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Abstract

This paper argues that the modern economic systems of Egypt and Tunisia can best be characterized as corporatist economic systems, rather than socialist or capitalist systems. The emergence of corporatist political regimes in Egypt and Tunisia has its roots in 'free market reforms' which were supposed to transform these economies from socialist economies to free market capitalist economies. Instead of ushering in free markets, these reforms instituted closed unfree markets characterized by restrictions on entry and competition, close links between the ruling regime and favored firms and extensive government support for these firms under the rhetoric of development. This corporatist system emerged because of, and in turn strengthened, an omnipresent police state and an unaccountable rentier government dependent on foreigners, not citizens, for its financing. Real economic reform in Egypt and Tunisia is dependent on dismantling these corporatist regimes, and not on changing the people in charge of them.

JEL Classification: P1; P2

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ملخص

تناقش هذه الورقة أن أفضل النظم الحديثة الاقتصادية لمصر وتونس يمكن وصفها بأنها نظم اقتصاد الشركات، بدلا من النظم الاشتراكية أو الرأسمالية. ظهور الأنظمة السياسية والمصالح الخاصة في مصر وتونس له جذوره في "إصلاحات السوق الحرة التي كان من المفترض أن تحول هذه الاقتصادات من الاقتصادات الاشتراكية لاقتصادات رأسمالية حرة . وبدلا من الدخول في الأسواق الحرة، خلقت هذه الإصلاحات أسواق مغلقة غير حرة تتسم بالقيود المفروضة على الدخول والمنافسة، ووضعت صلات وثيقة بين النظام الحاكم وشركات مفضلة مدعمة حكوميا تحت خطاب التنمية. ظهر هذا النظام الشركاتي بسبب، وأدى بدوره إلى تعزيز، دولة بوليسية محكومة غير خاضعة للمساءلة الريعية التي تعتمد على الأجانب، وليس المواطنين، لتمويله. الإصلاح الاقتصادي الحقيقي في مصر وتونس يعتمد على تفكيك هذه الأنظمة ، وليس على تغيير الأشخاص المسؤولين عنهم.

1. The Socialist Systems of Egypt and Tunisia

Modern discussions of economic systems generally revolve around two diametrically opposed systems: capitalism and socialism. There is, however, a third type of economic system that is not discussed as often: corporatism. The reality of a society is too complex to fit neatly into these broad categories, yet there are hallmarks that allow us to broadly characterize a country as having one of the three systems.

For Ludwig von Mises, the one criterion according to which it can be determined whether a society has a market economy or a socialist economy is its having a stock market. The presence of a stock market means that capital is privately owned and that the allocation of capital is determined through the decisions of private individuals and not the decisions of government bureaucrats. Without a stock market the decisions of production must be determined centrally, which means public control of capital and productive processes[1].

Under such a definition, the Egyptian and Tunisian economies, in the two decades leading up to the revolutions of 2011, cannot be called socialist economies. While the state did own and operate some property and natural resources, the extent of this ownership was limited, and had been decreasing steadily with the powerful drive to privatization. Tunisia had a brief failed socialist experiment in the 1960s under President Habib Bourguiba but soon reverted to a more liberal market economic system. Nonetheless, the government continued to own and control large parts of the economy, and the drive toward privatization started in 1987 with the initiation of a structural adjustment plan[2]. Tunisia has also had a functioning stock market since 1969.[3]

Egypt did have a largely socialist economic system after the military coup of 1952, which ended the rule of King Farouk. At that point the private sector accounted for around 76% of total investment in Egypt. Egypt soon joined the state-led-industrialization model that was popular around the developing world in the 1950s and 1960s, and the state was to establish many public manufacturers, in areas such as steel, cement, cars, and construction. The state's share in investments was around 80-90% of total investment until the 1980s. The government of Gamal Abdel Nasser closed down the Egyptian Exchange in 1961, which had been active (in various names and forms) since 1883.[4] During the rule of President Anwar Sadat, Egypt began to move away from the state-controlled socialist model, under the policy of *Infitah* (openness) which reduced barriers on trade and investment. But even as the economy was opening up, the state continued to control large swathes of industry through the 1980s. The real drive for privatization, and the dismantling of state ownership of economic activity, started in 1991. With the help of the International Monetary Fund and the World Bank, the Egyptian government began working on an Economic Adjustment and Structural Reform Program.[5] The Egyptian stock market was reopened in 1992.[6]

The Egyptian and Tunisian experiences with socialism were both failures economically, and this conforms with the prediction arrived at by an economic analysis of socialist economic systems. State socialism, economically, cannot work, for reasons that have been explicated by economists since the 1920s, and have been vindicated by events worldwide since. Economic

[1] Rothbard, M. 1991. The end of socialism and the calculation debate revisited. *The Review of Austrian Economics* 5(2): 51–76.

