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26 September 1978

MEMORANDUM

SUBJECT: Egyptian Military Discontent

[redacted] discontent within the Egyptian armed forces, particularly within the officer corps, over the past couple of years. A number of reasons for the poor state of morale have been advanced:

- pay that has not kept pace with inflation;
- lack of living quarters, both for the men and their families;
- lack of adequate public transportation;
- antiquated equipment and shortage of spare parts;
- poor training;
- corruption in the government;
- lack of progress toward peace;
- undue reliance on the US, which has not paid off in terms of Israeli concessions;
- too hasty and too final a breach with the USSR, before other sources of military supply had been nailed down;
- transfers of army officers for political, not military, reasons;
- forced retirements within the officer corps.

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Not all of these factors are of equal importance and some have obviously been affected by President Sadat's success-- and the military is by and large interpreting it as a success-- at Camp David. It seems clear from the limited information we possess, that the bread-and-butter items of pay and inadequate housing are the most important causes of military grumbling.

The military believes it deserves to retain the middle- and upper-middle class economic/social status enjoyed during the Nasir era. This status is perhaps best reflected in the fact that three of Egypt's top four leaders--President Sadat, Vice President Mubarak, and Deputy Prime Minister Jamasi--are all from the military. While military pay and benefits exceed those of the average Egyptian, the military's economic/social status has been eroded in recent years by President Sadat's private sector-oriented economic policies, which have led to sharp increases in private middle- and upper-middle class incomes. Thus, military personnel, particularly junior officers, view themselves as relatively worse off vis-a-vis their private sector peers. The military rationalizes private sector gains as due largely to corruption and profiteering rather than the productive exploitation of new economic opportunities.

Inflation since 1973 also has taken a visible toll on military pay. The official Consumer Price Index (which seriously understates real price increases) has gone up by about 70 percent since 1973. Military pay since 1973 has lagged behind, rising by only about 50 percent, including the most recent pay hike in July. The government's inability to provide housing and transportation--both perquisites expected by the military--has added to economic complaints.

Direct criticism of Sadat has focused on the luxurious lifestyle of himself, his family, and his entourage. Minister of War Jamasi has also come in for a share of the complaints;

[redacted] and hand out discipline with little sympathy for the problems of the rank and file.

Dangerous as criticism of Sadat could be to the stability of his regime, which is dependent on military support, it does not appear to have reached threatening levels. Sadat has been

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sufficiently concerned to attempt to alleviate the problems; the pay raise last July may have moderated the grumbling. At the same time--following an incident in Alexandria in which two officers who had been unable to get housing for their families took two platoons and seized apartments--5,000 apartment units were allocated to junior officers, although they will not be available for a year. The original allocation is supposed to be followed by the distribution of another 5,000 apartments. A complex of supermarket cooperatives is supposed to be opened to allow military personnel to buy goods at discount prices, and three million Egyptian pounds have been earmarked to purchase motor bikes for soldiers and officers to make up for the lack of public transportation. While these measures fall short of military expectations, they at least demonstrate the regime's interest and concern for the well-being of the military.

Other attempts to deal with military discontent have succeeded in generating additional complaints. According to one report

[redacted] Sadat intervened personally in the selection of a list of senior officers to be transferred last June, and saw to it that all those going to even remotely sensitive positions were men considered to be his strong supporters. Conversely, those not considered to be whole-heartedly behind him--even though not outright opponents--were moved to positions entailing little command responsibility. The transfer list was reportedly greeted with considerable grumbling, particularly, of course, on the part of those who were transferred into meaningless commands or into retirement. Their supporters--who are said to be numerous--are apparently bitter.

Other senior officers had apparently been dealt with by mandatory promotion and retirement the preceding January. Officers who were less than enthusiastic over Sadat's peace initiative were apparently removed by this technique, [redacted]

[redacted] Their place was reportedly taken by middle-grade officers of proven political reliability; lower gaps were filled by university-educated reserve officers whose political leanings are unknown and who will therefore not be assigned sensitive positions.

