1970s. Following the October 1973 war, domestic socioeconomic crises, as well as foreign policy considerations, led President Sadat to liberalize

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the Egyptian economy under a new policy of *al-infitah al-iqtisadi* (economic opening). John Waterbury has neatly summarized the main objects of the liberalization process in the 1970s: (1) to attract Arab investment capital from the oil-rich Arab states; (2) to encourage Western technology and investment through joint ventures with state-owned and private enterprises; (3) to promote Egyptian exports and privatization; (4) to liberalize trade through currency devaluation; and (5) to promote the "competitiveness" of public sector enterprises.[13]

In the 1970s and 1980s, however, the most important components of economic liberalization were based on the introduction of Law 43 in 1974, and its revision by Law 32 in 1977, and had to do with the desire on the part of the Sadat regime to attract foreign finance, particularly from neighboring oil-rich Arab states, and the need for providing financial facilities to foreign investors to attract them. Accordingly, among the key measures implemented by the Sadat regime was the invitation of foreign backs, incentive rates for the conversion of currency consisting of multiple (or periodically adjusted) exchange rates, moves toward the reorganization of the public sector, and tax exemptions and other privileges to foreign investors as well as the Egyptian private sector.[14] Importantly, in order to offer incentive rates for currency conversion, the regime introduced the "own exchange" system to finance private sector imports. In sum, as Galal Amin has noted, "these laws provided for the opening up of the Egyptian economy to foreign investment, tax exemption for new investment, and the recognition that private companies would not be subject to legislation or regulations covering public sector enterprises and their employees."[15] Moreover, when Hosni Mubarak assumed power in 1981, he continued to promote these policies and further extended the liberalization of the national economy by taking steps to reduce the budget and external account deficits, thereby further reducing barriers to domestic and international trade.

It is important, however, to highlight two essential aspects associated with economic liberalization that reflect the overwhelming reliance and dependence on regional and capital markets resulting from the oil boom and the inflow of remittances. First, the country experienced far higher growth rates than in the etatist era of the 1960s under Gamal Abdel Nasser, but this was primarily due to revenue generated from exogenous sources rather than a result of an influx of private investment. Between 1972 and 1980, for example, the proportion of exports and imports of GDP rose from 14.6 to 43.8 and 21.0 to 53.0, respectively, and the average annual growth of GDP was 8 percent over this period. However, this growth was a result of the revenues from oil exports, Suez Canal receipts, tourism, and workers' remittances. Revenues from these

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sources rose from $600 million in 1974 to an estimated $7.5 billion by 1983.[16] Importantly, this growth was only partially accounted for by the influx of private investment, which registered only minimal growth in this period from 5.2 to 9.4 percent of GDP.[17] Consequently, although Egypt experienced high rates of economic growth after the early 1970s, rapid rates of economic growth were dependent on "such sectors as housing and workers' remittances which were temporary relief."[18] Indeed, by the latter part of 1981 the assassination of Sadat, the oil glut and global recession, and a high and growing level of imports placed Egypt in severe straits in its foreign exchange balances. In great part this was because worker remittances, tourism receipts, and earnings from oil and Suez Canal receipts fell sharply. By 1984, declining exports and rising imports led to a 30 percent increase in the trade deficit, ballooning to more than $5 billion.[19]

The second and related aspect of infitah is that as a result of the boom in remittances the state was able to retain significant authority over its national economy. As Waterbury has noted, the foreign exchange cushion afforded by remittance inflows and oil rents delayed further implementation of economic reforms until the 1990s and allowed Sadat to essentially maintain the Nasserist social contract and refrain from restructuring the national economy in this period. Indeed, the state was able to retain substantial capacity over its formal economy. In 1982, public expenditures stood at 60 percent, public revenues 40 percent, and the public deficit 20 percent of GDP. In addition, in 1978 the total fixed investment in public sector companies was LE 7.4 billion, the value of public sector production stood at LE 5.3 billion, and public sector value added at LE 2.3 billion. Three hundred and sixty companies employed more than 1.2 million workers. Thus, in the boom period the state was still the dominant actor in the economy in that it was essentially in control of public sector earnings, the marketing of agricultural commodities, petroleum exports, and the greater part of the formal banking system.[20] The state also retained regulatory control over formal financial institutions. In 1983, the Egyptian public banking sector held its own against the onslaught of joint venture and private investment banks. "The four public sector banks in 1983, for example, had financial resources on the order of LE 14.5 billion as opposed to LE 5.1 billion in the private sector."[21]

Indeed, despite the dominant discourse of infitah and economic liberalization that the Egyptian state followed, the regime pursued a gradualist approach to economic liberalization throughout the 1970s and 1980s. This approach characterized both the Sadat and Mubarak eras. As Eva Bellin has noted there were three primary reasons for this approach, which, in many respects, demonstrated the continued strength of the

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state and its autonomy from social forces during the early phases of economic reform. First, the very idea that economic reforms will produce economic growth and stimulate positive changes in society was weak among state elites and policy makers. Second, the government was intent on protecting fragile sectors of the economy such as the textile industry and agriculture against foreign competition. Finally, and most importantly, the fact that state-owned enterprises had served as a means of state patronage, that is, as an avenue to provide jobs for the masses and lucrative posts for the elite, the government was generally reluctant to privatize public sector companies. As Bellin has noted, "policies that seem economically irrational are crucial to the political logic of these regimes (providing patronage, sustaining coalitions, endowing discretionary power). As a result, a government would not be willing to undertake reform unless pressed by crisis; even then it is likely to hedge its bet and embrace, at best, only partial reform."[22]

Throughout the 1970s and 1980s, the state followed a gradualist strategy that entailed reducing political tensions through a partial liberalization of the economy. As Harik has noted in a comprehensive study of infitah policies in this period, "the decision making power remained authoritarian and centralized,"[23] and despite the emphasis on privatization, the bureaucratic apparatus expanded; many necessary goods continued to be subsidized by the government; and the public sector remained responsible for 70 percent of investment, 80 percent of banking, 95 percent of insurance, and 65 percent of valued added until the early 1990s.[24] Moreover, not only did the state continue to dominate the industrial sector, by the end of the 1980s, the stated object of financial and trade liberalization of the economy was only partially achieved. There were still large price distortions of foodstuff, the foreign exchange rates remained unified, the Central Bank rate was still administratively controlled, and the nominal interest rates were far below the inflation rate.[25] The government successfully resisted orthodox reforms by avoiding negotiations with the IMF and the agreements eventually reached with the IMF were only partly implemented.[26]

Indeed, rent seeking, or the diversion of state resources into private sector activities in return for political loyalty, constituted a major source of opposition to liberalization in the 1980s because bureaucratic elites were intent on "collecting rents on behalf of more highly placed patrons."[27] However, the reason state elites were able to maintain their patronage networks without little disruption had to do with weak capacity on the part of the Egyptian middle classes to decisively affect economic policy. A high level of fragmentation and ambivalence in society aided this autonomy of the Egyptian state from civil society. Indeed, the opposition

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Liberal party and Nasserist and Leftist parties in this period were not only weak and divided; they did not endorse wholesale liberalization and concurred with the ruling National Democratic Party (NDP) in the belief that major components of state capitalism must be retained and this view was not opposed by the major opposition parties.[28] For its part, the Muslim Brotherhood organization, the strongest opposition movement in civil society, while hostile to state's involvement in the economy, was "ill-disposed towards reforms proposed by Western financial agencies."[29] A more important reason is that by the 1980s, the Muslim Brotherhood had established a number of Islamic economic enterprises and financial institutions and benefited greatly from the government's economic reforms.

The Remittance Boom and the Informalization of Financial, Housing, and Labor Markets

A key consequence of Egypt's greater integration into the international capitalist economy in the 1970s, which played an important role in altering state-society relations, had to do with the increasing informalization of the national economy financed primarily by the boom in remittance inflows. To be sure it is important to note that as a result of the country's centrally planned economy in the 1950s and 1960s, the "traditional" informal economy represented a key feature of the national economy. This "traditional" informal economy included a number of key components including smuggling, tax evasion, corruption, illegal transactions, a wide range of barter (i.e., nonmonetized) transactions, and small microenterprises that operated outside the purview of the state. As early as 1970, government estimates estimated that this informal sector represented between 25 and 30 percent of total industrial output in the formal sector.[30]

Nevertheless, there is no question that both the nature and volume of the informal economy expanded exponentially in the mid-1970s and that this was a result of both out-migration and particular aspects of economic reform. In one of the most commonly cited studies on the subject, Abdel-Fadil and Daib estimated various economic activities in the informal sector (or what they termed "black economy"), in 1980 at LE 2.1 billion, which at the time constituted more than 17 percent of GDP (see Table 1.2). Understandably, however, there are no agreed-upon estimates of the size of the informal economy in the 1980s. Indeed, other studies on the informal economy in the 1980s estimated that its value ranged from 35 to 55 percent of the total gross national product (GNP).[31]

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Table 1.2 *Values of transactions in Egypt's "Black Economy," 1980*

Moonlighting	LE 514 million
Tax evasion	250 million
Hashish trade	128 million
Profits on real estate speculation	328 million
Customs evasion	109 million
Informal housing construction	260 million
Smuggling	177 million
All sources total	LE 2.1 billion

Source: Mahmoud Abdel-Fadil and Jihan Diab, "The Black Economy and National Accounts in LDC's: The Case of Egypt," draft paper, American University in Cairo, Department of Economics, August 1983, cited in John Waterbury, "The 'Soft State' and the Open Door: Egypt's Experience with Economic Liberalization, 1974–1985," *Comparative Politics* 18, no. 1 (1985): 76.

However, there is little question that the dramatic growth of the informal economy was the direct result of the migration of Egyptian labor and that it was primarily financed by the large volume of remittances that stemmed from out-migration. Indeed, the problem with estimates of the size of the informal economy at the time had to do with the fact that the financing of a wide range of informal economic activities flowed from remittances and these were impossible to estimate in a reliable fashion because these capital flows were transferred through informal means that evaded state regulation and official records.

As a consequence, two interrelated developments greatly accelerated, what I term, the informalization of financial, labor, and housing markets. The first, and most important, stemmed from the boom in remittances, the source of capital for much of the parallel economy and the institutional means by which remittances were transmitted, by the money dealers and Islamic financial and banking institutions. Moreover, like Mr. Ali's personal story noted earlier illustrated, millions of Egyptian workers chose to evade official banks and financial institutions and sent their money back home to their family through intermediary moneylenders. This resulted in a dramatic expansion of a parallel market in financial transfers that evaded the regulation of the state. Moreover, while formal government records estimated the value of remittances at US $3 billion in the early 1980s, this vastly underestimated the true value of these capital flows precisely because they were sent via informal, decentralized, and

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unregulated channels. From the mid-1970s to the mid-1980s remittances continued to rise, and by 1986 one study estimated that remittances from both official and informal sources stood at US $12 billion.[32]

The second by-product of the huge volume of remittances in this period was the expansion and informalization of the markets in housing and labor. Informal housing, defined as the construction of housing in formerly agricultural land without bureaucratic regulation, enjoyed a boom in urban and rural areas. This lasted until the mid-1980s when the regional recession resulted in the drying up of opportunities for migrant workers in the Arab oil-producing states. Between 1974 and 1985, for example, an estimated 80 percent of all new housing stock was built on formerly agricultural land and outside the purview of state regulation attesting to the central role that remittance earnings, unrecorded by official government figures, played in the expansion of informal housing.[33]

This boom in informal housing, financed largely by expatriate remittances, was due to the effects of economic reform as well as demography. Economic liberalization led to speculative land practices that resulted in the rise in the cost and demand for affordable housing, especially since housing that was provided by the public sector was neither sufficient nor desirable. More specifically, as one important study on the subject noted, the high value of the formal real estate market and the scarce opportunities for rents due to rent control laws, which left many apartments out of the market, meant that young people had no choice but to seek housing in the informal market.[34] Nevertheless, it is also important to note that both the regimes of Sadat and Mubarak actively promoted this boom in informal housing for reasons of political and economic expedience in the context of economic reform. Indeed, it was not until the late 1980s that the state began to regulate new housing stock more vigorously. As I show in Chapter 4, this change in policy had much to do with what the state perceived as an Islamist "terrorist" threat emanating from these informal "slums."

Nevertheless, what is noteworthy during the boom period is that growth in informal housing led to a dramatic rise in the number of informally contracted laborers, who entered the market in order to benefit from increased employment opportunities in the construction of informal housing financed largely by expatriate remittances. Informal, or casual, labor can be defined as work that is unregulated by formal institutions and regulations of society such as labor laws, registration, and taxation. Moreover, in the case of Egypt, the lack of a job contract and social insurance is how informal work is most usefully identified.[35] There are no reliable official figures of informal workers in construction for the period. Nevertheless, there is strong consensus that informal laborers in

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the construction sector grew dramatically to meet the demand for housing in the informal areas (*manatiq 'ashway'iyya*) in Cairo as well as in the rural parts of the country.

It is important to note that just as economic reform played a key role in the informalization of financial and housing markets, economic reform policies initiated by Sadat in 1973 resulted in the decline of public sector industries and opportunities available to workers in the formal economy. As McCormick and Wahba have noted in an important study, in the period of economic reforms the informal sector played an important role in job creation, and "new entrants to the labor market seemed to bear the brunt whereby by the 1990s, some 69 percent of new entrants to the labor market managed to only secure informal jobs."[36] Moreover, as one study noted, a great many informal workers reside in informal settlements because formal housing is not only unaffordable for low-income families but also too far from job opportunities for persons who rely on informal work for their livelihoods.[37]

What is important to note, however, is that while these markets are not regulated by the bureaucratic institutions of the state, they are nevertheless regulated by informal social networks embedded in local communities. Whether these social ties are organized around religious, regional, or ethnic ties, or served as avenues for nascent class formation depended on two elements: the type of market and the social character of the local community, and the state's linkage and policy toward these informal networks in civil society. In the case of informal financial markets, these came to be organized and dominated by a network of currency dealers that entered into a battle with the state for control over this market. Moreover, while in the boom period informal housing was not registered or regulated by the state, these informal housing settlements were embedded in local social networks and affective ties. Finally, while informal labor is commonly defined in efficiency terms as a form of labor segmentation that is unregulated by formal political or social institutions, they are nevertheless regulated by social ties such as kinship networks, region, and sect.

Consequently, as I discuss in chapters 4 and 7, all three of these informal markets (i.e., finance, housing, and labor) came to serve as important avenues for social and political organization with important consequences in terms of altering state-society relations. This is because not only are these markets embedded in local communities and informal social networks, they are also intimately linked with formal state institutions in ways that resulted in very significant political developments at the level of both the state and civil society. In this respect, these informal markets represented different forms of commercial networks that played a key role in political developments in the country. Indeed, as Charles

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Tilly observed in his classical discussion of the political significance of informal commercial trust networks, even the most coercive rulers (i.e., rulers with high levels of state capacity in terms of their repressive apparatus and power to regulate the national economy) are routinely forced to both accommodate and attempt to regulate commercial networks in order to buttress their political power and legitimate their rule.[38]

A final dimension associated with economic reform is that it played an important role in the rise of a new phenomenon: namely a parallel economy in the provision of social, medical, health, and education services provided by Islamist groups in the country. These unregulated and largely unregistered Islamic Welfare Associations (IWAs) played an important role in mobilizing support among the urban middle classes. Along with the emergence of Islamic banking, IWAs came to represent a key component of a growing Islamic economy which, in turn, owed its growth to the dramatic increase in the volume of remittance inflows in the era of the oil boom.

The impetus behind the growth of IWAs had to do with the rapid deterioration in government-provided services. Government efforts to address this issue did not succeed but there is little question that the issue of welfare provisioning became a key concern on the part of state elites. This is clearly evidenced by the fact that the regime announced a five-year plan for 1978–82 that was supposed to establish priorities associated with welfare provisioning. However, the document did not effectively specify how this was to be achieved. This was designed to publicize the state's commitment to the Nassserist social contract. In retrospect, however, it is clear that while the document falsely described Egypt as being in the "forefront of the welfare societies of the world,"[39] the document was nothing more than an attempt to ward off popular discontent following the historic 1977 food rights precipitated by the withdrawal of subsidies on basic food items under the rubric of infitah. Moreover, production inefficiencies and administrative weakness lead to a deepening economic crisis in the 1980s with the result that the parallel and Islamic economy in Egypt emerged in the country and came to play an increasingly important role in the economy and helped to increase the popularity of Islamist groups.

Informal Finance and Islamist Politics: New Capital Flows and Islamic Management Companies

As noted earlier, etatist policies under the Nasser regime did encourage a wide range of informal economic activities. However, what made the 1970s different from previous decades is that the state's capacity to regulate important sectors of the economy was greatly weakened. This was evident in two important and interrelated developments. First, the

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rentier effect of external sources of revenue resulted in a "dutch disease" element and led to the neglect of productivity issues mostly centered on formal public sector enterprises. Second, as the informal sector witnessed booming growth, financed by remittances, it had little capacity to siphon these capital flows into official state coffers.