[2] Abdelly, S. 2007. *Tunisia: The privatization process*. Legal Media Group. http://www.iflr1000.com/pdfs/Directories/3/Tunisia.pdf Accessed Aug 2, 2011.

[3] Official Website of the Tunisian Stock Exchange. http://www.bvmt.com.tn/EN/company/?view=history

[4] Official website of the Egyptian Stock Exchange. http://www.egx.com.eg/English/History.aspx

[5] Privatization Coordination Support Unit. 2002. Privatization in Egypt. Quarterly Review provided to the United States Agency for International Development.

[6] Official website of the Egyptian Stock Exchange. http://www.egx.com.eg/English/History.aspx

socialism has caused untold economic ruin in the former Soviet Union, China, Cambodia, Cuba, North Korea, Syria and various other societies where it was implemented.

The most obvious and widely-cited problem in socialism is that of incentives: when profit accumulation is banned, there is less incentive for people to engage in productive activities that serve one another. Markets work through the incentive mechanisms of profits and loss: profits are generated when someone produces something for which other individuals are willing to pay a price higher than its production costs. Losses, on the other hand, occur when someone engages in an activity whose output is valued by other individuals beneath the cost of its production. The incentive to make profits and eschew losses is what drives humans to serve one another voluntarily in a mutually-beneficial exchange. As Adam Smith put it: "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest."[7]

Furthermore, if everyone is to be rewarded similarly, there will be no incentive to carry out the hardest and least pleasant jobs. But socialist economists have nonetheless imagined that this incentive problem can be overcome through changing human beings into a better more cooperative New Socialist Man. This has not successfully happened in any of the socialist societies but even if it had, it does not begin to address the real economic problems with socialism, which go far beyond the incentive problem. Socialism would remain an unworkable economic system, and to understand why, one must turn to the interwar debate on socialist calculation and the work of Mises on Socialism[8].

Even after assuming away the problem of incentives, and assuming complete societal subservience to the central planners, the real problem of socialism is that the planners cannot know what to produce, how to produce it and what to do with it. For Mises, the fatal problem with socialism is that it is a system that prevents proper economic *calculation*. That the means of production are entirely owned by the government means that there can be no market in these means of production, and no way of determining the true production costs of different goods. This, in turn, destroys the profit/loss mechanism that is essential for determining the production that society favors. Murray Rothbard describes Mises'[9] point succinctly:

> "…socialism would lack the indispensable tool that private entrepreneurs use to appraise and calculate: the existence of a market in the means of production, a market that brings about money prices based on genuine profit-seeking exchanges by private owners of these means of production. Since the very essence of socialism is collective ownership of the means of production, the planning board would not be able to plan, or to make any sort of rational economic decisions. Its decisions would necessarily be completely arbitrary and chaotic, and therefore the existence of a socialist planned economy is literally "impossible"…"

This criticism of socialism is inextricably linked to Mises'[10] criterion for socialism as being the absence of a stock market where the means of production can be traded among the public. The existence of a capital market is itself the coordination mechanism that allows individuals to make production decisions based on their calculations of prices, costs, revenues, profits and losses. This is not a problem that can be wished away if one assumes an honest hard-working bureaucrat who genuinely tries his best to solve the socialist calculation problem, no

[7] Smith, Adam. 1776. *An inquiry into the nature and causes of the wealth of nations*. Edited by Edwin Cannan. Chicago: University of Chicago Press, 1976.

[8] Mises, Ludwig von. 1951. *Socialism: An Economic and Sociological Analysis*. New Haven. Yale University Press.

[9] Rothbard, M. 1991. The end of socialism and the calculation debate revisited. *The Review of Austrian Economics* 5(2): 51–76.