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[redacted] four senior army generals were forced to retire just last month for writing a letter to General Jamasi in which they expressed dissatisfaction with conditions in the military service, both economic and with respect to poor equipment and training. The decision to fire the men was reportedly Sadat's. Jamasi agreed with the contents of the letter. [redacted] there is growing dissatisfaction among the younger generals and colonels over all of these issues, and officers are becoming more open in expressing their complaints.

To the extent that some of the dissatisfaction was not economic but related to the apparent failure of Sadat's peace initiative, the Camp David agreements will have a clearly positive effect. They should, in fact, have an impact on grumbling related to the poor state of military equipment and training, since the danger of war with Israel is close to being removed. Those who doubted Sadat's reliance on the US or breach with the USSR will have been undercut. The military apparently recognizes that other Arab states will rhetorically attack Sadat for having achieved more for Egypt than he did for them and accuse him of selling out, but they have little sympathy with this response; officers [redacted] believe Egypt has done its best to make peace, and it is up to the others to take advantage of the opening Egypt has provided. They accuse Syria and the Palestinians of being willing to "fight to the last Egyptian" and they are delighted to be regaining the Sinai without a fight. A serious breach with Saudi Arabia over the accords--particularly if it resulted in a worsening of Egypt's economic or military supply position--could persuade the military to revise their earlier enthusiasm for Camp David, but for the moment Sadat's stock has risen sharply.

Constraints and Possible Solutions

President Sadat has not been able to meet the military's economic complaints because of Egypt's limited financial resources. The President and his advisors apparently believe the current balance between development, social welfare, and military spending best meets existing economic, political, and strategic needs; doing substantially more for the military would

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upset the existing fiscal tradeoffs. An additional constraint is that Egyptian spending is limited by austerity measures included in the recently approved three-year IMF Extended Fund Facility.

To assuage the economic complaints of the military Egypt would need large additional inflows of grants or highly concessional long-term loans. Western aid donors already are providing substantial aid flows, and many would be unwilling to provide additional economic assistance, particularly since it would be aimed at helping the relatively better off Egyptian military rather than poorer Egyptians. Arab donors--most importantly Saudi Arabia and Kuwait--recently have been limiting their generosity.

If increased foreign assistance were made available, it would have to be in the hundreds of millions of dollars to make a significant impact. For instance, we estimate current apartment construction costs for junior officers would run at a minimum of \$7,000 per unit. Sewage, road, power and other infrastructure costs would be extra, varying with location. Shortages of construction materials and laborers likely would push costs up as construction took place. Thus to provide 10,000 new housing units (i.e. a doubling of President Sadat's July promise of 10,000 to the military over the next few years) would cost at least \$70 million and almost certainly much more.

While reports of discontent have focused on the junior officers, any pay increases would have to include the entire military. We lack precise information on the number of Egyptian military personnel and the total cost of salaries and fringe benefits. Assuming a conservative estimate of 500,000 personnel, an average pay rate of \$500 annually, and a 20 percent rate of inflation in future years suggests that providing cost-of-living increases for the military would run to at least \$50 million for the first year. The total would grow with each additional year. For example, in the second year, the outlay would be \$50 million, plus an additional \$60 million or \$110 million; in the third year, the total outlay would run \$182 million. In addition, military pay increases firmly linked to the inflation rate probably would require similar guarantees for other government employees.

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One fringe benefit that might be less costly and would help serve the cause of economic development is improved transportation. Many of the areas where the military is located are badly served by public transportation, and the military's perquisite of free public transportation means little. Aid donors unwilling to help the military directly might be persuaded to fund such projects.

The military's morale could also be improved if President Sadat were able to secure new military equipment and increased opportunities for foreign military training, but such programs would be particularly costly. For example, the F-5E package is priced at \$731.5 million. Additional military supply and training programs almost certainly would run into the hundreds of millions of dollars and would depend on foreign financing.

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