Thus, economic reform policies in this period came to represent a paradox in Egypt's political economy and, over time, greatly altered state-society relations. On the one hand, the state retained authoritative control over the formal economy and relative autonomy from societal forces. That is, the social contract whereby the state was committed to providing goods and services to the public in exchange for political quiescence was maintained. The state continued to control public sector earnings, the marketing of agricultural commodities, oil exports, and a substantial part of the banking system. The regime maintained its capacity over the mobilization of investment capital through the nationalization of private assets and the taxation of public sector enterprise. On the other hand, the country's integration into the global economy, especially capital and labor markets in the Arab oil-producing states, narrowed its options and forced the regime to adopt policies that accommodated and even promoted the informal economy. More specifically, the internationalization of the economy led to a loss of state control over informal financial flows and created new paths for new capital (generated by remittances) to accumulate great wealth.

Indeed, as noted earlier, the primary goal of infitah was to lure Arab Gulf capital and Western development assistance into the country rather than internationalize the formal economy or privatize public sector industries. The primary goal was to apply selective economic reforms in order to encourage financial inflows without disrupting the state sector companies established under Nasser. A key example had to do with the state's policies toward the dramatic expansion of the booming informal financial market stemming from remittance inflows.

The boom in out-migration and remittances provided a foreign currency cushion and acted as a social safety valve for unemployment. This, in turn, enabled the state to delay key economic reforms while simultaneously encouraging the inflow of financial inflows into the national economy. To be sure it enabled the regime to expand the private sector and begin to decentralize the country's economic system. Nevertheless, it is important to note that while the policy of infitah resulted in some opening of the formal sector, private capitals flows were meager and were of a short-term nature and they were primarily directed into joint-venture banks, largely to finance imports. More significantly, the windfall rents accruing from remittances and oil exports enabled the regime to liberalize

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the banking sector, allow foreign banks to operate in foreign currencies, and relax foreign exchange regulations to stimulate a foreign capital influx. This led to the further internationalization of the economy in that it afforded Egyptians new opportunities to invest, speculate, and transact with the global economy without being forced either to deposit in public sector banks or to abide by the government's overvalued exchange rates. There are many examples that demonstrate the ways in which millions of Egyptians took advantage of these opportunities. A man who owned a block of flats would rent one to an international bank, ask that the bank pay only one-third of the rent to him in domestic currency, and request that the remaining two-thirds be deposited outside the country in dollars.[40]

This in turn resulted in the erosion of the regime's capacity to regulate a greater part of informal financial transactions. Much of Egypt's new private capital, accumulated in the form of remittances from professionals, and laborers working in the Gulf States, might have siphoned into Egypt's official banking, intensifying commercial competition, and strengthening a broad spectrum of infitah banks. However, various government restrictions in the official foreign exchange market, the overvalued exchange rate of the pound, and the incapability of the formal financial sector to cope with the requirements of emigrants meant that emigrants preferred to deal in the parallel ("black") market because the latter offered a more favorable exchange rate than the formal banks. As a consequence, while the state retained control over capital accumulation in the formal economy, it lost control of large swaths of capital generated by informal financial circuits. Infitah, designed to attract foreign capital to invest in Egypt, became an open door for capital flight.

"Black Marketeers," Islamic Banks, and the Rise of an Islamist Bourgeoisie

The combination of the expansion of informal financial markets as a result of the oil boom and economic reforms (i.e., infitah) resulted in the emergence of Islamic-oriented financial institutions in ways that greatly increased the economic prominence and political influence of a new generation of Islamist activists. Two institutions played a central role in these developments: the emergence of Islamic Investment Companies (IICs) and Islamic banks. In the 1980s, these Islamic financial institutions represented the rise and increasing prominence of a new Islamic economy, which in turn had a strong impact in altering the country's political economy and ultimately expanding the scope and

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popularity of the Islamist movement in the country. More specifically, it reflected two interrelated dynamics in the country's political economy: the erosion of the state's capacity to regulate informal financial flows, and its struggle to retain its monopoly over the public sector while simultaneously seeking to encourage financial inflows and foreign investment, especially from the wealthy Arab oil countries.

The rise of the IICs, known at the time as *Sharikat Tawzif al-Amwal* (money management companies), was directly linked to the vast number of expatriate workers that migrated to the Arab oil-producing countries during the oil boom. As noted earlier, these workers faced the problem of sending a portion of their earnings to their families and so they quickly turned to foreign exchange dealers operating in the "black market" to channel their remittances. Since throughout the 1970s and 1980s the state maintained an artificially overvalued exchange rate, most expatriate workers chose to avoid using official banking channels since these "black marketeers" offered a rate far more favorable than the official exchange rate. By the late 1970s this informal, or parallel, market in foreign exchange reached an unprecedented volume, and it resulted in a broad organizational informal network that connected households in Egypt with the broader regional economy that consisted of banks and commercial networks in the Gulf. For their part, the currency dealers made enormous profits in two ways: by extracting a commission for their services and by profiting from the time lag in delivering the funds in local currency in order to make short-term interest profits. As in a number of other Arab labor exporters in the region, the boom in remittances combined with the heavy demand for the dollar back home resulted in a veritable bonanza for "black market" currency dealers who essentially came to monopolize the informal financial market.

As the expansion of this parallel market in remittance flows grew, it took on an institutional form in ways that eventually threatened the state's capacity to regulate the financial sector of the economy. As the currency dealers grew in wealth, they established Islamic Investment Companies (IICs) in order to both continue to monopolize the inflow of remittances from expatriate workers and to invest these funds in commercial enterprises. These were "Islamic" investment houses in that they accepted deposits from expatriate workers, and they did so along the lines of Islamic principles in that they did so without going against the Islamic prohibition on interest dealing (*riba*). They also employed religious rhetoric to defend their activities and to encourage depositors working abroad to invest in these financial institutions. Nevertheless, it was clear from the onset that the largest of these companies were indeed established by prominent currency speculators. Two of the directors of the largest

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ICCs, *al-Rayyan*, as an important example, were well-known currency dealers in the late 1970s and early 1980s and were formerly listed by the Ministry of Interior as prominent currency dealers.

The rise of these IICs, which gained particular prominence in the mid-1980s, illustrates the importance of the parallel market in the country's economy. This is because while these firms accepted a huge volume of deposits, they operated outside the system of state regulation, and they were not subject to the controls to which other banks had to submit. Indeed, they escaped any form of regulation and did not come under the monetary authority's supervision or even company laws. In addition, their practices fell under parallel and often illicit black-market activities in the informal economy, for example, tax evasion, bribery, theft of state land, violation of import restrictions, and illegal foreign exchange dealings.

The Parallel Market and the Erosion of State Capacity: Informal and Formal Linkages

The continued resilience of the black market in foreign exchange and the prominence of the IICs in capturing the savings of expatriate workers led to two important developments. First, it further eroded the capacity of the state to regulate financial markets. Indeed, by the late 1980s informal finance was such a grave source of concern for the regime that the state-run media reported that, by escaping state regulation, IICs "dangerously" threatened the economic sovereignty of the state and undermined Egypt's entire financial system.[41] Second, these developments ultimately encouraged and promoted powerful elites within the Mubarak regime as well as a newly ascendant Islamist commercial bourgeoisie in civil society. What is most noteworthy is that in the late 1970s and throughout most of the 1980s informal financial institutions were not necessarily in contest or competition with the interest of state elites. Indeed, the linkage between the network of black marketeers that established the IICs and the state was evident in a number of ways.

First, a number of currency dealers operating in the parallel market were actually awarded significant loans in foreign currency from formal banking institutions, which they reinvested in their IICs. These loans were denominated in dollars, and the black-market dealers utilized these funds to import or smuggle goods into the country. Second, and perhaps most important, is the fact that the political influence of the black-market dealers became so dominant in the financial sector that they were able to strike back successfully against government efforts to reestablish Central Bank control over the financial sector. In 1984, as one key example, the Minister of the Economy, Mustafa al-Said, attempted to

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push through parliament legislation that would increase import restrictions, and give greater authority for the Ministry of the Economy and the Central Bank to regulate the private and joint venture banks that had been given special privileges, including tax exemptions and, most importantly, crackdown on the currency dealers. Subsequently, a number of the prominent black-market dealers were put on trial and charged with smuggling $3 billion out of the country.[42] However, a week prior to the trial the network of black marketeers raised the price of the dollar 10 percent and openly called for the then Minister of the Economy, Mustafa al-Said, to resign from office. In essence, the black marketeers were able to raise the real price of foreign exchange a full 20 percent higher than the official rate and threaten the national economy. The monopoly of the black marketeers over the financial sector was so dominant vis-à-vis the power of the state that in April 1985, Mustafa al-Said was actually forced to resign after both the black marketeers and other business groups protested against new currency and banking regulations.[43] Importantly, leading Islamists at the time also opposed the crackdown on the currency dealers and argued that al-Said's crackdown was not waged in the public interest, but rather because his own business interests (and that of members of his family) were in competition with the informal financial market dealings dominated by the currency dealers.[44] This incident not only illustrated the economic clout of the currency dealers, it also highlighted the fact that influential state elites were themselves profiting from black-market dealings at the time. Moreover, it also clearly showed that the state's capacity to regulate the parallel market in remittances was crucially weakened. As an important study conducted at the time noted, this development clearly showed that the government's goal of regaining control over the financial system in this period was more elusive than ever.[45]

By the mid-1980s the largest seven *Sharikat Tawzif al-Amwal* (al-Rayyan, al-Sharif, al-Sa'd, al-Huda, Badr, al-Hilal, and al-Hijaz) were in operation largely outside the purview of state regulation, and they had cornered the lucrative market on remittances from migrant workers. One study estimated that at their peak in 1985–86, deposits from expatriate workers to these firms stood at $7 billion. Yet another survey of the IICs, based on 1988 figures of the 52 IICs in operation, showed that the volume of remittances they attracted ranged from 3.4 to 8 billion Egyptian pounds, and this represented half a million depositors.[46] Together with the Islamic banks such as the Faisal Islamic Bank and Al-Baraka Group, which were also promoted by the government to attract remittances, by the late 1980s, the Islamic sector had captured 30 to 40 percent of the market for household deposits and informal investments, and the informal Islamic economy was rivaling and possibly surpassing the formal

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sector of the formal Islamic banks and their branches.[47] As the Egyptian economist Abd al-Fadil put it, "the struggle over the future of the Islamic money management companies was not simply a struggle over the future of the financial system and the means of mobilizing and investing remittances but a struggle over the very future of [Egypt's] political and economic system."[48]

Transnational Trust Networks and Legitimizing an "Islamic" Economy

An important reason for the great success of the IICs in attracting deposits from migrants in this period was simply because they distributed high rates of return, almost double of the official rate to their depositors. Indeed, as a number of studies have argued, the high interest offered by the IICs and the overvalued official exchange rate compelled millions of workers to channel their hard-won earnings into these unregulated financial institutions. Indeed, there is little doubt that rationalist and profit-maximizing calculations played a principle role in motivating depositors to invest in the IICs. Indeed, some of these companies offered high rates of return that stood at 24 percent per year, and some of the richest depositors received yearly rates of return nearing 40 percent.[49] Nevertheless, it is also important to note that another reason for the IICs' success is that they claimed to accept deposits along the lines of Islamic principles by claiming to prohibit usury (*riba*) in their transactions and by offering contracts based on Islamic precepts. As a result these firms came to play an important symbolic role in fueling the Islamicization of the economy in this period. Indeed, the prominence of these firms was also linked to the increasing popularity of the Islamist movement that was partially associated with the expansion of Islamic-oriented commercial networks and the rise and popularity of a new Islamic economy.

Indeed, what is often obscured in the studies on the IICs of the time is that it was not only Islamic rhetoric alone (i.e., the banning of interest in their operations) that facilitated the initial success of these firms; it was also due to the unregulated nature of these institutions. Depositors had to be sure that their earnings and investment would be secure and there could be no better "security" than in turning to the prevailing standards of interpersonal trust grounded in a shared commitment to Islam. To be sure, as Abdel-Fadil has aptly noted, the desire to generate windfall profits from their hard-earned savings was a key motivation for depositors to channel their remittances to the IICs. But if the economic incentive to generate wealth was an important consideration for depositors in

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choosing to transfer their remittances to the IICs, norms also played a role. Specifically, Islamic norms of interpersonal trust and trust worthiness, strongly promoted in the IICs' media campaigns gave depositors a firm sense that their hard-earned earnings would not be squandered or misused by ostensibly like-minded pious Muslims operating these firms. In other words, while the transactions and deposits responsible for the growth of the IICs were unregulated by formal bureaucratic procedures and contracts, they were nevertheless socially regulated by Islamic norms and services that popularized these institutions and, as one scholar put it, made the "economic insecure seek a vehicle for forming [Islamic] networks based on trust."[50]

Put in more economic terms, in the remittance boom decade of the 1980s, the IICs managed to foster notions of interpersonal trust that encouraged individual depositors to do business with these unregulated institutions in ways that reduced the costs of monitoring and enforcing agreements. This was necessary because the IICs essentially offered informal agreements that relied on religious affinities rather than on formal contractual obligations. Indeed, the important role of interpersonal trust in channeling remitted earnings to the IICs had to do with the "contracts" offered by these firms that were ostensibly based on Islamic precepts. The most common method was to simply inform the depositors that their invested funds would be utilized based on the principle of *Mudaraba*. In this case, the company would act as the *Wakil* (i.e., the trusted agent) of the depositor in the investment of his (or her) capital, and profit and loss was to be shared equally between the two partners. The depositor therefore had to essentially trust that the company would follow the guidelines of *Mudaraba* absent a formal contract since he was simply given a paper stating that the money would be invested along the lines of Islamic principles but any formal contract or government authority was dispensed with. Indeed, this was an important reason why despite the absence of formal guarantees and absent oversight and regulations, hundreds of thousands of expatriate workers deposited their remitted earnings into these investment companies.

It is important to note that the heads of these IICs were hardly operating in the interest of the depositors. By the late 1980s it was discovered that these firms had been running pyramid schemes. That is, they were paying investors high dividends on their deposits primarily by drawing on a growing deposit base rather than generating these funds from real assets. Nevertheless, throughout most of the 1980s these firms inadvertently played a role in fostering a transnational commercial network partially linked upon Islamic principles and ideals and thus they helped to popularize the idea of a new Islamic moral economy.

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The IICs profited from their relationship to prominent leaders of the Muslim Brotherhood at the time in both economic and political terms. The Brotherhood's networks in the Gulf and long-standing relations with Saudi Arabia at the time facilitated the operations of a number of the IICs, and there is evidence that some owners of the companies gave financial and political support to Islamist candidates in parliamentary elections.[51] Moreover, in the context of rebuilding their organization, the Brotherhood was keenly aware of the need to adapt its internal structure to meet the opportunity of the internationalization of the economy accelerated by the liberalization of financial markets. Indeed, as early as 1973 the general guide (*al-Murshid al-'Am*) of the organization, Hassan al-Hudaybi, began to promote and emphasize the international aspect of the organization as a way of asserting the Brotherhood's leadership both inside and outside the country. In a general meeting of the organization convened in that year, Hudaybi reconstituted the Shura (Consultative) Council. He set up six membership committees in the Gulf region: three in Saudi Arabia, and one each in Kuwait, Qatar, and the United Arab Emirates. These committees functioned mainly to ensure the Brotherhood's "moral" presence and to secure allegiance to it, among Egyptians as well as the general populace of those countries. This reorganization proved to be instrumental in attracting strong financial backing for the Muslim Brotherhood by allowing them to serve as intermediaries between investment from the Gulf and domestic financial institutions. This period of wealth accumulation, *'ahd tajmee al-tharwat* as members of the organization termed it, made possible the promotion, expansion, and success of the Islamists recruitment campaigns.

The investment houses also fostered political linkages in order to solicit support from some leading individuals with close associations to the Brotherhood. A number of the big IICs including Al-Rayan and Sherif appointed leading Muslim Brotherhood individuals and Islamist preachers to serve on their executive boards as a way to legitimize the Islamic credentials of these companies. Some notable Islamist figures included the preacher Mitwalli al-Sha'rawi who joined the Al-Huda Company; Dr. Abd al-Sabur Shahin, a professor at Al-Azhar University, served on the board of al-Rayyan; and a leading Islamist, Salah Abu Isma'il, who was both an investor in and board member of the Hilal Company. Isma'il was a leading Muslim Brotherhood leader who was also elected to the People's Assembly in 1984. Second, when in 1988 the government proposed legislation to regulate the IICs, prominent Muslim Brotherhood leaders, such as Shaykh Mohammad al-Ghazzali, not so much defended the IICs as institutions but rather the very idea of an Islamic economy. Ghazali, for example, argued that

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regulating these firms would force religious-minded citizens to deposit their savings in *riba* (i.e., interest) bearing accounts, while the respected Islamist intellectual, Tariq al-Bishri, noted that the campaign against the companies was a thinly veiled attempt by the Mubarak regime to undermine an emerging Islamist elite that represents a popular force in civil society.[52]

The more lasting and important link between the IICs and the Islamist movement had to do with the fact that the success of the IICs popularized the idea, in symbolic and practical terms, of building an "Islamic sector" of the economy to parallel and rival the state-dominated official sector. This idea became a key objective for a new Islamist bourgeoisie, which was not confined to the Islamic financial sector. It included investment in education and social welfare services all of which came to compete with the formal sector of the economy.[53] The IICs, for example, invested in Islamic publishing, private education, hospitals, and medical clinics. This was clearly an effort to forge strong links between these institutions and important social groups in civil society, most notably the Muslim Brotherhood, and increase their legitimacy among the public.[54] The funding of these activities was derived from two sources: profits derived from the "Islamic" economy that included the IICs and from voluntary donations in the form of *zakat* (religiously obligatory dues), which helped to finance a significant number of IWAs. The investments associated with the IICs also demonstrated a clear bias toward the commercial and service sectors of the economy and they demonstrated the role these investments played in promoting a middle-class commercial bourgeoisie. As Abdel Fadil has demonstrated in the most cited study on the subject, 49 percent of the IICs' investments went to the tourism sector, 24 into housing, and focused on middle and upper classes. In contrast, only 4 percent went into industry and 9 percent into agriculture.[55] Thus, the IICs did not only not make a contribution to development; they also buttressed and promoted the upper echelon of the Islamist commercial networks.