[10] Mises, Ludwig von. 1951. *Socialism: An Economic and Sociological Analysis*. New Haven. Yale University Press.

matter what the computational power employed. For economic calculation includes not just the calculation of the existing economic data, but more importantly, the calculation of potential possibilities that currently only exist in the minds of those individuals that have not yet carried them out, and in relation to these individuals' private preferences that are only known to them. Knowledge, by its very nature is dispersed, tacit and context-dependent. It is also independently important in its relevance to people's individual means and ends. It cannot be centralized and processed by one source. As Friedrich Hayek puts it in *The Use of Knowledge in Society*:

> "The economic problem of society is thus not merely a problem of how to allocate "given" resources—if "given" is taken to mean given to a single mind which deliberately solves the problem set by these "data." It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality."[11]

The coordinating role of the price mechanism and an open market for capital is not simply about successfully and efficiently managing the available resources using the available methods of production, but it is about something far more complex and unknowable: using this information to devise new products, procedures, and modes of production. As Mises put it:

> "it is vain to cite the honest corporation manager and his well-tried efficiency. Those who confuse entrepreneurship and management close their eyes to the economic problem … The capitalist system is not a managerial system; it is an entrepreneurial system."[12]

These and other considerations led Mises to write in 1920 about what the inevitable end of an economic system built on public ownership of capital would be:

> "One may anticipate the nature of the future socialist society. There will be hundreds and thousands of factories in operation. Very few of these will be producing wares ready for use; in the majority of cases what will be manufactured will be unfinished goods and production goods. All these concerns will be interrelated. Every good will go through a whole series of stages before it is ready for use. In the ceaseless toil and moil of this process, however, the administration will be without any means of testing their bearings. It will never be able to determine whether a given good has not been kept for a superfluous length of time in the necessary processes of production, or whether work and material have not been wasted in its completion. How will it be able to decide whether this or that method of production is the more profitable? At best it will only be able to compare the quality and quantity of the consumable end-product produced, but will in the rarest cases be in a position to compare the expenses entailed in production."[13]

Mises' description from 1920 might have been written by an observer of the Soviet Union in the 1980s, or, indeed, of many other socialist economies whose failure came in this form of operational factories producing unwanted products. It is thus no wonder that the socialist experiments of Tunisia and Egypt failed to achieve their goals and instead led to economic stagnation. Tunisia's example was far less severe than Egypt, since its socialist system only survived for a few years.

From this brief exposition, it is clear that Tunisia (from the late 1980s) and Egypt (from the early 1990s) cannot be termed socialist economies in any real sense of the word. They were

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[11] Hayek, F. A. 1945. The use of knowledge in society. *American Economic Review* 35(4): 519–30. American Economic Association.

[12] Mises, L. 1949. *Human action: A treatise on economics*. New Haven: Yale University Press.

[13] von Mises, L. 1935. Economic calculation in the Socialist Commonwealth. In *Collectivist economic planning*, ed. F. A. Hayek, 87–130. London: Routledge and Sons.

market economies. It does not follow, however, that those economies were capitalist economies. There are two distinct types of market economies: capitalist and corporatist. The distinction between the two is vital to understanding the economic context of the Egyptian and Tunisian revolution.

2. Capitalism or Corporatism?

Edmund Phelps defines capitalism, or free enterprise, as a system:

> "characterized by great openness to the implementation of new commercial ideas coming from people in private business, and by a great pluralism of views among the wealth-owners and financiers who decide which ideas to nurture by providing them the capital and incentives necessary for their development. Although much innovation comes from established companies, as in pharmaceuticals, much also comes from start-ups—particularly the most novel innovations."[14]

Private ownership of capital and means of production on its own is not sufficient to establish a capitalist economic system. What is important is that the private owners of capital are also able to decide what they want to do with it and how. Perhaps the single most indispensable criteria for a capitalist economy is that market workings decide who enters and exits an industry. On the entry side, this means that there are no restrictions by the government on who enters an industry; in other words, the government does not use its force to establish monopolies or oligopolies and shield them from competition. Any innovator can enter a market, and if they provide a better and/or cheaper product that consumers freely choose over their competitors, then these competitors will receive no help from the government, nor will it hinder the upstart. On the exit side, this means that firms can go out of business if they cannot compete, regardless of how big, important or strategic they are. This freedom to enter and exit a market is what Joseph Schumpeter termed 'creative destruction'.

For Schumpeter creative destruction is the dynamic process by which capitalism purges itself of the old, unproductive and defunct, replacing it with the new, productive and revolutionary.[15] This is the *élan vital* of a dynamic capitalist economy. When creative destruction is allowed to proceed, only the productive and prosperity-enhancing firms and technologies survive. When it is forestalled, the unproductive and wasteful survive and grow, and the productive is punished. This eventually destroys the dynamism of an economy, bringing about stagnation and a grinding halt of innovation and prosperity. The typewriter is an especially salient example. What would have happened if the typewriter industry was saved by forestalling innovation in the field of computing; if the government had decided that the typewriter industry was too important to be left to fail? It could have successfully saved it and halted the development of the personal computer. While those involved in the typewriter industry would benefit in the short run, the long-run costs of foregoing the personal computer are incalculable. Arguably, even those harmed in the short run from the destruction of the typewriter industry are made better off in the future from the emergence of the personal computer, which has by now revolutionized most aspects of economic and personal life. The crucial point about forestalling creative destruction is that the foregone benefits can never be measured, since we cannot observe the counterfactual that never occurred.

In contrast to the capitalist system, Phelps characterizes the corporatist system as a system of private ownership that

> "has been modified by introducing institutions aimed at protecting the interests of "stakeholders" and "social partners." The system's institutions include most or all

[14] Phelps, E. S. 2009. Capitalism vs. corporatism. *Critical Review* 21(4): 401–41.

[15] Schumpeter, J. 1942. *Capitalism, socialism and democracy*. New York: Harper and Row.

> (depending on the country) of the massive components of the corporatist system of interwar Italy: big employer confederations, big unions, and monopolistic banks."[16]

Phelps further elaborates on classic corporatism by drawing on the example of Interwar Italy:

> "Classic corporatism, such as Mussolini's, sought to restructure the capitalist economy so as to speed economic growth – growth of productivity and national power – beyond the capacity of Continental capitalism. This meant state initiatives to that end in both the public and private sectors. The quest for growth was to be subject to "solidarity" and "social protection." That meant "concertation" with the "social partners," subsidies for regions or industries, and social charges. Put equivalently, the state took whatever measures it deemed desirable in the name of solidarity and protection, constrained by the need to show efforts to restore growth whenever the economy flagged."[17]

Phelps defines the goals of a corporatist system to be:

> "First, there is the solidarist aim of protecting the "social partners"—communities and regions, business owners, organized labor, and the professions—from disruptive market forces; also the consensualist aim of blocking business initiatives that lack the consent of the "stakeholders"—those with a stake besides the owners, such as employees, customers, and rival companies. Second, elevating community, society, and being over individual engagement and personal growth appeals to antimaterialist and egalitarian strains in Western culture. Third, there is the "scientism" that holds that such a system can be more dynamic than the former system—maybe not more fertile in little ideas, such as might come to petit bourgeois entrepreneurs, but certainly in big ideas. Not having to fear fluid market conditions, an entrenched firm can afford to develop expensive innovations based on current or developable technologies. And with confederations of firms and state mediation available, such firms could arrange to avoid costly duplication of their investments. The state, for its part, could promote technological advances in cooperation with industry by harnessing the society collective knowledge. The state could indicate new economic directions and favor some investments over others through its instrument, the big banks."[18]

The distinction, then, between corporatism and capitalism is in the role of the state in the private-ownership economy, or to frame it differently, the role of privately-owned corporations in the state. Accordingly, a capitalist system is understood as a system of free exit and entry into markets, and a system of individual innovation in commercially viable directions. Capital owners, no matter how big or small, are equal in front of the law. They are granted no monopolies, privileges and are not shielded from competition. The state does not take into consideration any special 'stakeholders' and cannot intervene to improve their economic outlook. The freedom of the economic system from coercive government interference is the highest consideration, and supersedes any consideration of the fate of any individuals or groups of individuals.

Alternatively, a corporatist system is one where entry and exit into markets is heavily dependent on the decisions of government, while entrepreneurship and innovation are centralized and face restrictions. It is the fate of the politically connected special interest groups that is the foremost preoccupation of the government. The government seeks to 'pick winners' and establish 'leaders' in certain industries. It seeks to ensure that 'stakeholders'

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[16] Phelps, E. S. 2009. Capitalism vs. corporatism. *Critical Review* 21(4): 401–41.

[17] Phelps, E. S. 2011. *Modeling corporatist economies of the West and those of North Africa*. 4th Meeting in Economic Sciences, Lindau Meeting of the Nobel Laureates. Lindau, Germany. Aug 23-27, 2011.

[18] Phelps, E. S., and H-W Sinn. 2011. *Perspectives on the performance of the continental economies*. Cambridge, Mass: MIT Press.

continue to get specific gains. It is the fate of these stakeholders that primarily preoccupies the functioning of the government.