It is important to highlight, however, that most Islamist leaders defended the IICs on a number of religious and social grounds including the fact that they operated based on Islamic norms of trust and that they improved the livelihoods of millions of Egyptians abroad and at home. Throughout the 1980s prominent Islamist leaders were opposed to the regulation of the informal financial market. This was clearly evident by their position vis-à-vis the exchange rate. When, by the end of the decade, the IMF argued for the floating of the exchange rate and removing the multiple exchange rates system in place, Islamists leaders such as 'Abd al-Hamid al-Ghazali of the Muslim Brotherhood and Magdi Husayn, both of whom were in favor of liberalizing other sectors of the economy, argued

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for the continued regulation of the currency. Ghazali, who in later years criticized the investment companies for their corrupt practices, in the early 1980s defended them and argued that removing currency controls would not eliminate the black market because Egyptians who engaged in activities such as tourism, the import of goods, and the haj would still resort to the black market since the "official" market would only sell foreign currency for certain purposes.[56] What is significant, however, is that this call for the state to control the demand for foreign currency and foreign goods stood in stark contrast to the Islamists' promotion of pro-market reforms, which included support for liberalized trade and investment that would remove any obstacles to Arab investments.

However, beyond the fact that Islamists supported the IICs at the time, there was a broader and more important issue. The investment houses represented the resurgence of civil society actors operating in the informal economy and as such represented the erosion of state capacity and the legitimacy of the regime in the context of newly resurgent social forces in society. Some of these forces were certainly linked to the Islamist movement but they also represented a wide range of groups in civil society (including millions of expatriate workers) who sought to challenge the state's overwhelming dominance over society. For many, and not just Islamists, the parallel market represented a powerful economic alternative, which broke down the state's monopoly over financial resources and allocation and could even help to usher in political pluralism.

Islamic Banking and the Dilemma of State Capacity

Another important factor that resulted in the increasing popularity of the Islamist movement and its legitimacy across a broad segment of civil society had to do with the rise and growth of Islamic banking in the 1970s and early 1980s. Islamic banks can be defined in similar terms as the IICs in that they pursued activities that they stated were in conformity with Islamic law (*shari'a*). More specifically, *riba*, the paying or receiving of a fixed interest rate, was replaced with the principle of *musharaka*, that is a partnership in profit or loss. Also, like the IICs the rise of Islamic banks was directly linked to the oil hikes and remittance boom.

The first Islamic bank to be established in Egypt was the Faisal Islamic Bank in 1979. Three other major Islamic banks followed: the Egyptian Saudi Investment Bank (ESIB), the Islamic International Bank for Investment and Development (IIBID), and Al-Baraka Group. As was the case with the IICs, the Islamic Banks were hugely successful in attracting deposits from expatriate depositors as well as financing from the Gulf. The success of these banks in attracting deposits was so significant

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that by 1995 other commercial banks opened an estimated seventy-five Islamic branches of their own institutions throughout the country.[57] Between 1979 and 1986, the growth rate in the deposits to the major Islamic banks totaled an impressive 82 percent, which represented 9.8 of the total savings in the entire banking system. The Islamic banks were able to channel savings by offering higher interest rates on deposits than conventional banks, but they were also adept at encouraging deposits from migrant workers in the Gulf by offering accounts held in foreign currency. Consequently, by distributing returns quoted in foreign currencies rather than the deteriorated local Egyptian pound Islamic banks were able to encourage deposits from the millions of workers in the Arab oil-producing countries who were remitting part of their savings back home.

The success of the Islamic banking experiment represented the state's somewhat contradictory relationship to the Islamist movement and, in particular, to the increasingly powerful Muslim Brotherhood. Moreover, in terms of the country's larger political economy, Islamic banking represented the regime's paradoxical relationship to the informalization of large segments of the national economy. Indeed, the state was intent on the liberalization of the financial sector and deregulating Islamic financial institutions in order to attract external finance and remittance inflows from expatriate workers, but as Soliman noted in one of the best studies on the subject (and in contrast to the case of Sudan addressed in the next chapter), the state retained considerable capacity to regulate these banks since the "visible hand of the state was behind [both] the foundation and promotion of Islamic banking in the 1970s."[58]

On the one hand, the state was clearly intent on empowering the Islamists in the Islamic economic sphere. To be sure, the establishment of the FIB and other Islamic banks was part of the state's infitah policy and was intended to encourage Gulf Arab investment. Indeed, state policy afforded Islamic banks special advantages over other state and private banks that played a key role in their expansion and success. In the case of the FIB, which served as the model for the other Islamic banks, for example, the regime enacted legislation that stated its assets could not be nationalized or confiscated, exempted the bank from official audits, and a series of taxes and custom and import duties, and it was not subject to the laws that controlled foreign currencies.[59] The unintended consequence of this policy was to empower the role of the Islamists in the economy. Through their contacts in the Gulf, prominent members of the Muslim Brotherhood played a key role in establishing the FIB and they used their influence to ensure that prominent members such as Youssef Nada, Yusuf Qardawi, and Abdel Latif al-Sherif served on the board of directors of the bank.[60] Another

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example is that of Abdel Hamid al-Ghazali. Ghazali, the Muslim Brotherhood's chief economic thinker, was instrumental in establishing the IIBID. The strong involvement of prominent members of the Muslim Brotherhood in the initial phase of Islamic banking represented a honeymoon period between the state and their empowerment of Islamic finance and, by extension, the economic and symbolic influence of the Muslim Brotherhood.

On the other hand, what is noteworthy with respect to the role of the state and Islamic banking is that, in contrast to its permissive policy toward the IICs, the regime retained strong capacity in terms of regulating these Islamic banks. This can be discerned clearly in terms of the formal institutional linkages between the state and the Islamic banks, and the high degree of oversight that the regime retained over the banking system. Specifically, as of 1983 the Egyptian public banking system held its own against the joint-venture and private investment Islamic banks, and the four public sector banks had financial resources estimated at LE 14.5 billion as opposed to LE 5.1 billion in the private sector.[61]

In addition, the Central Bank and the Ministry of the Economy supervised the commercial activities associated with these banks. More importantly, the Minister of Interior kept a close watch over the role of the Islamists in these banks in case they posed a political threat to state "security." In the 1980s out of fear of the strength of the Muslim Brotherhood, the then director of security, Fouad Allam, expelled members of the Brotherhood from the board of the directors of the Islamic banks.[62] Moreover, just as the regime continued to regulate the expansion of Islamic banking to ward off both economic and security threats, the regime sought to retain an ideological stronghold over the very idea of "Islamic banking." For example, it was the state-appointed Minister of Religious Affairs (*Awqaf*), Sheikh al-Sha'rawi, who submitted the legislation to parliament that sanctioned the establishment of the Islamic banks along with the privileges they enjoyed throughout most of the 1980s. Moreover, the Mubarak regime appointed a number of scholars from Al-Azhar University to preside over the administrative boards of the Islamic banks, and it established a number of government-funded institutions for the study of Islamic Economics. These efforts were all clear attempts on the part of the state to promote Islam as the legitimizing ideology of the state. The aim of these polices was to undermine the increasing popularity of the Muslim Brotherhood who by this time had generated a great deal of legitimacy in civil society.

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The Emergence of an Islamist Bourgeoisie

There is a strong consensus that beginning in the 1970s the leadership of the Muslim Brotherhood in particular experienced strong upward social mobility resulting from their success in private commercial business primarily because, under Nasser, they were barred from the public sector. Instead, they had to focus on the private sector once they were afforded the opportunity under Sadat's open-door policies. By the 1980s, a number of Brothers were wealthy businessmen, and they had important connections to a score of others, many of these, like the construction Tycoon Osman Ahmad Osman, were connected to the organization. Osman was selected to lead the Engineers Syndicate once they took over that professional association. It is this commercial-business element that influenced the Muslim Brotherhood's position with respect to pro-market reforms, black-market financial transactions, and the Islamic institutions more generally. Indeed, Omar al-Tilmasani, the leader of the organization, also supported infitah in his writings strongly and demanded more room for *ras mal al-Islami* (Islamic capital), which, in his view, included Islamic banks, the IICs, and the wide range of Islamic financial institutions of the Gulf countries.[63] However, it is important to emphasize that Telmasani as well as other prominent Brotherhood leaders such as Yusuf Kamal and al-Ghazali defended this position in economic terms. Specifically, they argued that the debt crisis facing the country was due to "the corrupt centralized planning practices" initiated under Nasser, which created grave problems in the vast public sector, leading in turn to capital flight and currency speculation.[64]

Nevertheless, the spread of both informal financial houses and private Islamic banks helped to lay the foundation for the emergence of an Islamist wing of the infitah bourgeoisie, and they also financed the emergence of Islamist patronage networks that promoted the political profile of members of the Muslim Brotherhood. However, the growth in the Brotherhood's financial and political clout in this period was crucially aided by the state's promotion of a new Islamic economy. As noted earlier, from the perspective of state elites this policy was designed to fulfill two important goals: to lure investment from the Islamic countries of the Gulf and to build new clientelistic linkages with the Islamist movement in the country primarily so as to rival and outflank remnants of the Leftists and Nasserites in civil society. Indeed, just as Sadat cultivated the political support from the Islamists in the 1970s, in the 1980s the Mubarak regime encouraged the expansion of Islamic banking and, in doing so, effectively delegitimized the usury-operating formal banks.

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This, along with the initial success of the IICs, helped raise the popularity of the Muslim Brotherhood at precisely the time that they had embarked on a vigorous grassroots campaign to expand their popularity and constituency in civil society.

As Soliman aptly put it, the unintended consequence of these policies on the part of the regime was that the state, at least in this period, "empowered its own gladiator." Indeed, along with the success of the IICs, the spread of Islamic banks and informal financial houses laid the foundation for the emergence of an Islamist-oriented middle class. The sectoral composition of the Islamic bank's investment is one indication of this. On the whole the clients of Islamic banks tended to be urban merchants, as opposed to villagers. In addition, the banks showed no inclination to favor labor-intensive firms or investment in industry or agriculture. As one study noted, this was primarily because it was easier to follow Islamic prohibition on usury in the financial sector by simply claiming to abide by noninterest dealing rather than persuade investors of the efficiency and productivity of their investment in other sectors of the economy.[65]

Nevertheless, there are two reasons that an Islamist bourgeoisie emerged as a strong threat in the context of the infitah policies. The first, as described earlier, was directly linked to the opportunity afforded them by the influx of remittance inflows, their close ties to the Arab-Gulf economies and networks, and their prominent role, at least at the time, in establishing Islamic banks. The second reason for their relative success was rooted in the fact that the state, in its efforts to consolidate authoritarian rule, continued to heavily regulate other business groups as well as labor. The other business groups were relatively weak because they were small, heterogeneous, and represented corporatist associations linked to the state. Thus, while new groups such as the Commercial Employee's Syndicate and the Engineers Syndicate emerged in the context of economic reforms, the state frequently intervened to curb any opposition by appointing ruling party stalwarts as the heads of these organizations.[66] Similarly, autonomous labor unions were largely stifled from political opposition through coercive incentives. Specifically, in return for political quietism unions were allowed to utilize their pension funds to establish their own enterprises and enter into joint ventures with foreign capital.[67]

Indeed, under Sadat, and especially Mubarak, state policy reflected a paradox with respect to its changing economic and political strategies in the context of economic reform. On the one hand, it was intent on preserving its dominance over the economy and society by forging a strong alliance between the state, and foreign and private capital both to promote private investment in manufacturing and export sectors as

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well as to reassert its authoritarian rule over society. Mubarak did this by integrating local business groups such as the new professional syndicates and the Egyptian Businessmen's Association as part of its development strategy.[68] On the other hand, while the state remained in control over the formal economy and generally regulated business and labor groups, this resulted in the fact that the Islamist bourgeoisie emerged as a relatively strong force in civil society precisely because the business community remained weak and divided, and labor organization was forced to renounce demands for autonomous political expression since they became increasingly placed under the power of bureaucratic authority.

As a consequence, since business and labor represented corporatist groups linked to the state, newly emergent private and voluntary business organizations emerged. These were essentially the Egyptian Businessmen's Association and the network of black-market money dealers. Bianchi has noted that these came to "represent important organizational responses of powerful segments of the business community in the context of the Mubarak government's efforts to reorient Egypt's open-door policy in the context of economic liberalization." Business groups, organized around Islamist networks, came to have a great deal of economic clout in civil society.[69]

By the end of the 1980s the political and economic ascendancy of the Islamist wing of the bourgeoisie, centered on the financial sector, had grown so strong that President Mubarak declared: "[T]he citizens are richer than the government."[70] The statement reflected an acknowledgement that the regime had lost significant control over the informal financial sector and that it could no longer meet the needs of job creation and social welfare for the growing population. The combination of an increasingly impoverished formal economy and private wealth centered around informal and deregulated financial markets meant that the Islamist commercial bourgeoisie came to have strong political leverage. Moreover, since foreign direct investment was relatively meager, as noted earlier, this compelled the state to essentially promote and legalize the informal financial market (i.e., the IICs) and to deregulate Islamic banking in the hope of luring more remittance inflows and deposits from expatriate workers. In the 1980s the financial clout of the Islamist bourgeoisie with close international linkages with the oil-rich Gulf States underpinned the state's interest in satisfying this aspiring commercial Islamist class. This is one of the key reasons why the Muslim Brotherhood members were allowed to run in elections in 1984, and in parliament they proved strong advocates for the promotion of pro-market reforms. It was clearly evident however that the NDP was less interested in supporting the Islamists' calls for a new constitutional framework than it was in eliciting their

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support in its efforts focused on deregulating financial markets in order to lure foreign investment from the Gulf.

The emergence of an Islamist-oriented bourgeoisie and a concurrent rise in the political clout of Islamist movements driven by the oil boom in the Arab oil producers were not unique to Egypt. By the late 1980s, for example, Islamic banks based in the Arab world, which included the two largest groups of Islamic Banks (*Al-Baraka* and *Dar al-Mal al-Islami*), were capitalized at around $2.6 billion, and they held assets worth $22.9 billion. Moreover, during the decade of the 1980s, the assets of these banks grew by 18.8 percent a year reflecting the emergence of a genuinely transnational Islamic-oriented economy. In Egypt, alone, by the late 1980s Islamic banks managed to attract around 20 percent of all the bank deposits and competed with conventional formal banks.[71]

However, what distinguished Egypt from other "weaker" labor-exporting states such as Sudan (Chapter 2) is that the Mubarak regime was able to preserve much of its autonomy from civil society and keep control over much of the formal economy. This is because the flow of Western aid and oil-related earnings channeled into state coffers relieved the regime of the pressure to pursue economic reforms more thoroughly and, as a result, retained much of its capacity not only to suppress dissent but to monopolize formal economic institutions. As scholars of Egypt's political economy have noted, this was primarily because under Mubarak, the state (even in the context of economic reform) represented a "hybrid" system combining the etatist legacies of Nasser with Sadat's open-door policies.[72] Indeed, throughout this period, the bureaucracy that employed much of the salaried middle class expanded, food subsidies increased, and public enterprises remained the dominant sector for government investment as well as employment.

To be sure, the Muslim Brotherhood emerged as a key constituency favoring reforms, and the NDP co-opted their support in the context of economic reform policies. However, it is also important to note that there were important divisions within the organization around economic reform policies that enabled the state to curb their economic influence as well as political activism. Doubtless Islamists businessmen who had made their fortunes in the Gulf were particularly supportive of the state's pro-market orientation. But some leading Islamist members clearly understood that the expansion of the informal market and their monopoly over it necessitated regulation in ways that would continue to channel remittances into a variety of Islamist-supported institutions. This debate over the parallel (i.e., black) market pitted Gulf-connected Islamists, such as Khairat al-Shater, against 'Issam al-Eryan and Adil Husayn who called for wholesale deregulation of the economy. It was this lack of consensus

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between the Islamist bourgeoisie that allowed the state to keep them divided and prevented this class from truly consolidating their class position vis-à-vis the state.