For Phelps, capitalism better describes the economic systems that emerged in Europe in the 19th century. The twentieth century witnessed both the rise of corporatism and socialism at various periods in different countries. The post-world war II global economy contained a large degree of corporatism, particularly in Europe.

3. The Problems of Corporatism

The first problem with corporatism is one of moral hazard. By concentrating so much economic power in the hands of the government, the individuals that make up the government can use this power to their benefit and the benefit of their clients and cronies. Instituting monopolies and bodies responsible for granting licenses is a common method of establishing such client networks. Those who are connected with the ruling regime can operate their businesses without competitive pressures, making outsized profits; those who are not connected to the regime are legally banned from operating their businesses and competing with the insiders. As Phelps puts it: “This is the burden of extreme corporatism: the deprivations for few or many of basic goods like careers, which are not morally compensated by the spoils of the advantaged, few or many.”[19]

It is important to emphasize here that criticizing corporatism for leading to corruption misunderstands corporatism; corporatism is corruption formalized and legalized. Under a socialist or capitalist system, an individual or firm that gets special favors from the government would constitute a corruption problem; but in corporatism, it is the defining feature of the system that different groups and stakeholders are treated differently. This is not just legal, but also viewed as desirable by the official organs of the state, and many of the population, perhaps even a majority. It thus does not make much sense to talk about ‘corruption’ problems in a corporatist economic system because the system is not corrupted in any meaningful way, it is meant to be that way. Clientelism and favoritism are a feature in corporatism, not a bug.

In this sense, the corporatist approach to the study of these economies offers an alternative to the usual “corruption” and “capture” approaches to analyzing moral hazard problems. The capture approach, emphasized by Kaufmann, begins with the starting assumption that the state has an important role to play in the management of the economy. If the state is ‘captured’, its influence can be used in counter-productive ways that hamper economic growth. The solution, as viewed from the capture paradigm, is to fight corruption so that the government plays a role conducive to economic growth. From the corporatist analytical approach to the economies of Tunisia and Egypt, the problem is not so much the capture of the state but the original fact that the government has an outsized role to play in the market economy. The problems of the Tunisian and Egyptian economies cannot be remedied by improving state-management of the economy or merely replacing some of the more important members of the ruling corporate regimes with new faces; what is needed is a systematic and wide-scale curtailment of the influence of the central government over market transactions and production.

Mushtaq Khan has suggested that the key to economic advancement in Egypt and Tunisia is the emergence of new patron-client networks that are conducive of economic development and growth. In contrast, when approaching the problem using the corporatist lens of analysis, patron-client networks are viewed as an essential economic problem; the smaller the network

[19] Phelps, E. S., and H-W Sinn. 2011. *Perspectives on the performance of the continental economies*. Cambridge, Mass: MIT Press.

of clients reliant on the government, the more free the economy is, and the more of society's productive members are engaged in productive work, and vice versa.

The essential problem with the patron-client network approach to economic development is that it is inherently not sustainable. Any benefits afforded to a client of a ruling patron are, by definition, an infringement of the normal working processes of a market economy (otherwise, the benefits would not be needed.) This favoritism must come at the expense of somebody else in the economy. The excluded are exploited, taxed and have their economic freedom restricted to the benefit of the exploiters in the patron-client network. Essentially, this system rewards failure while punishing success—a proven formula for achieving failure. This incentivizes more and more people away from productive work and into unproductive and parasitic work that is plugged into the rulers' patrimony networks, such as government employment, security agency employment, or membership in the ruling political party. As the number of the unproductive and parasitic members of society increases, the number of productive members of society decreases, and their productivity is decreased. The exploiters, inevitably, run out of the money of the exploited. Hence, no genuine sustainable economic progress can be achieved via changing the ruling elites and their clients; what is needed is a root-and-branch elimination of the mechanisms by which the government is able to control economic activity and establish these networks.

But moral hazard, in spite of all its negative and fundamentally unfair consequences, is not the main problem with corporatist economic systems; for they are but secondary considerations to the more serious problems at the heart of the definition of corporatism discussed above: economic miscalculation and lack of dynamism.

By subjugating the will of the owners of capital to the whims of government, corporatism will inevitably suffer from the same problem Mises [20] identified with socialism: Economic miscalculation. The absence of a freely-functioning price mechanism that aggregates societal knowledge to determine the relative productivity of various uses of capital means that prices will be skewed away from reflecting real market conditions, and the corporatist system will essentially face the same problems that destroyed all socialist economic systems. Whereas in socialism the price mechanism in the capital sector is inhibited by the public ownership of the capital, in corporatism the price mechanism is inhibited from functioning by the interventions of the government in the capital sector. By subsidizing, taxing, and intervening in favor of and against various industries and owners, government intervention leads to similar capital allocation problems as socialism.

The third problem with corporatism is its impact on economic dynamism, which Phelps defines as 'innovativeness in commercially viable directions'[21]. Phelps outlines the case for economic dynamism based on three contentions:

> "First, virtually every employee down to the humblest worker has arcane "know-how," some of it what Michael Polanyí called "personal knowledge," and out of that know-how a new idea may come that few others, if any, would have. With openness to commercial ideas and acceptance of the entrepreneurs who develop them, a plethora of new ideas may be generated. Second, the pluralism of experience and knowledge that the financiers bring to bear in their decisions gives a wide range of entrepreneurial ideas a chance of an informed, insightful evaluation. And, importantly, the financier and the entrepreneur do not need the approval of the state or of social partners. Nor are they accountable later on to such a social body if the project goes badly, not even to the financier's investors. So projects can be

[20] Mises, Ludwig von. 1951. *Socialism: An Economic and Sociological Analysis*. New Haven. Yale University Press.

[21] Phelps, E. S. 2008. *Dynamism and inclusion: What? Why? How?* Speech given at the Inauguration of the Phelps Chair, School of Law, University of Buenos Aires, May 20, 2008.

> undertaken that would be too opaque and uncertain for the state or social partners to endorse. Third, the pluralism of knowledge and experience that managers and consumers bring to bear in deciding which innovations to try and which of those to adopt is crucial in encouraging entrepreneurs to conceive new ideas and financiers to back them."[22]

Corporatism does not allow for free entry and exit to a market, and thus it stymies change, advancement, improvement—or dynamism, in short. For Phelps, the key difference between the corporatist and capitalist systems lies in the fact that the capitalist system has more dynamism.

> "On its face, the [corporatist] system impedes or discourages or simply blocks changes, such as the relocation and entry of new firms. The system's performance depends on established companies, in cooperation with local and national banks. What it lacks in flexibility it tries to compensate for with technological sophistication."[23]

The essence of corporatism, whenever it has been tried, is that the cooperation of the government with the big corporations will enable them to produce outputs that are superior to what would emerge in a laissez-faire setting where the government stayed out of economic decisions. This is to an extent similar to the problem of socialist central planning: whereas socialists believe the central planner could *control* production to the benefit of society, corporatists believe that central planners could *direct* private producers' activities to the benefit of society. But the problems of knowledge, as outlined by Mises and Hayek [24], that are faced by the socialist central planner will also be faced by the corporatist central planner. As Phelps puts it:

> "The pluralism of experience and knowledge that a capitalist economy's financiers bring to bear in their decisions radically widens the range of entrepreneurial ideas that have a chance of getting an informed, insightful evaluation. And it is very important that under capitalism, the financier and the entrepreneur do not need the approval of the state or of social partners. Nor are they accountable later on to such social bodies if the project goes badly, not even to the financier's investors. This allows projects to be undertaken that would be so opaque or complex as to be too uncertain for the state or social partners to endorse."[25]

In a corporatist system, only the well-connected can introduce new business and product ideas, and only their ideas get financing. This automatically excludes from innovating and inventing a large portion of the population. This majority of the population is *excluded* from the economy and prevented from reaping the benefits of creative and productive economic activity in which they would have gladly engaged.

In a capitalist system, any individual who finds an idea to improve others' lives faces little or no government barriers to them introducing this idea to others and to profit from providing others with what they want. This allows for the harnessing of the best ideas to the benefit of everyone. Similarly, any person who mismanages or fails in serving others will have no government support to prevent them from failing, and thus freeing up capital, labor and resources for others to use them more effectively. This takes the burden of having to support unproductive and parasitic firms of the shoulders of society.

[22] Phelps, E. S., and H-W Sinn. 2011. *Perspectives on the performance of the continental economies*. Cambridge, Mass: MIT Press.

[23] Phelps, E. S. 2009. Capitalism vs. corporatism. *Critical Review* 21(4): 401–41.

[24] See Mises, Ludwig von. 1951. *Socialism: An Economic and Sociological Analysis*. New Haven. Yale University Press; and Hayek, F. A. 1945. The use of knowledge in society. *American Economic Review* 35(4): 519–30. American Economic Association .