Nevertheless, it is important to note that businessmen belonging to the Muslim Brotherhood wielded great power and influence over the economic policies of the organization in this period. These businessmen, or *Ikhwan al-Manfa* (Brothers of Exile) as they were commonly labeled, built strong economic networks and became rich in the Gulf in the 1950s and 1960s. Later, in the oil boom era, they built on this foundation and accumulated greater wealth from a large network of commercial enterprises as well as astute investments in Islamic financial institutions. The influence of these businessmen was evident by the positions the organization took with respect to economic reform as well as the boom in informal financial transactions (i.e., the parallel market). Indeed, another indication of the great power of this Islamist commercial elite is that it became a source of great division within the organization. Many prominent *Ikwhan* heading the professional syndicates in the 1980s and, notably, the influential leader, 'Issam al-Eryan (later the spokesperson of the organization), openly criticized what they saw as a monopoly of the wealthy Islamist businessmen over the economic planning of the organization.[73] In addition to their influence over the organization's economic policies, some of these wealthy businessmen built and supported the financial administration that underpinned and sustained the patron-client networks linking the Brotherhood's national-level leadership with the local branches of the organization. Under the leadership of Khairat al-Shater and Hassan Malik (two prominent Brotherhood businessmen and partners in a number of commercial enterprises) the organization's leadership established a decentralized system of administration (reportedly consisting of approximately twenty-five local administrative offices). Khairat was put in charge of overseeing the sources of revenue for this administration, and the directors of administrative affairs (*Mudir al-Idara al-'Ama*) and staff of these branches were charged with a number of financial and administrative tasks. These included collecting monthly fees and regular zakat (alms) donations from official members, allocating funds to some activities associated with the professional syndicates headed by the Brotherhood, mobilizing campaign funds for electoral candidates and financing the recruitment (*tajneed*) and spiritual education (*tarbiyya*) efforts at the local level.[74]

It is vital to highlight that political opportunity as well as a strong economic base worked in tandem to increase the power of the Islamist movement and that of the Muslim Brotherhood in particular. The movement's financial base built, in great part, on the foundations of Islamic

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financial institutions coincided with the rebuilding of the Brotherhood's organizational capacity and hence political influence under the regime of Anwar Sadat. In order to rival Marxist and Leftist forces loyal to his predecessor Gamal Abdel al-Nasser, Sadat implemented policies designed to forge new patron-client linkages among Islamists in civil society so as to build a constituency loyal to his regime. Sadat released members of the Brotherhood from prison, supported Islamist activists on the University campuses, and allowed them to publish their influential newsletter al-Da'wa (the Call). This "thaw" in relations continued into the early years of the Mubarak regime. While the organization remained illegal, Mubarak afforded the Brotherhood increasing autonomy to organize in civil society, finance welfare associations, and eventually to enter into alliance with other legal parties so that Islamist candidates could enter the political arena. In the 1970s and 1980s, under the General Guide (*al-Murshid al-'Am*) Omar al-Telmasani, the Muslim Brotherhood took advantage of this opportunity and, as El-Ghobashy, has demonstrated in great detail, embarked on pursuing a moderate agenda, mobilized their membership at the grassroots, and carefully prepared their electoral strategies.[75]

Neoliberal Economic Reforms, Informal Institutions, and Middle-Class Mobilization

By the late 1980s the political and strategic sophistication of the Muslim Brotherhood presented the most formidable social and ideological opposition to the state. As a mass movement the Brotherhood came from diverse backgrounds, ranging from segments of the business community to lower classes, with old, young, male, and female members. An important mainstay of support, reflected in electoral results in the 1980s, could be found among two social segments in civil society: educated groups with a secondary education, particularly the urban lower middle class who filled the ranks of the vast public sector and bureaucracy and who were hit hard by economic downturns; and small- and medium-sized businesses entrepreneurs in the private sector.

The widening scope and influence of the Islamist movement in civil society was most certainly aided by the emergence of strong Islamist commercial networks and institutions. In this period of what one Islamist termed the "era of wealth accumulation" (*'ahd tajmee' al-tharwat*), these informal economic and social networks provided avenues for upward mobility, and employment, and in so doing fostered Islamic sentiment and sympathy in society generally while also increasing the profile and prestige of the Muslim Brotherhood organization. As noted

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earlier, informal financial houses engendered a transitional Islamist network of primarily middle-class depositors and investors, and prior to their regulation in the 1990s, Islamic banks fostered strong linkages to high-ranking members of the Muslim Brotherhood and provided initial capitalization to a wide range of commercial enterprises in both the urban and rural areas. However, beyond the rise in the prominence of Islamist commercial networks and the rebuilding and reorganization of the Muslim Brotherhood two additional factors broadened the scope of the Islamist movement and consolidated its urban *lower* middle-class base in ways that generated deep loyalty to the organization. The first factor was the rise of informal (i.e., unregulated) Islamic welfare institutions which increased the organization's financial resources and hence its popularity in civil society. The second factor that strengthened the commitment to the movement on the part of its members was the methods of recruitment and mobilization, the organization's local leaders skillfully and effectively utilized in the context of no small measure of state repression and surveillance.

If the policies of infitah facilitated the informalization of financial markets and led to the rise of a strong Islamic sector and the rise of an Islamist bourgeoisie, the state's inability to maintain adequate social welfare provisioning was a key factor in the rise of IWAs and nongovernment (*ahali*) mosques. These two institutions greatly expanded the scale of the Islamist movement at the level of the grassroots. Indeed, Egypt in this period provides a stark example of how the retreat of the welfare state in the context of economic reform, the rise of Islamism, and the growth of a socially frustrated middle class gave birth to a vibrant network of informal Islamic welfare institutions. By the late 1970s, it was possible to discern the coalescence of a broad network of Islamic organizations that together formed what one scholar has termed the "parallel Islamic sector."[76] These are social organizations – many of them charitable in purpose – that operated on the peripheries of the state and fulfilled many of its traditional functions. As the state continued to shrink in scope under the weight of neoliberal economic reforms, the periphery grew larger and the parallel Islamic sector began taking on increasing responsibility for servicing the needs of Egypt's citizens. This Islamic sector would probably have emerged regardless of regime rhetoric, but the statements of Anwar Sadat (the self-styled "Believer President") encouraged the public activities of Egypt's Islamists. Sadat promoted the formation of Islamic student associations, permitted the limited political participation of the theretofore-repressed Muslim Brotherhood, and loosened press laws that had, till then, hindered the ability of Islamist groups to advertise their ideology.

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Meanwhile, economic liberalization and the oil boom created vast reserves of private wealth capable of being directed toward charitable organizations. Islamic banking institutions appealed to many in the growing middle class eager to invest their wealth in companies' compatible with Islamic morality. Likewise, much of the money sent back to Egypt in the form of foreign remittances found its way into the Islamic "moral economy." Through the twin systems of Islamic banking and zakat, Muslims could now channel a portion of their profits into religious education, publishing, mutual aid societies, and a wide range of commercial enterprises. According to some estimates, as much as 1 million Egyptians invested in Islamic banking institutions between 1974 and 1984.[77] The resulting wealth supplied Egypt's IWAs with the vast pool of financial resources necessary to provide an alternative to Nasser's welfare state. Thus, the informal Islamic sector, comprised of Islamic Banks, IICs, and IWAs, provided career opportunities for relatively pious youth who were otherwise barred from the state-run sectors of the economy, and whose cultural and class backgrounds might otherwise have kept them out of the corporate world.

When Sadat was assassinated in 1981 and Hosni Mubarak became president, all the pieces were in place for the ascension of the parallel Islamic sector. The collapse of oil prices seriously undermined the economic security of a broad swath of the Egyptian middle and lower classes. Meanwhile, the Islamic charitable organizations that had emerged in the 1970s as a moral alternative to the secular state became in the 1980s an essential means of avoiding or alleviating the effects of poverty. Though they had their origins in times of relative economic plenty, by the late 1980s Islamic charities and voluntary organizations were providing social protection to millions of Egyptians suddenly made vulnerable. These informal Islamic institutions were thus an integral part of the internationalization of Egypt's economy in that they were an outgrowth of regional economic processes combined with the implementation of economic (i.e., infitah) policies.

It is impossible to accurately estimate the number of Islamic charitable organizations active in Egypt in the 1980s and into the 1990s, since so many had overlapping and ambiguous purposes. Citing a variety of sources, Wickham has pegged the number of Islamic organizations in Egypt in the early 1990s at anywhere from 25 percent to 60 percent of the 15,000 or so registered private voluntary organizations.[78] Another study has gauged their number to be about 20 percent at end of the 1990s.[79] This wide differentiation in statistics can be explained by noting the difficulty scholars face in distinguishing an "Islamic" organization from, for instance, a secular organization that occasionally makes reference to

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religion. Moreover, many self-conscious Islamic voluntary organizations provide services that would not fit into commonly accepted definitions of social welfare: Qur'anic study groups, for instance. Moreover, while the state in later decades exerted much energy into taking legislative and administrative control over these institutions (discussed further in Chapter 4) in the 1980s many avoided governmental regulation. Indeed, by late 2000s, as state repression increased, directors and staff of IWAs had become increasingly concerned over state regulation. Staff members of a number of IWAs in Matiriyya, Cairo, informed me that in contrast to the 1980s where they had relative autonomy, they were now concerned over having to pay taxes and were understandably anxious that the state sought to increasingly curtail any form of peaceful Islamist opposition.[80] Their concern over state regulation and taxation is warranted. After all, one of the main reasons that the IWAs were largely successful in the 1980s and early 1990s was that the Islamic voluntary organizations that provided services like low-interest loans, job training, or health care did so only intermittently or on an *ad hoc* basis. The actual number of Islamic organizations in Egypt that provide services that meet classical definitions of social welfare, therefore, is difficult to estimate with any degree of accuracy. All of the empirical and anecdotal evidence suggests, however, that they have played an enormous role in meeting the needs of Egypt's citizens from the 1980s forward.

Moreover, beginning in the 1980s, IWAs began to receive a great deal of financial support from private and governmental benefactors in the Arab Gulf. Islamic banks and other religious financial institutions represent an important source of income. Much of the money necessary to carry out day-to-day operations, however, stems from their association with mosques and various profit-making businesses. By being formally associated with a particular mosque, many IWAs receive a portion of the zakat (religious tithe) made there. They were also exempt from government taxation, due to a law that prohibited the taxing of mosques and other "religious buildings." Many IWAs also charge for their services (usually a nominal fee applicable only to those who can afford it) or run ancillary businesses (e.g., religious bookstores) that supply them with a modest income. While the poor certainly receive many benefits from Islamic charitable organizations, they are not the organizations' primary clienteles. Clark has shown that in Egypt (as well as in Jordan and Yemen), IWAs are predominantly run by and for the middle class. The study suffers from "selection bias" in that it does not take account of poorer populations; it is clear IWAs supplying the best services are invariably in wealthier neighborhoods to which the poor do not have easy access. Rather than distribute the best doctors and supplies evenly across

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the area, most resources are concentrated in certain points where they can be easily distributed to the middle class. This reflects the fact that middle-class Islamists were relatively effective in forging strong patron-client linkages with other members of the middle class. Since the poor are less likely to join an Islamist movement, they are less likely to be targets of IWAs generosity. This combination of local charity, tax exemption, and profit, when combined with support from Gulf benefactors and Islamic banks, has allowed Islamic social institutions to provide avenues of not only welfare provisioning but genuine social protection as well as social mobility for millions of Egypt's aspiring middle class. These developments greatly promoted the financial and political clout of the conservative middle class–based Islamist movement in the country.

Nevertheless, it is important to highlight that the success of the Islamist movement was related to ideational (i.e., religious) as well as socioeconomic factors. As scholars have shown, leaders of the Muslim Brotherhood not only provided selective material incentives to prospective members, they also forged a strong sense of collective identity and solidarity embedded in informal social networks.[81] Moreover, this strategy of mobilization is particularly important under state repression, wherein the strategies of mobilization and the ideological vision of Islamist activists rely upon informal, personal networks as well as cultural and religious "associability" to build movements.[82] Indeed, in addition to the stupendous growth of IWAs, throughout the 1970s and 1980s, the Muslim Brotherhood and their supporters were largely responsible for the dramatic increase in the number of privately run Mosques (*ahali*). Between 1981 and 1989, for example, the number of nongovernmental mosques rose from 40,000 to 70,000. Many of these mosques often served as places of dissenting political and religious messages. Taking advantage of their newly found financial affluence and the state's withdrawal from its social welfare role, the Muslim Brotherhood rapidly came to dominate Egypt's (and especially Cairo's) associational life.

By the end of the 1980s it was clearly evident that as a result of these structural and political changes a dramatic shift had occurred in the social profile of both the leadership of the Brotherhood and its rank and file. Whereas the social base of the "first generation" of the Society of the Muslim Brothers led by Hassan al-Banna was made up of lower-level public servants, students, and artisans, the "second-generation" under the leadership of Telmasani was dominated by a commercially minded Islamist elite, private infitah entrepreneurs, and medium and small-sized business owners. In the early 1990s, as a result of these developments, the Brotherhood further consolidated their middle-class social base by taking control of Egypt's professional syndicates – doctors, engineers,

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pharmacists, lawyers, dentists, commerce, college professors, and student unions. In addition, the Islamic coalition made up of the Muslim Brotherhood and the Labor Party made considerable headway in local and national elections. They gained twelve seats in parliament in 1984 and as many as thirty-eight seats in 1987.[83]

Informal Networks and the "Golden Age" of Islamist Mobilization under Authoritarian Rule

The strong and violent conflict that characterizes the current relationship between the regime and the Muslim Brotherhood stands in stark contrast to the 1970s and 1980s, which, as one Brotherhood leader put it, represented "a Golden Age" (*al-'ahd al-Thahiba*) of mobilization for the organization.[84] As detailed earlier this golden age was made possible through a tacit accommodation between the state and the Muslim Brotherhood. First, came the emergent, albeit instrumental, alliance in the economic sphere, which coincided with the boom in remittance inflows and infitah policies, which enabled Islamist elites to push toward Islamicizing the informal financial sectors of the economy (to the benefit of their economic and political clout) and to aid in financing IWAs. Second, the Brotherhood made the most of the Mubarak regime's narrow liberalization of the political system. They took this opportunity to enter the political arena and, under the leadership of the General Guide, entered into alliances with other opposition parties: first with the Wafd Party in 1984, and then in 1987 with the Islamist-oriented Labor Party. From the perspective of the Brotherhood leaders, this was a period of relative "freedom."[85] Taken together the combination of these developments played an important role in engendering broad middle-class appeal, support, and legitimacy for the Islamist movement generally and in expanding the membership base of the *Ikhwan* in particular.

Nevertheless, it is important to note that the actual rank-and-file membership in the Muslim Brotherhood was, and continues to be, something different than the popular base built up through personal and economic and political institutional linkages. Indeed, as Singerman has keenly observed, in the context of an increasingly pious public the "vague call of *Islam is the Solution* (*al-Islam huwa al-hal*) influenced multiple forms of identity."[86] Moreover, it is important to highlight that despite the "thaw" in state-Islamist relations in this period state repression continued: that is, the Brotherhood was still deemed an illegal organization, grassroots Islamist mobilization carefully monitored (if not repressed), and electoral participation circumscribed and limited. Consequently, what form of Islamist activism that emerged as more politically salient was not only

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grounded in religious interpretation; it was crucially determined by the manner in which locally embedded social networks effectively mobilized rank-and-file members while simultaneously making legitimate new forms of social control and discipline.

The modes of mobilization of the middle class and elite leadership of the Muslim Brotherhood differed from those associated with the informal social networks that underpinned the organizational structure at the grassroots, and which facilitated the recruitment and mobilization of the urban lower middle class. Predictably, at the level of the leadership, the Muslim Brotherhood reorganized its structure to accommodate itself to changes in the regime's policy. Similarly, at the level of the grassroots, rank-and-file members also had to adjust and devise ways of generating high levels of commitment. Indeed, as scholars of social movements in authoritarian contexts (including in Egypt) have shown, in the context of relatively meager resources and high-cost activism, leaders are often compelled to narrowly target individuals based on how much they can offer the movement.[87] In my own research among leaders and rank-and-file Brotherhood members in Helwan, Cairo, what emerged from my findings is that not only did local leaders select prospective members in narrow ways, they also noted that as early as the 1980s (and even more at present) they faced the challenge of generating high levels of commitment in the context of state surveillance and repression. Moreover, the unintended consequence of meeting the challenges of evading state security, selecting new members carefully, and generating trust in the organization among the rank and file was twofold: The Brotherhood increasingly consolidated its lower middle-class urban base in neighborhoods such as Helwan, Cairo, where there resided a mix of working-class workers, lower-middle-class professionals, and urban poor. Importantly, however and as predicted by social movement theorists, in my research I found that it was preexisting networks of trust (and particularly friendship networks) rather than merely an affinity toward the Muslim Brotherhood's ideological program that determined whether or not residents in these neighborhoods decided to join the organization.