[25] Phelps, E. S. 2009. Capitalism vs. corporatism. *Critical Review* 21(4): 401–41.

Phelps and Zoega argue that Europe's corporatist institutions are inimical to dynamism, and go some way towards explaining the relative economic stagnation of Europe compared to other rich countries in the postwar period.[26] Phelps also provides evidence on the importance of dynamism for raising productivity and thus wages and quality of life. But the importance of dynamism, it must be emphasized, is not just that it offers more prosperity and better material products. This is more of a side-effect of the real benefits from living in a dynamic economy: freedom and the opportunity to engage in voyages of self-discovery and self-realization. Workers in dynamic capitalist economies are engaged in their jobs; they have the opportunity to explore careers in any field they wish, and have the freedom to work whenever and wherever they like. They can pursue an arcane passionate interest of theirs and end up making that into a financially and personally rewarding career. Dynamism allows people higher levels of self-realization. Phelps emphasizes that the most important benefit conferred from an economically free system may not be the productivity of goods so much as satisfaction in their production.[27]

The corporatist model of economic development has been particularly disastrous in developing countries. Corporatist rigidity and centralized direction implies a certain formulaic aping of development experience of other countries. When a country's leadership undertakes a corporatist mandate to develop some industry, they are trapped into believing that the road to economic advancement lies through copying the same industries and technologies that other countries had developed. Corporatism sees the means of other countries' economic development and mistakes them for the ends of development. The industrial plans to develop advanced steal or car industries are particularly salient examples from the disasters of twentieth century state-led industrialization. This drive mistakes the products of a developed sophisticated dynamic economy (car and steel industries, for example) for being the means by which poor countries became rich and prosperous, when in fact these industries are the products of generations of dynamic economic growth resulting in more and more sophisticated products. This confusion leads to developing countries stifling the development of a dynamic economy (which is the real driver of economic development and growth) in order to boost particular firms or industries (which are in fact the product of economic development and growth.)

One can understand the history of failed industrial policies in the developing world as being a history of the failure of adopting the corporatist model to the development experience of poor and developing countries. What development history has shown is that there is no formulaic recipe for economic development. Egypt, Tunisia and other countries will not develop by aping the success of earlier developers, for many reasons.

Firstly, they do not have to. There are endless numbers of industries and sectors in which different firms and countries could engage and become productive. Secondly, the paths in which other countries have succeeded have already had the most lucrative rewards distributed, the low-hanging fruits have been picked, and the returns are now diminishing. The first-movers have a large advantage and attempting to copy them will likely not be very lucrative. Third, the paths chosen by industries in other countries were highly context-specific, and relate to the time and place they were tried and the comparative advantages of the countries engaging in them. But the corporatist is unable to factor these considerations into their decisions. A victim of Hayek's *Fatal Conceit*[28,] he imagines that a developing country like Egypt could be transformed into a developed country like Germany if the

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[26] Phelps, E. S., and G. Zoega. 2004. Searching for routes to better economic performance in continental Europe. Forum 5, no. 2. CESifo, Munich.

[27] Phelps, E. S. 2009. Capitalism vs. corporatism. *Critical Review* 21(4): 401–41.

[28] Hayek, F.A. *The Fatal Conceit: The Errors of Socialism.* The University of Chicago Press. 1991.

government aggressively sets about aping the successful industries of Germany. In reality, he not only ends up making wrong decisions, but he takes away from others the ability to take the initiative and produce the innovations, business and industries that are best-suited for Egypt and that could in fact spur the country forward.

3.1 A case study of corporatism: Google and Quaero

A good recent example of the difference between corporatism and capitalism is illustrated in the story of the development of internet search engines, and in comparing the performance of two particular search engines: *Google* and *Quaero*. *Google* was started by two Stanford graduate students—Larry Page and Sergey Brin—in their garage in 1996 as a research project. It was first incorporated in 1998, and had its Initial Public Offering in 2004, which estimated the company's worth at $23billion. In 2010, its revenues were $ 29.32b. The word Google has even entered the dictionary as a verb—such has been the success of this search engine. It is no exaggeration to say that *Google* has revolutionized the internet and human knowledge.