Accordingly, the examination of why and how rank and files are recruited and mobilized at the local branches of the organization sheds light on two issues that are at the heart of this comparative study: why individuals choose a particular form of Islamist activism to express their political and social ideals as opposed to other forms of sociopolitical cleavages, and why they pursue such activism at such high personal cost and risk. This is not to deny that religious appeals play a key role in the latter. But as theorists have shown at the point of recruitment (i.e., the point where individuals activate informal networks) ideological congruity

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plays a far less crucial role than preexisting trust networks and, in the case of the Brotherhood, social and class affinity. Moreover, understanding the recruitment methods of rank-and-file members helps us understand how these social networks respond to shifts in the larger political economy and variations in state repression. I address the latter issue in Chapter 7.

My focus group discussions and interviews with both local leaders and rank-and-file members in the quarters of Helwan, Cairo, revealed that without exception the men (most of whom joined in their early and mid-twenties) were introduced to the organization through either close friends in the neighborhood or relatives. Interestingly, however, those who joined in the 1980s and 1990s did so for decidedly "secular" reasons. Specifically, they initially joined the organization because they were deeply concerned about issues of social justice, inequality, government corruption and what they saw as social decay. But importantly, those who joined in the 1980s (now in their forties) acknowledged that they also had "heard" that the *Ikwhan* offered access and connections (*wasta*) to career and financial opportunities although they insisted that they had no other avenue to express their deep political and social discontent about a reality that, in the context of the high cost of living, was increasingly defined by a limited horizon of opportunities both for themselves and for others. Indeed, by offering opportunities for upward mobility for educated professionals and (certain) skilled workers while also expressing political criticism of state policy the Muslim Brotherhood then (as now) were uniquely poised to mobilize the lower, urban middle class as well as more affluent middle-class supporters.

There is little doubt that the boom period associated with the economic prominence of the Islamists represented the "heyday" of the Muslim Brotherhood recruitment drives and great success in mobilizing followers. This is the reason why one Brotherhood leader termed this era the "golden age" of *tarbiyy*a, (spiritual education and growth) for the Islamist movement throughout the country. There is, moreover, little question that, as Carrie Rosefky Wickham's pioneering work has shown, ideas as well as economic interests underpinned the growth in the support for the Brotherhood. Specifically, in the context of an authoritarian state, the leaders of the Brotherhood inspired high-risk activism by framing the Islamist cause as a religious obligation as well as relying on preexisting trust networks (i.e., family and friendship ties).[88] Indeed, unsurprisingly, Islamist leaders routinely privilege the role of Islam in their explanation of why young men and women join the movement. 'Issam al-Eryan, the official spokesperson of the Brotherhood, for example, pointed out that religious sentiments have always been the driving force behind the success of the Brotherhood's mobilization campaign (*hamlet al-tarbiyya*): "It is

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the reason why Egyptians wish to join the *Ikhwan*. [It is also] why the organization has difficulty absorbing all those who want to join the cause of Islam in Egypt."[89]

However, it is also important to note that those actually responsible for recruiting new members at the district levels of Cairo such as Helwan point to a host of nonreligious factors. This is not in itself surprising since social movement theorists have documented across cases that new participants to social movements activate social networks often for social and economic reasons rather than due to inherent ideological congruity with the organization or its leadership.[90] In any case, in the Golden Age of Tarbiyya of the 1980s, the leader of the Brotherhood branch in Helwan noted that, while the general thrust behind their recruitment campaigns is naturally based on Islamic principles, the real Bab (*door*) is through politics. This is not to suggest that religious motivation and the role of ideas do not form the basis for sustained support and loyalty to social movements including the Brotherhood, but to highlight that religious interpretation evolves over time to meet the political and social challenges that the leaders understand to resonate most deeply among the community and prospective participants.

In the view of the recruiters, the real challenge is to impress on the potential recruit that Islam, or more specifically the Brotherhood organization, can overcome the challenges of social injustice, government corruption, and, not insignificantly, the spiraling cost of living. These are the causes that they most often cite as underpinning their motivation for joining the Brotherhood. Consequently, in order to maintain their relevancy as an attractive option in the context of state repression in the 1980s (and even more importantly in later decades), local activist leaders stated that they alter the curriculum and educational content of their program to suit changing conditions. For example, the writings of the Brotherhood's founder, Hassan al-Banna, are carefully selected to stress their educational aspects, and the history of Islamic Andalusia is incorporated as important evidence of religious tolerance for more "liberal"-minded youth. In Helwan, which contains a large proportion of working-class residents, the local leaders of the Brotherhood also have long attempted to mobilize working-class members, albeit with little success. It is for this reason that, for example, at least in Helwan, the local leaders of the organization have reinterpreted the early years of *Hassan al-Banna's* and, in particular, the social profile of the first generation of the Ikhwan. For example, in contrast to members of the national leadership I interviewed, Helwan's *Ikwan* emphasize to potential participants that, in the first generation of the Society of the Muslim Brotherhood, its founder, *Sheikh al-Banna*, enjoyed great popularity and support among

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the working-class laborers in the province of Ismai'iliyya. These examples demonstrate clearly that ideological flexibility, often obscured in static analysis of the Brotherhood's ideology, has long been the hallmark of its great success at the grassroots. However, it also demonstrates some of the organization's constraints in terms of connecting with the working classes. The Islamist activist leaders in Helwan view their social distance from the working classes as a limitation. In Helwan industrial public sector workers have traditionally been reluctant to join the solidly middle-class movement of the Brotherhood and it is for this reason that Islamist activists have attempted to promulgate the notion that the role of labor in the movement has a long history as one important way to make inroads into this segment of the local community.

This limitation in mobilizing working-class workers reflects two important dimensions of the Brotherhood's organization that helps to explain who joins the organization and why, particularly at the local level: the social exclusivity associated with recruiting and mobilizing new members, and the fact that many new members join the Brotherhood in order to access patronage and achieve some measure of social mobility. To be sure, it is state repression and social and economic crisis that often compel activist leaders to recruit those most helpful to the organization, but it is also important to highlight that activist leaders put great effort in providing both material incentives and spiritual guidance (*tarbiyya*) to those who are afforded the privilege of membership. This is not to say that preexisting trust networks are not a key avenue of entry to the movement, but rather that these trust networks are socially embedded in ways that over time have consolidated the urban lower-class profile of the Brotherhood's membership in neighborhoods such as Helwan as well as in many neighborhoods of Cairo.

In practice the recruitment process of the Muslim Brotherhood is elaborate and potential members are recruited in painstaking fashion. Individuals are chosen according to a number of criteria including preexisting educational attainment, social class, and "talents" in the skilled (as opposed to the unskilled) labor market. Moreover, as the leaders in Helwan informed me, and rank-and-file members confirmed, once an individual becomes a full member of the organization, the leadership takes responsibility for furthering his career through activating the organizations' networks to the best of their ability. Thus, an unemployed poet is tasked with and paid to write religious songs at a wedding of a fellow member or relative; a trained mathematician is employed by the organization to provide private lessons (*durus khususiyya*) to the children of a member; a merchant is encouraged to work in one of the Islamist-run commercial enterprises in what leaders term the "informal market"

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(*al-suq al-hur*); a craftsmen hired in the building trade; and a professor paid to teach. Moreover, these members are not only helped with connections (*wastas*). As one leader put it: "[W]e help them in these endeavors with supplies of investment capital, regular salaries, and jobs through the organization's social networks. We even help them with marriage."

However, it is important to emphasize that prior to having access to these patronage and economic networks, the organization selects recruits very narrowly. In fact, each potential member is carefully interviewed prior to the recruitment process in order to make a decision as to his (or her) aptitude and potential in the long-term success and efficient running of the organization. As one Brotherhood leader in Helwan district put it: "[T]he poor are not a big part of our recruitment efforts. They simply want *lugmat al-aysh* (bread), and have no education and consciousness that would enable them to understand the *Da'wa* (Islamic Call)."

Other *Ikhwan* members were more detailed (and nuanced) in their explanation of why the organization has not been able to mobilize working-class members in large numbers. Indeed, while the spokesperson at the national level informed me that the organization accepts members from all segments of society, at the district level leaders of the organization acknowledged a "shortcoming" with respect to their ability to mobilize both working-class residents and the urban poor. This is most noticeable in working-class neighborhoods such as *helwan* and *hadayiq helwan* where I conducted my research and where formal workers represent a large proportion of residents. As one activist leader in Helwan who joined the Brotherhood in the 1980s said:

> We try to help *'umaal* [workers] on an individual basis. But we have to acknowledge our shortcomings with respect to making recruitment inroads among laborers. We have much more luck with *hirfiyyin*, than we do with the workers. It is also difficult to have a [Muslim] Brother with a suit going to the poor *shabbab* [youth] in informal areas.

This corroborates the statement of young men in the poorer informal quarters of Imbaba who informed me that they are rarely afforded the opportunity to join the more mainstream Muslim Brotherhood organization. This exclusivist aspect of the *Ikhwan* in terms of mobilization partially explains the popularity of more militant organizations that emerged in the informal settlements in Cairo, which I discuss in Chapter 7. To be sure, the militant Islamic Group in Imbaba also selected members along class lines. However, the latter's "pool" of recruits was comprised of a combination of informal and casual laborers and newly urbanized migrants who constituted much of their membership during their most

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active recruitment drives in the late 1980s and early 1990s in Imbaba and other informally settled quarters of Cairo. In other words, the "barriers to entry" into the middle-class *Ikhwan* organization had the unintended consequences of driving many poorer and younger Egyptian youth into more militant organizations like the *al-Jama'a al-Islamiyya*.

This is not to suggest that the framing of Islam as a religion of equality and social justice does not resonate across social groups even in Helwan, and one *Ikwhan* leader emphasized that the organization routinely assists workers and the poor on an "individual" bases. Nevertheless, as a result of state repression and resource constraints in less-affluent districts such as Helwan, the leaders of the Brotherhood have always been compelled to select new members along relatively strict class and occupational lines. As I discuss in Chapter 2 this is also the case in the Sudan. Indeed, it is important to note that clear social divisions also exist between lower middle-class members and the middle and upper middle-class strata of the organization. In other words the form that the recruitment and mobilization take even within the organization is effective to the extent that it is specific to the local social and economic context. As one *Ikhwan* leader put it:

> It was always easier to recruit from the *hirfiyiin* [craftsmen] without higher degrees. These are true men (*ruggal*) who do not equivocate. They see things in black and white. [For their part], educated university students are always easily seduced by non-Islamic entertainment and other things.

Importantly, these internal social and class divisions between more affluent Islamists and those lower down on the social ladder do not always generate conflict. This is not only because of the importance of deeply shared religious values and a strong sense of a collective religious identity; it is also due to a key motivation that induced scores of lower middle-class men into joining the Islamist movement: the perceived and, in the 1980s and through the 1990s, real possibility of upward social mobility. As one resident of Helwan told me after he was denied membership by *Ikhwan* recruiters ostensibly due to his lack of education: "I only dream that I could be rich like the *Ikhwan*. They are a role model for me (*al-mathal al-'ala*); being wealthy like many of the *Ikhwan* means being able to get married and raise a family, afford the funds to help my brothers and friends to get married, and attain a good job."[91]

It is important to highlight that even in an era where the authoritarian regime pursued a relative permissive attitude toward the middle-class strata of the Islamist movement, at the level of the grassroots the Brotherhood was compelled to devise methods of mobilization to avoid state repression and surveillance and simultaneously generate high levels

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of commitment among the members of the organization. As noted earlier, one key method of mobilization utilized was to motivate participants through the provision of selective incentives and carefully select the right kind of member to the organization. However, given the general popularity of the Islamist movement the Muslim Brotherhood attracted deeply committed individuals dedicated to the cause of the organization and willing to make sacrifices and engage in high-risk behavior, as well as low commitment individuals who acted as "consumers" rather than "investors" in the organization and desired short-term gains from participation.[92] Consequently, in the context of continued state repression and the "clandestine" nature of their mobilization efforts, the leadership of the organization designed a method of mobilization (*tarbiyya*) in a way that would facilitate loyalty to the organization and engender genuine long-term investment to its religious, social, and political objectives. One leader who played a crucial role in this regard was Khairat al-Shater. Shater was not only primarily responsible for introducing an innovative way of financing the patronage networks linking national and local-level elements of the Brotherhood; he also outlined a process of mobilizing rank-and-file members in ways that ensured trust and fealty to the movement.

In 2012, in the brief period of freedom afforded the Brotherhood when the organization's political party (the Freedom and Justice Party) headed a civilian government following the Tahrir uprisings of 2011, Shater candidly revealed the vision behind the mobilization campaigns of the organization:

> We are groups, families, branches, and regions and officials, the form of the structure may change from one era to another, but the idea is that there must be an organization. There must be work and, in this system, there must remain certain degrees of commitment. So it is not possible for us to call any gathering a *Gama'a*, as in the technical term of the Islamic movement, where each can do what he wants or one with an idea different from that of the majority . . . not every existing gathering is a Gama'a, even if it were a group of good people who are committed to Islam; they are not a Gama'a as such with their structures and officials, without system, commitment, and obedience.[93]

And further:

> The *Gama'a* thus requires the strength of psychological construction and the strength of organizational construction. The organizational construction needs structures, officials, and relationships that bind them together. The Ulama classified these relationships into brotherhood, trust and obedience.[94]

A close examination of the process of mobilization devised by the Brotherhood, and the duties and obligations associated with different

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levels of membership in particular, demonstrates how these challenges and objectives noted by Shater were met. In this regard, two important elements associated with the process of mobilization of rank-and-file activists determined the relative strength of the organization even in an era where the state pursued a relative permissive attitude toward the movement. First, while the distribution of material resources provided an important incentive for individuals to join the organization, this factor was hardly sufficient in generating deep loyalty to the organization. Indeed, the primary reason the Brotherhood was able to enjoy strong commitment from its new recruits and long standing members had more to do with a multistage socialization process which, over time, facilitated two important benefits for those who joined the *Ikhwan*: that is, the real possibility of upward social mobility for members in the lower ranks of the organization, and the more spiritual benefit of being shepherded through a process of growth, or *tarbiyya* (literally, guidance and nurturance). Moreover, the latter was underpinned by an adherence to social discipline and the enforcement of strict guidelines associated with proper personal comportment which, taken together, generated not only a strong sense of community in a broad sense, but also the privileged position of participating as a respected member in a select and exclusive brotherhood.

Second, and in more theoretical terms, the process of vetting recruits highlights the construction of a particular type of Islamist *political* identity that is clearly important in the view of the leaders of the Muslim Brotherhood. Indeed, the diversity of Islamist politics in Egypt captured by the popular term the "Islamist trend" (*al-Tayyar al-Islami*) warrants a closer examination of why some individuals join moderate middle-class Islamist organizations, while others either remain apolitical pious citizens or participate in more militant forms of activism. As Shater's statement mentioned earlier clearly captures, for the Muslim Brotherhood the process of *tarbiyya* not only plays a key role in guiding individual participants along the lines of a particularly Islamist political trajectory, it is also open to change in the context of changing political and economic circumstances.

There is little question that the boom period of the 1980s and up to the early 1990s represented the "heyday" of the Muslim Brotherhood's recruitment and mobilization campaigns. It was, in the words of one activist leader in Helwan, the "golden age" of *tarbiyya* (education) for the Islamist movement. Nevertheless, activist leaders maintained that they have long had to address two challenges: to impress on potential members that Islam or, more specifically the Brotherhood organization, can overcome the deep social, political, and moral challenges facing the country; and to generate trust and loyalty to the Brotherhood in particular.

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Consequently, joining the Muslim Brotherhood is predicated on a lengthy process that is comprised of three distinct phases: identification, training, and, finally, full membership status. The process is necessarily hierarchical and until 2007 it consisted of as many as five stages of participation from the initial period of identification to full membership. Each level bears with it duties and obligations designed to determine the recruit's level of commitment to the organization. This in turn is measured in accordance with the potential member's attendance of the weekly programs, regular financial contributions, and full participation in the Muslim Brotherhood organization's activities. Moreover, the ranking system (to be described later) has great influence on the decision-making and long-term organizational behavior of the movement. The primary reason for this is that the level of rank qualifies members to elect and to be elected to the higher bodies of the organization.

The first stage is a process characterized by *Da'wa* in which potential recruits are identified through Islamic activities such as local Mosques, schools, and universities. As in other similar organizations preexisting trust plays a key role. Not surprisingly, the easiest recruitment opportunity is one in which recruiters become acquainted with and befriend potential members through informal social networks, most notably relatives, classmate connections, friends, and neighbors. The basic criterion of recruitment is to select individuals in terms of their behavior (*suluuk*). At this early stage, the evaluation or assessment of a potential recruit is based on the extent to which the individual adheres to public morality and distinguishes himself in aptitude with respect to Islamic education. For instance, activist leaders informed me that this includes the individual being dedicated to prayer in the Mosque, and great importance is paid to the dawn (*fajr*) prayer in particular. In addition, the individual must become an active participant in charitable works and have a "good" reputation among residents of his neighborhood. Moreover, in addition to issues of morality, the potential recruit must demonstrate interest and commitment to political issues. As one activist leader put it: "[H]e must be interested in larger public policies associated with the larger Arab community and the Islamic Umma." For example, active sympathy to the Palestinian cause is viewed by the leadership as an important component of the recruit's commitment to the organization, and activist work opposing the regimes in Arab countries, including Egypt, is of paramount importance as a key litmus test of this political commitment. In this instance, the *Da'wa* is viewed in political and not just religious terms. This stage of initial membership or vetting of potential recruits is termed "the stage of general adherence" or *marhalat al rabt al-'am*. What distinguishes the Muslim Brotherhood from more militant organizations,

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however, is that the age of the individual acquiring membership should not be less than eighteen years. In the 1980s and 1990s, as I discuss in Chapter 7, the more militant Islamic Group (*al-jama'a al-Islamiyya*), for example, routinely recruited adolescents rather than young adults.

Following the identification phase is the socialization or formal training stage. Upon selection, the recruit graduates to the stage of the *muhib*, a "devoted" or aspirant member of the movement. At this stage the individual enters the circle (*khaliyya*) of the Muslim Brotherhood. In order to engender greater commitment, the recruit is educated in the basics of Islamic knowledge (*al-adab al-Islami*) and the principles of the Islamist movement. In this stage, the leadership monitors closely the attendance of the individual to prayers, and the commitment of the members of the cell is evaluated through practical activities. These include *Da'wa* responsibilities and the payment of monthly financial contributions. In addition, the recruit is socialized to follow a specific set of social morays *(adab usuul al-khaliyya)* that range from obedience to parents and elders to adherence to norms of hygiene. The latter includes the proper process of ablution and prayer and related matters designed to impart a strict moral education conducive to disciplined behavior. In the context of state crackdowns against the Muslim Brotherhood, these *khaliyyas* assume a clandestine orientation in which only members of each cell know each other at least until they advance further through the recruitment process. However, communication is achieved across these organizations because leaders of a group of cells, with a relatively longer history of membership, know the others up to the highest hierarchy of the leadership.

It is, however, in the third stage where the formal training phase of the recruit begins in earnest. At this stage the recruit is considered an effective member, or *Udu al-Muaid*, with entry determinant on effectively "vetting" the recruit in the previous stages. According to members of the Muslim Brotherhood's leadership I interviewed in 2008 and 2009, it is at this stage where the process of selecting a future '*udu*, or member, begins. The genuine testing of the recruit, however, occurs in the fourth stage where the recruit is considered an "associate" member, '*Udu al-Muntassib*. Following passage of the first three phases, the recruit is compelled to swear an oath of allegiance (*al-bayi'ah*) to the organization. The leadership then places the individual through several tests to insure his commitment, verify his solidarity to the movement, and develop the recruit's endurance, *sabrihi*. As one recruiter informed me, this is considered a crucial stage precisely because it tests the potential recruit's resolve and "stability to act well" in sensitive situations. Passing this stage makes the member a full-fledged "brother and one step away from full membership."[95] By the fifth stage, the recruit is considered

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a full member of the organization and is designated as '*Udu al-Multazim*, a "committed member." This is the stage when the member is assigned organizational tasks and is afforded the right to identify and select new members, to monitor and evaluate lower-ranking members (i.e., *al-muhib and muaid*–ranked recruits).

Thus, in practice the vetting process of the Muslim Brotherhood is elaborate and potential members are recruited in painstaking fashion and socialized into the organization as part of a relatively lengthy process. It is important to emphasize that religion clearly plays an important part in the process of *tarbiyya* and rank-and-file members I interviewed are deeply motivated by their understanding of Islam as a religion of equality and justice. However, as noted earlier, the Muslim Brotherhood's activist leaders are also clearly aware of the political and organizational dictates necessary to generate deep commitment, trust, loyalty, and, as Shater put it, "obedience" to the organization. Moreover, it is important to reiterate that while activist leaders are necessarily concerned with building and strengthening the structure of the organization in the context of a strong authoritarian regime, for their part, prospective participants and rank-and-file members are understandably motivated to join the movement out of a desire to achieve a better and higher socio-economic status in life. The challenge for the leaders of the organization came when the state clamped down on the Islamic economy and its financial base beginning in the early 1990s. As the Brotherhood suffered dramatic financial loses as a result of both state policy and economic crisis, the organization's leaders sought ways to adapt so as to continue to provide resources to their rank and file and, even more importantly, to maintain the latter's strong commitment to the organization. It is therefore understandable that, as Shater himself noted, while the structure of the Brotherhood needs a "structure" and "relationships" to function, it is also an organization that changes from "one era to another." In Chapter 4 I address how the Brotherhood was compelled to alter the process of mobilization (*tarbiyya*) in the context of increasing levels of state repression and dwindling resources resulting from the two related factors: the onset of economic recession and the state's concerted attack against informal Islamic institutions ranging from Islamic finance to Islamic welfare institutions.

Informal Labor and the Foundation for Militancy in Imbaba's Informal Settlements

If Egypt's integration into regional and labor and capital markets resulted in the informalization of financial markets in ways that advanced the economic and political fortunes of the middle-class Islamist movement,

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it also led to the dramatic expansion of informal housing and labor markets, which laid the foundation for the rise in popularity of a more militant form of Islamist activism in some of Cairo's booming informal settlements. By the late 1980s and early 1990s the militant *al-Jama'a al-Islamiyya* (Islamic Group), which originally emerged in the rural governances of rural Egypt, found significant popularity in Cairo's booming informal housing settlements. Indeed, by the end of the 1970s the deep structural and political changes generated by the internationalization of the economy resulted in the emergence of two segments of Islamic radicalism. The first consisted of newly urbanized, middle-class university students and educated white-collar professionals.[96] The second social group was poorer and more impoverished, and it consisted of rural workers who migrated to the city and found employment in the informal construction sector, which had witnessed dramatic expansion during the oil boom. This section discusses the ways in which the internationalization of Egypt's economy in the 1970s and 1980s led to a boom in informal housing and casualized forms of labor in construction in ways that paved the way for a new politics of ascription based on more militant forms of Islamist activism.

To a large extent, Sadat's shift toward a period of "hyper-liberalism" mirrored global economic trends in this period as Egypt entered a phase of "flexible specialization," characterized by increased capital mobility, and decreased protection of wage earners. That is, the old Nasserite economic system rooted in a "social contract" between large firms and a stable unionized industrial labor force gave way to a new regime based on the dominance of service occupations and a dramatic reorganization of labor markets and wage structures.[97] As the state continued to deregulate the economy, one important result was the expansion of informal markets in housing and labor.[98]

In terms of Cairo's housing market, this had the effect of leading to an explosion in land prices, which skyrocketed thirty-fold in Imbaba and other informal areas in the 1980s. Indeed, the increase in demand for housing was directly connected to Egypt's integration into the new international division of labor. Beginning in 1973–74 as a result of the combination of the oil boom in the Arab oil-producing countries and economic reforms, which opened the country to foreign investments and permitted Egyptians to travel more freely, Cairo witnessed the dramatic expansion of informal housing. The savings and remittances of expatriate workers provided the main source of capital for a boom in the construction of informal housing. This growth was so dramatic that by 1978, only five years after Sadat's infitah policies and the boom in remittances, an estimated 76 percent of new housing units built in Cairo were

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supplied by the informal sector, and these informal areas (*al-Manatiq al-'Ashwa'iyya)* housed 1.6 million Egyptians or 25 percent of Cairo's population.[99] Nevertheless, despite the large number of residents in these settlements they constituted informal and "illegal" housing because they were built on what was primarily privately held agricultural lands and without official construction licensing and permits.

The boom in remittances and infitah also resulted in two further, albeit related, developments that altered the country's labor market in a crucial way as the boom in informal housing became intimately linked to the expansion of informal labor, especially in the building trade. First, the demand for affordable housing and the speculation in land was accompanied by a dramatic shortage of labor in the construction sector due to the drain caused by emigration. This is because the bulk of the labor that was bid away from the domestic economy originated from construction. This process led to the loss of as much as 60 percent of construction workers during the boom in out-migration.[100] Second, workers in rural villages migrated to the cities in larger numbers to replace emigrant workers as informal laborers in the construction sector. As Assaad has shown, and I observed from my own research, labor in the construction sector in particular is almost exclusively procured on a casual basis. These casual workers have none of the employment benefits guaranteed by law, have no provisions for retirement or disability, and have no formal legal recourse in case of disputes. Moreover, 90 percent of all construction workers throughout the country are hired as casual workers. The precarious nature of their situation is further compounded by the fact that a total of 70 percent have no attachment to a single "boss" and thus must move frequently among employers (i.e., the subcontractors who hire them).[101] By and large the vast majority are compelled to rely on personal contacts, rural-based kinship networks, and their stock of social networks to find jobs.

For their part, these ex-village workers were attracted to the city both because of the increasing diminished availability of agricultural land and the promise of better services in Cairo. Consequently, the general investment boom associated with remittance inflows was translated rapidly into rapid growth in the construction sector, whose share of the total labor force almost doubled from 2.8 percent to 5.2 percent between 1973 and 1982.[102] Moreover, the expansion of informal labor markets and informal housing in informal neighborhoods in the context of economic liberalization became intimately linked since rarely can wages derived from informal work result in income sufficient for rents in formal housing. Consequently, together with poor Cairenes who also sought work and affordable housing in Cairo, the majority of migrants from rural villages settled primarily in newly established informal settlements such as the

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poor quarters of Western Mounira (*Mounira al-Gharbiyya*) in the neighborhood of Imbaba.[103] It is important to note, however, that because they were built in contravention of official laws and outside the purview of state regulation, these informal areas were ignored by the state. As a result, they lacked any organized streets, and were deprived of social services such as schools, health clinics, and youth centers. In addition, by and large they had little links with the state in terms of political representation or formal law and order institutions. Importantly, it is also here that the militant *al-Jama'a al-Islamiyya* (Islamic Group) came to enjoy the greatest amount of influence among local residents in the early 1990s and early 2000s.

The Islamic Group in Western Mounira, Imbaba

The informalization of Egypt's labor and housing markets, associated with the remittance boom and infitah policies, is closely linked to the development of more militant Islamist activism that came to be centered on some of Cairo's informal settlements. Indeed, the fact that by the early 1990s leaders of the Islamic Group enjoyed the greatest influence in the newly settled sections of Western Mounira (i.e., al-Waraq, Ezbat al-Mufti, and Beshteel), and none at all in the original areas of Imbaba, suggests a strong affinity between the cultural and political objectives of the Islamist militants and the economic and social aspirations of an increasingly pauperized community of informal laborers.

The transformation of the Mounira sections of Imbaba where I conducted my research represents a larger story of the shift toward the informalization of labor and social relations for Mounira's residents. It is a transformation that has coincided with the displacement of the Egyptian Left and formal labor by both middle-class and moderate Islamists (i.e., Muslim Brotherhood) and the militant *al-Jama'a al-Islamiyya*. This is a particularly important point since conventional analysis has explained the rise of Islamic militancy in Imbaba as the response of an undifferentiated urban poor to their miserable social conditions or exclusively as a result of state repression and neglect. The fact is that of the twenty-eight informal settlements in Cairo none have witnessed the penetration of Islamists to the same degree as the Western Mounira sections of Imbaba. Indeed, despite the acute stress of urban life, most informal settlements still possess viable informal institutions to settle local disputes and, in many cases, generate a viable and supportive social fabric. As in Imbaba generally, most informal settlements lack basic services, but while they do appear extremely disordered on the surface they are nevertheless

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characterized by an underlying order, which produces a high level of safety, security, and collective notions trust.

Why then should Western Mounira, in particular, experience a high degree of social conflict and prove, ultimately, “fertile” ground for more militant forms of Islamist militancy? What are the underlying causes of these developments, which not only further fragmented the Islamist trend in Egypt but also crucially altered the state’s relationship to Islamist forms of activism with lasting reverberations to the present?

The Social and Economic History of Imbaba

The social and economic history of Imbaba provides a key analytical window into some of the root causes behind the rise of the Islamist trend in the area. *Mounira al-Jadida* – whose Western sections came to contain a strong Islamist militant presence – is an informal settlement, which grew up just beyond Imbaba, which was then the edge of Urban Cairo beginning in the late 1950s and 1960s. Remarkably, what is one of the densest areas in Cairo was, prior to the mid-1950s, part of the cultivated land of Giza Governorate, producing vegetables for the urban market; the urban agglomeration ended at Midan Kitkat, across the Nile from the upper-class neighborhood of Zamalek. Villages were scattered across the land. They had begun to urbanize slowly since the establishment of bridge links to the Cairo side of the Nile via Zamalek in 1913, but the population growth remained slow for many years until the introduction of state-led industrialization policies under the Gamal Abdel Nasser regime. In the 1940s and 1950s, the original area of Imbaba included only Gezirat Imbaba and the surrounding Medinat Taq al-Duwal and Kit Kat.

It is a historical irony that a neighborhood that has become synonymous with state neglect and lack of state provisioning in the 1990s was, in the Nasser period, the beneficiary of a disproportionate amount of state patronage. Indeed, Imbaba originally enjoyed distinct state largesse under Nasser in its early phase of development. It was, in the words of a longtime resident, the “envy” of other municipalities and Governorates as a result of the sheer volume of state investment in the area.[104] In the 1960s Nasser built public housing for workers in *Medinat al-‘Umaal* (City of Workers) alongside housing first built by the Wafd government in Medinat al-Tahrir to the north. Since the 1950s, the expansion of the city into agricultural land in the Imbaba direction has proceeded apace, with population growth at the fringe of the urban agglomeration rather than centered on existing villages.

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Much of the growth in Imbaba and the larger community in *Mounira Gharbiyya* during the 1950s and 1960s was the result of government programs to provide housing for workers needed to operate the textile factories introduced under Nasser's Import Substitution Industrialization (ISI) policies of the 1960s. The first such development in the area was the City of Workers immediately adjacent to Mounira Gedida, which was established by boat builders just prior to the revolution. The "City of Workers" also housed workers employed with the Egyptian Textile Manufacturing Company (*al-Sharika al-Misriyya li Intaj al-Nasij*) and the General Printing Authority (*al-Haya al-'Ama li Shiuun al-Matabi'*). Eventually, the government also built a substantial number of schools, social clubs, and hospitals in *Gezirat Imbaba*, *Medinat al-'Umaal*, and *Medinat al-Tahrir*. Several substantial factories had also located in this area by the early 1960s, including a match factory and a clothing factory. Public housing projects were later established in *Mounira al-Sharqiyya*, a formal settlement to the east of *Mounira al-Gedida*, and several other public housing projects were built in Imbaba proper.

Not surprisingly, during this period, Leftist and labor union activism centered on the industrial factories and public housing projects in *Medinat Tahrir* and *Medinat al-'Umaal*. The Arab nationalist Left's strongest presence was in the latter, however; an area in Imbaba appropriately named in honor of the "Egyptian worker" – *Medinat al-'Umaal*. Any candidate fielded by the Left in local elections during this period would run in *Medinat al-'Umaal*. In the 1960s and 1970s this Leftist- and socialist-oriented movement was closely linked to the ruling Arab Socialist Union (*al-Itihad al-Ishtiraki*) Party. Later, after 1976, this movement organized around the then newly formed *Taggamu* Party, which sought representation, at the national level, in the Egyptian parliament (*Maglis al-Sha'ab*). Thus, the Leftist movement, so strong at the time, represented an amalgamation of workers, formerly organized, housed in state-built housing, and whose social and political fortunes depended on Nasser's etatist policies, rather than on the neoliberal reforms associated with Sadat's "Open Door" policy introduced in the 1970s.

At the community level Leftist organizing centered on a host of civil associations such as *Munazamat Shabbab Imbaba* (Imbaba Youth Association) and *Nadi al-Riyadah* (the Imbaba Athletic Club). The Imbaba Youth Association in particular played an important role in the recruitment of young men and women to the Arab Socialist movement at the time. They provided a number of services to local residents including academic tutorial classes (*Fusuul al-Taqwiah*). They also convened conferences (*Nadawat*) in "Summer Clubs" (*Nawadi al-Saif*) to discuss and

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resolve social problems that may exist in the community. In ideological terms, Left of center civil associations represented the voice of Arab Socialists, Marxists, and Radicals during the Nasser era. Of particular significance is that, up to the 1970s, industrial labor in the textile factories formed the most important social base of the Left in the neighborhood.

Naturally, industrial labor in Imbaba was even more intimately linked to the Nasser regime since they were the prime beneficiaries in terms of disbursement of subsidized housing and employment in the state-controlled factories. Of great significance is the fact that these, hitherto, influential Nasserite civil associations were, by the 1980s, completely supplanted by a host of Islamic charitable associations, private mosques, and health clinics linked to the increasingly ascendant and confident Islamist movement. It is important to note that this change did not simply reflect the change in the ideational commitment of former Leftist supporters. Few of the rank and file and leadership associated with the Left in Imbaba "converted" to the Islamist trend. Rather, the Islamist "takeover" of parts of Imbaba is due to the ascendancy of new social groupings associated with the state's neoliberal orientation and who owe their fortunes to the informalization of both housing and labor markets – a phenomenon that itself came to be linked with the large-scale migration of Egyptian workers following the oil boom in the 1970s.

During the 1970s and through the 1980s, Imbaba, and particularly the section of Western Mounira, witnessed an accelerated pace of in-migrants first from rural provinces such as Assiut and Sohag, and in more recent decades, from Fayoum. In the 1970s there was a spectacular rise in migration from the *Saeed* (Upper Egypt) to Imbaba as well as to other informal areas in Cairo. The migration itself had begun as early as the 1960s. At that time it was fueled by increasing population growth and subdivisions of medium plots in Upper Egypt resulting from customary, Islamic laws of inheritance. Initially, male members of one family or clan would travel to Cairo while the rest would remain to cultivate agricultural lands. This in-migration was motivated by the search for *rizq*, or wealth, and most of the migrants settled in what was then agricultural land around Imbaba and *Ain Shams* out of two main considerations. The first consideration stemmed from a desire to find affordable dwellings, and second, to find employment nearby. The most feasible location was along the border between agricultural and urban land since the middle-class neighborhoods of *Dokki* and *Zamalik* were out of reach in terms of affordability.

Associated with these developments – and in the context of the informal labor and housing boom – new informal settlements west of the original communities of *Gezirat Imbaba* and *Medinat al-'Umaal* were

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spontaneously built to accommodate rural-urban migrants and lower-class Caireens responding to the demand for labor in the construction trade. As a result of in-migration from Upper Egypt, by the late 1980s greater Imbaba came to be spatially divided in social and occupation terms. More specifically, middle-class professionals and government civil servants continued to reside in the older sections of *Medinat al-'Umaal* and *Tahrir*, while Western Mounira became home to a large number of informal laborers spread across the poorer quarters of Western Mounira such as *Oseem*, *Ezbat al-Mufti*, and *Bestheel*. Thus, whereas under Nasser, the industrial workforce represented the dominant form of employment in Imbaba, by the 1980s informal labor in construction represented the most important source of work in the neighborhood. This is true of all of Imbaba, but particularly in Western Mounira.

It is also significant that these social and occupational divisions reflected marked differences along ideological lines. More specifically, as Imbaba shifted from a neighborhood dominated by Leftist and labor union members to one that became densely penetrated by Islamist activists the latter were also divided in socio-spatial and ideological terms. The Muslim Brotherhood found their greatest popularity in the middle-class sections of *al-Waraq* and *al-Arab*, while the *Jama'a al-Islamiyya* and the more Salafist trend of Islamist activists came to be concentrated in the lower-class neighborhoods of *Ezbat al-Mufti*, *Bestheel*, and *Oseem*. However, this transformation associated with the eclipse of the left by the Islamists in the neighborhood did not occur without wrenching political and social conflict.

As in Egypt generally, the displacement of the Nasserist Left by the Islamists in Imbaba was a result of state policy as well as socioeconomic change. According to Imbaba's residents, the most important political turning point in this transformation was related directly to the historic Food Roots of 1977. On January 18 and 19 of that year scores of working class and poor Egyptians throughout the country spontaneously protested in reaction to the government's decision to increase prices of some essential commodities as part of infitah economic austerity measures implemented by Sadat under pressure from the International Monetary Fund (IMF). Ultimately, in the face of overwhelming popular opposition, the regime was forced to rescind its decision to cut food subsidies. Nevertheless, the riots accelerated Sadat's policy of promoting the Islamists in order to undercut the influence of Nasser's socialists (*isthirakuun*) and Arab nationalists (*qawmuun*), which at the time posed a grave threat to the stability of the Sadat regime.

What its supporters called the *"intifada"* (popular uprising) of 1977 was spearheaded by the supporters of the Left in Imbaba, and in fact,

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began with demonstrations organized by the residents of the public housing projects in the area. Immediately following the food riots, Sadat's security forces cracked down against Leftist and other "pro-Nasserist" forces in Imbaba and elsewhere that it blamed for instigating and organizing the nationwide riots. Members of the *Taggamu* Party in particular were singled out for retaliation and thousands of the organization's members, including many residents in Imbaba, were detained. Subsequently, the influence of Leftists in Imbaba, organized around the *Taggamu* Party, effectively ended.

In addition, following the riots, state authorities supported the Islamists in important ways. First, the regime turned a blind eye to the expansion of informal settlements. To be sure this was a consequence of the withdrawal of the state from the production of subsidized housing for middle- and lower-class Egyptians as part of infitah policy meant to rationalize the public sector. But another reason was to diffuse Leftist political mobilization by altering the demographic composition of the local population and indirectly support a new Islamist-oriented constituency in the informal areas. Second, in the 1970s and early 1980s just as Sadat supported Islamist activists in the universities to outflank Nasserist forces, the regime actively supported moderate as well as militant wings of the Islamist movement in informal areas.[105] This was evident in two important ways. The then ruling NDP promoted and supported members of candidates belonging to the Muslim Brotherhood in local council elections throughout the 1970s and 1980s.[106] Moreover, in contrast to the 1990s when state security forces sought to monitor Islamist religious institutions, in the 1970s and 1980s the regime promoted a key element that brought militants together: the proliferation of *Ahali* mosques in Imbaba and other informal areas. The Islamist resurgence and the displacement of the Leftist forces were thus accompanied by an increase of both private mosques and independent preachers in the neighborhood.[107]

The history of the state's policy of tacitly supporting the Islamists is one reason that despite the 1992 siege of Imbaba by state security forces, Islamists are still active in the neighborhood. To be sure, throughout the Mubarak era state security forces monitored Islamist activists closely, but Islamist preachers affiliated with the Brotherhood (*Ikwhan*) and the Islamic Group (*Jama'a*) continued to be permitted to deliver sermons – within certain security restrictions. However, as the voting patterns of the parliamentary elections following the 2011 uprisings clearly demonstrated, the persistent dismal social conditions in Imbaba is another major reason why there continues to be significant popular support for both the recently banned Muslim Brotherhood Freedom and Justice

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Party (FJP) and the Salafist Nour Party and even the Islamic Group across the different quarters of the neighborhood.[108]

Most studies of Cairo's informal settlements have correctly shown that most of these settlements are heterogeneous in that they generally consist of rural-urban migrants, long-time residents of Cairo who were forced to relocate in search of affordable houses, and a mix of poor, working-class and middle-class residents. This is certainly true in terms of the general profile of these areas. However, a closer examination of the different quarters *within* these informally settled neighborhoods reveals a far more socially stratified profile of local residents that is often obscured in the general surveys conducted of "informal Cairo." The poor quarters of the Western Mounira section of Imbaba is a prime example of this phenomenon. Like other informal areas in greater Cairo the district of Imbaba is crowded and poorer than the more affluent middle- and upper-class neighborhoods in the city. Imbaba is also similar to other informal settlements in that the district is home to residents from rural and urban parts of the country and they hail from a variety of social groups. However, what is noteworthy is that the residents in newly settled sections of Western Mounira are primarily from the working class and working poor, and as such they live in worse living conditions than their counterparts in other parts of the district, which has a substantial proportion of middle-class residents.

The residents of the newly settled quarters of Western Mounira make up approximately 65,000, which represents over half (51 percent) of Imbaba's total 1.3 million inhabitants. Furthermore, since this area comprises only 10 percent of the total district, this means that, according to one important study on the neighborhood, Western Mounira is the most densely populated area in all of the Governorate of Giza with a population density of 325000 people/km^2.[109] In addition, while there is no available data on the occupational and socioreligious composition of Western Mounira's residents for the 1970s and 1980s, one rare household survey was conducted on the area in 1995. It found that as many as 43.1 percent of residents were either construction workers or described themselves as "unemployed." The proportion of the remaining occupations included 20.5 percent state bureaucrats, 15.7 percent professionals (lawyers, doctors, teachers, engineers), 15.7 percent housewives, and 5 percent businessmen. Equally significant is the relatively young age of the residents. 20.5 percent were found to be thirty years of age and younger, and a large proportion (62 percent) between thirty and forty. Only a small percentage, 17.5 percent, was forty-five or older.[110]

Naturally, these figures cannot fully capture the dismal social and economic conditions of the residents in Western Mounira. However, in

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important respects they are corroborated by my own ethnographic research in the middle-class areas of Imbaba (i.e., *Waraq al-Bandar* and *al-Arab*) and in the newly settled and poorer sections of *Ezbat al-Mufti*, *Oseem*, and *Bestheel*. The social and economic plight of residents of the newly settled areas stands in stark contrast to that of the original and more solidly middle-class areas of Imbaba. As the youth arrive from Upper Egypt to Imbaba, they search for housing (as well as employment) that is cheaper than that of the older settled sections of the neighborhood. Upon arrival these youth are quickly absorbed into the informal economy mostly in Western Mounira, and they rely primarily on rural-based kinship associations (*Rawabit Iqlimiyya*) to acquire some measure of social services and procure employment. These new migrants live in the worst conditions in all of Imbaba. In the quarter of *Bestheel*, for example, I observed some living quarters with no roof, no sanitation, and no running water. It is not uncommon to visit dwellings housing eight or more individuals in one room, and in the majority of cases (and in *Ezbat al-Mufti* and *Beshteel* in particular) two or three related families reside in the same dilapidated housing structure.

It is significant that older residents refer to these new arrivals to the area as *'"Umaal Taraheel"* (migrant workers). It is a term that commonly refers to agricultural seasonal migrant laborers. In fact, this designation points not only to the rural origin of many of the new arrivals to Mounira, but also to an important similarity between their former and present occupations. Indeed, the *'umaal taraheel* share similar characteristics with informal laborers in construction. Both occupations are vulnerable to seasonal fluctuations and, rarely, can either afford to settle in one place. In fact, just as *'"umaal taraheel"* worked on large agricultural lands (*Taftish* lands) that required seasonal wage laborers, workers in *Ta'ifat al-Mi'maar* (Construction Sector), while residing in Western Mounira, relocate frequently, and many travel as far as Sinai, in addition to different sections of Cairo, to find employment.

Paving the Way for Islamist Militancy: The Ruralization of the Urban Fringe and the Decline of Traditional Authority

The foundation of the Islamic Group's success in Imbaba lay in its ingenuity in supplanting the traditional authority of local notables while, simultaneously, replicating the neighborhood and family-based Islamic norms familiar to the "rural"-minded residents living on Imbaba's urban fringe. The leaders of the Islamic Group (most of whom are of rural origin) were aided in this effort by stark class divisions between local notables (*kibaar al-mantiqah*) and the majority

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of Imbaba's newly arrived denizens. The most prominent notables of Imbaba had made their fortunes in the period of land speculation often by coercive means,[111] and this, in combination with other close ties to the state, delegitimized their authority in the eyes of many residents and eroded their traditional status. At the same time, the very density of informal, traditional institutions enabled the Islamic Group to forge close links with rural migrants and lower-class residents of Imbaba who had previously relied on traditional social networks and informal institutions for employment, social cohesion, and to arbitrate disputes among individuals and families in the neighborhood.

The political and social upheavals that culminated in an Islamist militant rebellion in the 1990s had their roots in the expansion of markets and, more specifically, in the ways that this process disrupted traditional rural ways of life, undermining local institutions and, ultimately, the economic livelihoods of many of the residents in the newly settled informal areas. Naturally, there is no smooth evolutionary passage from feudalism to capitalism, and as Mitchell has keenly observed in the context of rural Egypt, the transition to the market cannot be described as a "seamless web" whereby ex-rural workers came to be incorporated into the larger urban capitalist economy.[112] Nevertheless, as studies of market transitions in the context of authoritarian regimes have demonstrated, historically the transition from central planning and regulation to the widespread introduction of private property is often associated with different levels of violence primarily because it is rarely accompanied by the prior establishment of clearly defined property rights, a legitimate legal system, or credible law and order institutions that deter crimes. In addition, since there is a great increase in property and economic transactions there is more opportunity to engage in illicit if not criminal activities such as theft, robbery, land speculation, and the confiscation of property.[113] In the case of Imbaba these changes were accompanied by two related forms of coercion: the manipulation of political patronage and local kinship ties by local notables and merchants intent on amassing greater resources and power, and the emergence of semi-private protection of public order, carried out by local strongmen (*baltagiyya*) under the sponsorship of the newly enriched notables and endorsed by officials of the state.[114]

The erosion of the authority and status of Imbaba's notable families was directly linked to their collusion in profiteering from land speculation associated with rapid rates of urbanization. Prior to the establishment of *Mounira al-Jadida*, five families owned most of the land in the area of *Kafr al-Salmaneya*, *Waraq al-Arab, Waraq al-Hadar*, and *Beshteel*, all village

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communities in the immediate vicinity. These families began to sell their lands in the 1930s, during the early phase of village urbanization, retaining some land for their own use. By 1955, city sprawl had reached the edge of the area, so that the land of *Mounira al-Jadida* began to have increased value as building sites, and subdivisions intensified. The rate of conversion from agricultural to residential usage grew more rapid in the 1960s with tremendous in-migration to Cairo from the countryside and consequent pressures on city boundaries.

As the demand for affordable housing sped apace in the mid-1970s, local notables found themselves well positioned to profit from this boom, and they essentially traded their previous legitimate social and political authority for wealth. Former village agriculturalists found themselves de jure and de facto owners of prime real estate. In Imbaba, a number of village notables were able to take advantage of their right to "prescriptive ownership" – having occupied the plot for an uninterrupted period of fifteen years. Others took advantage of the sudden departure of the owners and were able to buy large areas of land at low prices – the shrewdest forged contracts of sale and engaged in claims against those departed owners who had left without registering the transaction. In the new informal settlements of *al-Waraq* and *Bestheel* none of the families that profited from the boom in land speculation started out with de jure ownership of large plots of land. Almost without exception, the village notables (*Omdas*), the sedentary Bedouin and other category of squatters who succeeded in regularizing their situation, did so by deception, taking advantage of legal ambiguities, and corrupt government authorities.

Ali Morgaan, one of the first of the large land speculators in Imbaba, is illustrative of this process associated with real estate profiteering. At the height of the housing crisis, Morgaan forcibly seized lands close to the juridically designated urban area. If the owner refused to sell the whole plot at below market prices, Morgaan often resorted to hiring local strongmen (*baltagiyya*) to coerce the landowners to sell their land. His tactics went as far as ruining the landowner's soil and the burning and stealing of harvested crops. Morgaan would often use, what one resident termed, "covert terror" tactics.[115] He would buy more land, refuse to cultivate it, and after a while use government assistance to legally convert the land to "residential" rather than agricultural land. He then used his links with the government's Local Council in *al-Waraq* to license this land as residential and then sold it at a much higher price. In one instance, he bought one feddan for 150,000 pounds, only to sell it by the meter for housing construction for a price of 1,000 pounds a meter. In this way he, and others in his position, earned a windfall, which allowed him to buy more land.[116]

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Consequently, social conflict was embedded in spatial terms and expressed in local politics. During the 1980s, the notables also enjoyed considerable protection and patronage from state authorities. It was at this juncture that the state cemented its clientelist links with the newly rich land speculators who themselves were often associated with the large clan families such as the family of *Awlad Beni Adiyya* (from Sohag). In Ezbat al-Mufti, where Ali Morgaan made his fortune, his son, Mahmoud Morgaan, is head of the village's local council and, arguably, the wealthiest man in the neighborhood. Not surprisingly, the new social and economic position of these notables translated into political influence, and at present, one finds them in control of local council elections throughout Imbaba. In the latter part of the Mubarak era, a few even gained seats in parliament (*Majlis al-Shaab*).[117]

Local grievances thus resulted not only from frustration over the state's general neglect of the neighborhood, but they also reflected deep structural conflicts between local political and economic interests. Specifically, they represented conflicts over juridical boundaries, resource allocation (i.e., budget outlays), and generally a form of social conflict embedded in spatial terms. This conflict was spatially determined because the degree and level of state patronage came to largely depend on where you lived in Imbaba. Thus, residents of *al-Waraq* as represented by local council members jealousy guard their relatively advantageous legal status as a *Medina* (a city) rather than a *Qaryah* (village) against poorer enclaves such as *Ezbat al-Mufti* and *Oseem*. The latter are neighborhoods that are financially dependent on their neighbors in ways that appear unjust to many local residents.[118]

The attempt on the part of the notables to derive greater profit from land also had the consequences of producing a greater demand for, and competition over, private forms of protection to forcibly settle disputes and enforce "cooperation" in a context where local notables managed to establish a system of patronage that institutionalized extortion. These new rich class of notables emerged as local patrons providing employment and protection for local strongmen (*baltagiyya*), local property owners, as well as petty criminals in the neighborhood. As property owners these land speculators had no interest in crime, though they had interest in maintaining a broad army of followers for coercive purposes. The retainers, on the other hand, had to be allowed pickings and a certain scope for private enterprise. Following the erosion of the power of these notables, the Islamists recruited from a similar base. That is, just as the new rich made use of the *baltagiyya* to reinforce their local monopoly and made fortunes out of informal, and illicit, land dealings, the *Jama'a* utilized the same cadres to

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institutionalize extortion. In the absence of the central state machinery, this type of criminality could not be eliminated and only increased with social crisis.

However, what distinguished the group of land speculators from the Islamists was the latter's military character. The military formations of the "Mafia" show the same mixture of *baltagiyya* (retainers) and other criminal elements interest in profit. The *baltagiyya*, in particular, proved vital to the *Jama'a's* military campaigns. These *baltagiyya* would join the *Jama'a's* "defense" (i.e., military) wing, partly to follow their religious patrons, partly to raise their personal prestige by the only way open to them – acts of "toughness" and violence, but also because conflict meant profit. This profit incentive derived from the "pickings" they obtained from both forced tax collection (zakat), wages for work conducted on behalf of the organization, and the procurement of construction job contracts though coercive means.

In great part the demand and competition over the services of the *baltagiyya* emerged because of the presence of low levels of interpersonal trust in Imbaba's newly settled areas resulting from the social upheavals associated with the era of land speculation and state corruption. However, what is noteworthy is that both the newly enriched notables and militant activist leaders were perplexed and deeply challenged by the heterogeneity and social complexity of Imbaba's residents. Indeed, contrary to conventional explanations that contend that high levels of urbanization uniformly result in the breakdown of kinship ties and weakened communal solidarities (i.e., low levels of interpersonal trust), residents of Imbaba responded creatively to the economic marginality imposed on them by the larger political economy. Social relationships were cemented not only through real kin, but also through fictive kin, creating a dense network of overlapping networks and informal institutions that provided mutual aid and, for a time, were effective in responding to the residents' desire for social control.[119] Importantly, however, while kinship and familial ties continued to be important they coexisted, and often competed, with more sparsely knit and spatially disbursed social networks. The latter emerged as a result of two important factors that had important consequences for identity-based politics: the high levels of rural-urban migration, which weakened existing social ties and retarded new ones, and the separation of residence and workplace that necessarily involved Imbaba's residents in multiple social networks with weak solidarity attachments.

Significantly, this period saw a form of local politics that reproduced, and made more pronounced, the reliance on clan (*Qabiliyat*) and familial (*'Assabiyyat*) solidarity among local residents. While these traditional

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norms of fealty served as instruments for social cohesion and ordering in rural Egypt, in the context of informal settlements such as Western Mounira, they came to be associated with class conflict, regionally based schisms, corruption, and intermittent violence. Indeed, institutions such as the *Ghafir*, an individual assigned the role of protecting cultivated agricultural plots, came to be used by Ali Morgaan and other speculators as a bodyguard in charge of protecting him from dissent, opposition, and retaliation by local residents.

At the same time as notables co-opted traditional institutions to preserve their own power, however, other rural-based social institutions earned greater legitimacy among Imbaba's residents precisely because they served the rural migrants' social and economic needs. Upon arrival in Imbaba, migrants from Upper Egypt utilized social networks organized around Clan (*Rawabit Qabaliyya*) and Regional Associations (*Rawabit Iqlimiyya*). These informal institutions provided new migrants a place to "stand together" and helped them in finding housing and jobs in the city. In Imbaba, these associations include the Associations of the Sons of Sohag (*Rabitat abna-Sohag*), and the Association of the People of Assiut (*Rabitat ahl-Assiut*), each named for the region or social group (clan family) that it serves. While these associations can still be observed in Imbaba, they are far less significant in the social life of the neighborhood than they were at the height of the migration from Upper Egypt. This is because, over time, larger and more spatially disbursed social ties became more important for residents in terms of gaining access to employment, more differentiated sources of information, resources, and services than those provided through a small number of kin and familial contacts.[120] Nevertheless, these associations have played an important role in the social and economic life of the neighborhood. The Association of the People of Assiut, for example, continues to play an important role in finding work in the construction sector for new in-migrants from the rural governorate of Assiut. It was this regionally based group that established the first coffee house (*Qahwat al-Assayta*) where informal and casual laborers could meet, and acquire information from local contractors about jobs in the building trade. *Qahwat al-Assayta* served as a model for similar coffee houses that presently dot the unpaved roads of Western Mounira, Imbaba.

In contrast to many other parts of greater Cairo, in the newly settled areas of Imbaba, regional and kin-based identities continued to wield social significance and authority as a result of the arrival of large numbers of rural migrants. Whereas, in the 1960s and 1970s, the majority of local residents were from the northern Delta and lower-class urbanites from

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Cairo's Giza Governorate, in the 1980s more than 30 percent of the areas' residents hailed from Upper Egypt. Indeed, the fading era of the social Arab nationalist presence in Imbaba represented what common discourse in Egypt would consider a more "modern," if not more sophisticated, strata of urbanites and farmers (*Fellaheen*) from the Delta, rather than the "ignorant" Sa'aedah hailing from Upper Egypt. Seemingly insignificant in the 1960s and early 1970s, regional cleavages in the area would become more pronounced beginning in the mid-1970s as rural migrants from Upper Egypt flocked to Imbaba and other urban areas in search of employment and affordable housing.

As the demand for affordable housing increased it required the labor to construct it. *Sa'edah* (Upper Egyptians) replaced workers from the northern Delta who had dominated the labor market. Indeed, during the boom years in particular, many labor contractors based in Imbaba traveled to Upper Egypt to look for workers all of which helped to support the construction boom in the informal settlements. This resulted in marked conflict and competition between *sa'aedah* (southerners) and *fellaheen* (northerners) over scarce public resources, housing, and jobs that were often reflected in cultural schisms. Presently, *sa'aedah* and *fellaheen* do not cooperate well and each harbors resentment toward the other. These tensions are particularly acute in sections of Imbaba such as *Waraq al-Arab*, *Bestheel* and *Ezbat al-Mufti* where regional and class divisions stand in clear tension. The *fellaheen* and older residents perceive Upper Egyptians as "backward, illiterate, and prone to spontaneous acts of violence." As one long-time resident of *Waraq al-Arab* put it: "[T]hese sa'aedah of *Mounira al-Gharbiyya* (Western Mounira) are from the past (*al-maadi*)." For their part, the *sa'aedah* speak of the former pejoratively as "*Awlad al-Bandar*" (boys of the city) and accuse them of having been corrupted by modern and decadent secular values.[121] In the late 1990s and early 2000s, I observed the leaders and preachers of the Islamic Group regularly exploit this rift in a complicated and often contradictory fashion. On the one hand, they often preached against the ills of conspicuous consumption in their sermons as a way of drawing in the alienated youth of Western Mounira (*Ezbat al-Mufti* and *Bashteel*) who find themselves outside the circuits of old money and the more diffuse metropolitan social networks. On the other hand, the Islamists also clearly helped to mitigate against social conflict between communities in the quarters of *Ezbat al-Mufti* and *Beshteel,* areas where lower- and middle-class residents from Cairo live and work side by side with rural in-migrants of *sa'aedi* background. In part, they have done this by universalizing certain modes of conduct and by arbitrating between disputes in summary and, often, coercive fashion.

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Not surprisingly, the persistent, albeit precarious, significance of kinship and familial ties in the socioeconomic life of Imbaba is reflected in the culture of the neighborhood. Rural-urban migrants have clearly left their cultural imprint in the life of *Ezbat al-Mufti*, *Beshteel*, and to a lesser degree *al-Waraq* (all informal settlements in Western Mounira). In particular, they have brought with them their conservative and patriarchal culture from Upper Egypt and reproduced many of these norms among local residents. Significantly, many of these norms approximate those espoused by the Islamic Group. For example, Sheikh Jabir and preachers belonging to the *Jama'a al-Islamiyya* routinely utilized traditional norms, first introduced by the rural migrants in Imbaba, to recruit followers. During the 1980s, for example, when some of the Regional Associations where attempting to enforce their own dress code for women in the neighborhood (eschewing jeans, skirts, and other forms of "western" dress), Sheikh Jabir appropriated this campaign as part of the Islamist's struggle (*kifah*) against moral degeneration (*tagheer al-Munkar*). *Tagheer al-Munkar*, reinterpreted as a campaign to radically change "degenerate" moral practices, spearheaded by the Islamic Group in Imbaba proved to be a close fit to the cultural orientation of a conservative community in transition. Moreover, the Islamic Group's campaign distinguished its message from the more moderate Muslim Brotherhood whose middle- and lower middle-class profile, education and social aspirations, alienated them from the poorer and less-educated residents of Western Mounira.

However, while the phenomenon of in-migration contributed to the ruralization of Imbaba as a result of the growth of semi-rural settlements, drastic demographic change also paved the way for a neighborhood that became marked by less social homogeneity and cohesion. That is, while traditional kinship networks still played an important role in securing jobs, housing, and providing for the social needs for rural migrants, acute forms of social distress emerged as a result of the combination of the spatialization of class divisions as well as changes in the social composition of the residents of the informal areas. By the late 1980s, and even more so in the 1990s, residents reflected an increasingly heterogeneous population living in close proximity. Throughout the peripheral areas of greater Cairo, including Imbaba, the number of residents, approximately half, were migrants relocating from within the Greater Cairo agglomeration to find affordable housing.[122] In Western Mounira, the stronghold of the Islamic Group in the 1980s and 1990s, the age profile of the residents was another contributing factor that gradually undermined social cohesion and more traditional social ties. In 1992, at the time of the state's crackdown against the Islamic militants in Mounira, about 65 percent of the population were married couples between twenty and

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forty years old, with at least four children. At least 73 percent of the children were under twenty years of age; 87,000 young boys between the ages of ten and fifteen, 125,000 under fifteen; and 77,000 above twenty years old.[123]

This combination of a highly diverse neighborhood, a relatively young population, and rural migrants has meant a relatively high rate in the incidence of social conflict that often resulted in violence. It is quite common, for example, to see young men using knives in conflict situations and settle even relatively minor disputes by force, and these confrontations often escalate as friends or family members of the injured party are compelled to retaliate. In the context of weakened familial and informal social institutions and networks that are able to maintain "law and order," the Islamic Group filled this void, albeit sporadically.

However, contrary to conventional accounts, the Islamic Group did not wield a hegemonic hold on Imbaba. The heterogeneous nature of the neighborhood and the presence of gangs *('isabaat)* and a significant number of clan-oriented groupings stand in constant tension with the authority of the Islamists in the neighborhood. In fact, rank-and-file members of the Islamic Group are often involved in violent skirmishes with clans such as the Beni Mohamed, and with residents of the neighborhood who saw in their Islamic tax (zakat) collection methods a "protection racket" reminiscent of the era of land speculation in the area rather than a sincere faith-based "moral" campaign.

Many local residents see the work of the Islamic Group in the neighborhood as akin to that of the *baltagiyya*. An institution itself, *baltagiyya* refers to a band of local strongmen who utilize strict coercive norms of reciprocity (shorn of a clear moral or ideological message) to resolve disputes and safeguard the interests of their naturally select membership. Not surprisingly, given the informal nature of social and economic relations in Western Mounira, the *baltagiyya* play an important role in establishing some semblance of social predictability. As a result, residents are careful to distinguish between the "baltagi" who resolves disputes and one who is nothing more than a thug or "troublemaker." Thus, the term itself has earned an honorable connotation, at least among some of the young men in *Ezbat al-Mufti* and *Bestheel*, a point of view little understood outside the local community. For their part, the leaders of the Islamic Group recruited heavily from these *baltagiyya* for their rank-and-file membership and were careful to work with, rather than against, them.

The migration streams from both rural Egypt and Cairo's middle- and lower-class neighborhoods have also put pressure on the already sparse social services in Imbaba. In *Ezbat al-Mufti*, for example, there existed only one school and one private clinic as late as 1998 – a full six years after

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the government of Mubarak ostensibly recognized the link between "poverty" and Islamic "terrorism." Within this context the dense networks of Islamic Charitable Associations (*Jamiyyat Shari'a*) and private storefront Mosques play a more important role in the social life of residence than they do in other areas of Cairo where formal institutions compete more effectively with Islamic institutions in providing social services.

Yet there is no such thing as a stable state of affairs in Western Mounira. The Islamists are not always successful in resolving conflicts and they themselves have been drawn into violent skirmishes with Upper Egyptian clans in the neighborhood. Indeed, attempts by the Islamists to usurp the traditional authority of clan elders was, according to residents, one of the most common sources of conflict in the neighborhood.

Conclusion

Out of the structural and political conditions of the 1970s there emerged two distinct tendencies within the Islamist movement in Egypt: a movement organized around the Muslim Brotherhood, which reemerged under a new generation of a more moderate and politically accommodationist cadre of activists, and a second, more radical minority, which considered it an obligation, and a sacred duty, to launch an all-out Jihad against the regime using military force if necessary. The rank-and-file members, albeit not necessarily the leadership, of these two trends could be distinguished to a significant degree by their social and regional divisions. The Muslim Brotherhood were increasingly comprised of middle- and lower-class members while the bulk of the members of the militant groups came from the ranks of the rural population, new migrants to the city, and the working-class, informal workers, and the unemployed or underemployed.

Rather than focusing on "Islamism" as the outcome to be explained, my account of these developments has distinguished Islamism as a sociopolitical phenomenon from the related but wider phenomenon of Islamic revival, which has been the subject of some important works on the subject. The two cases of the Muslim Brotherhood and the Islamic Group illustrate not only the diversity within the larger Islamist movement in Egypt, but also how, in the context of larger structural change, different socioeconomic factors make for diverse political and social outcomes.

More specifically, I have shown how the oil and remittance boom era crucially affected state-society relations in ways that greatly influenced the organizational character, social basis, and ideological orientation of the moderate as well as the militant trends of the Islamist movement. To be

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sure, ideational factors are important in explaining why individuals join the Islamist movement in such large numbers. However, and without reducing politics to economics, it is clear that in order to grasp why Islamists diverge, and why, in some cases, kinship networks continue to compete with Islamist loyalties at the community level, it is important not only to examine the contentious relationship between the state and Islamist activism, but also to examine precisely how broader shifts in the political economy result in variations in terms of identity-based forms of political mobilization in civil society.

However, it is important to note that despite the country's relative economic openness under infitah, the state retained a relatively strong level of state capacity over the economy and social control over society. This was due to two key factors. First, and most important, the regime continued to dominate the formal economy and the huge state bureaucracy continued to supervise and direct economic life and amass substantial wealth in the context of limited economic liberalization. Moreover, strong sectoral interests represented by both management and formally organized labor continued to wield significant political influence. This, in turn, mitigated the full exposure of the public sector to the market and international economic competition. Second, liberalization of labor migration enabled Egypt to reap considerable benefits from the oil boom of the 1970s and early 1980s. This meant that the country's financial situation was sufficiently strong in ways that allowed the regime to enjoy a short reprieve from the unemployment problem and provide a rudimentary level of basic services for the population, thereby preserving social peace. The overall result is that, despite the great expansion in the informal economy as a result of external economic forces, the regime not only retained significant capacity over regulating the national economy, it also maintained considerable power over society in terms of applying sanctions against groups it perceived to threaten its interests. Figure 1.1. illustrates the relationship between informal transfers and Islamist activism during this remittance boom era.

What is noteworthy is that in the era of the remittance boom and infitah, and in contrast to the state of affairs in later decades associated with the deepening economic crisis and characterized by increasing levels of state repression, the regime did not perceive the Islamists as particularly dangerous and, as noted earlier, often accommodated them into the state's financial and political structures. This was particularly true in the early years of infitah when Sadat supported and forged selective clientelistic linkages with Islamist activists and businessmen as a way to outflank groups and individuals perceived to be still loyal to the anciene regime of Nasser.

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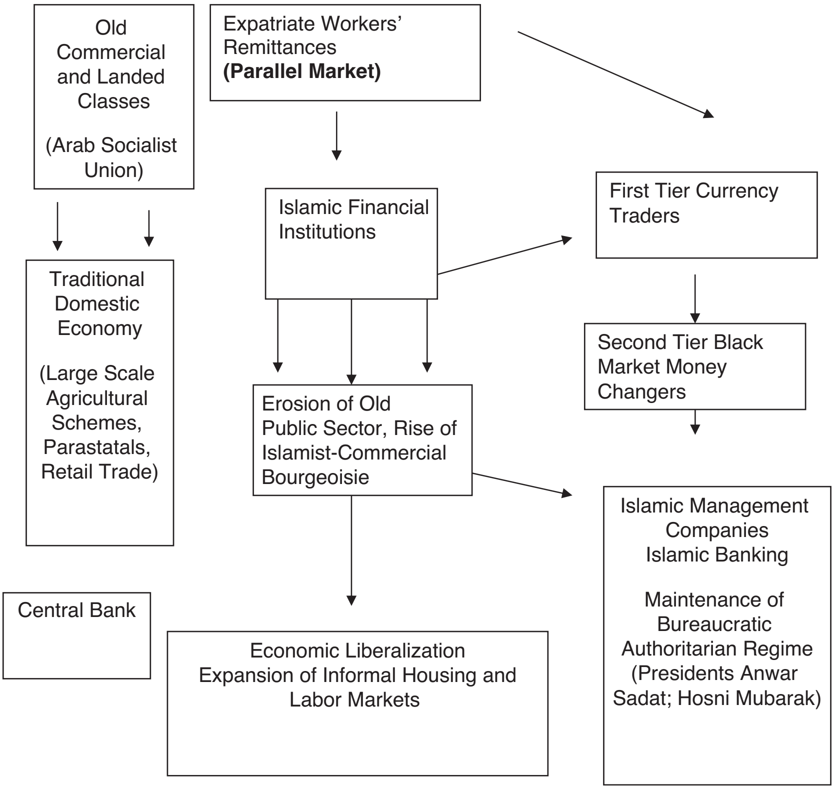

Figure 1.1 Informal transfers and Islamist activism in the remittance boom in Egypt

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