Quaero, on the other hand, has been a textbook case study of expensive failure. *The Economist*[29] magazine provides a good overview of the history of its development. The *Quaero* project was started in April 2005, announced by French President Jacques Chirac and German Chancellor Gerhard Schroeder as a response to the dominance of American search engines like *Google*. The idea was to mobilize public funding and support towards building the next generation of internet search engines, in order to "staunchly defend the world's cultural diversity against the looming threat of uniformity"[30].

The Agency for Industrial Innovation (AII) was set up mainly to oversee this project, at a cost of $2billion—the bulk of which went to *Quaero*. The AII recruited several private companies, mainly from Germany and France, to work on this project, as well as several universities, public research institutes and other public organizations. The results, however, have hardly been stellar. In January 2007, *The Economist* reported that the project was scrapped since the German partners "grumbled about the cost and have indicated they will produce their own, scaled-down search engine."[31] Six years have passed since Chirac and Schroeder's announcement of the Quaero, and all that they have to show for it so far are press releases and no functional search engine. At the time of writing, *Quaero's* website (www.quaero.org) continues to exist as a platform for publishing press releases and speeches about the promised search engine.

The contrast between Google and *Quaero* serves as a very useful illustration of the difference between a corporatist system and a capitalist system. Google succeeded, even though it was started by two graduate students in a garage, and *Quaero* continues to fail even after billions have been spent on making it succeed. This, obviously, is not to say that if *Quaero* were started by two grad students in a garage it would have succeeded. Google did not succeed because starting from a garage is preferable; Google succeeded because it was one of very many private initiatives working towards developing a search engine with no centralized direction. When this healthy capitalist diversity of perspectives, initiatives and funding sources is allowed, the result is a flowering of many initiatives, only the best of which will succeed. Countless people worked on building a search engine, and the one that proved the most popular with users succeeded. The choice of Google was not made by a centralized authority that decreed Google superior to its competitors; it was purely the actions of many individuals preferring Google's platform over others that led to it succeeding.

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[29] The Economist. 2006. The attack of the Eurogoogle. March 10.

[30] The Economist. 2006. The attack of the Eurogoogle. March 10.

[31] *The Economist. 2007. Business this week. January 4.*

Of all the search engines started over the last dozen years, there was no way of predicting in advance which would be the most popular, as that would depend on the preferences, decisions and actions of millions of consumers worldwide. The sort of knowledge needed to decide which search engine is best is the sort of dispersed, local and situated knowledge Hayek [32] discussed. When producers and consumers interact freely, the preferences of the consumers are translated into incentives for the producers to please their clients. The emergent solution, what Hayek [33] would term a *spontaneous order*, is the product of the independent action of many people around the world, but the conscious direction of none. As Adam Ferguson put it: "nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design."[34]

The corporatist model, on the other hand, takes away from the consumers the sovereignty of choice to shape producers' decisions. It substitutes for it the rule of experts and bureaucrats who cannot know all the dispersed knowledge that all individuals have. The central planning experts may indeed chance upon a product that is successful. And given that they have recourse to taxpayer money which competitors do not, the odds are stacked in the experts' favor. The odds of success for the experts may well be superior to the odds of each single capitalist producer, but there are far more capitalist producers, and so the odds that any one of them succeeds are, in turn, higher than those of the corporatist planners. Hence, it wasn't exactly Google that beat *Quaero*, it was rather the capitalist system that gave millions of individuals the freedom to experiment with creating a search engine that succeeded over the corporatist French/German model of tasking experts with designing the best search engine.

There is another lesson to be gleaned from the tale of Google and Quaero, and that is about the opportunities that these two systems present to young people living under them. Under the capitalist system, motivated young people can undertake engaging challenges like setting up a new search engine, and can succeed in them spectacularly. Even if they fail, they end up learning a lot and can channel that knowledge into other enterprises or careers in other firms. But in the corporatist system, bright young minds have little chance of being creative on their own. They cannot follow their gut about a genius idea that they only believe in. If they want to make it in the search engine business, they need to enter a large firm that is well-connected to government officials assigning funding and granting monopolies. They need to be subordinated to the commands of many others and will be just a small cog in a larger wheel. There is no question which system young people prefer to enter.

The problem with corporatism, then, is not so much the problem of corruption that large state power can create. Corporatism destroys economic calculation and economic dynamism: it makes unlikely the failure of unproductive but well-connected firms and it stifles the ability of entrepreneurs to enter the market with their new ideas. It closes opportunities and leads to a growing disaffection among members of the population, who feel like unimportant cogs in a bigger machine. It takes away from individuals the chance at self-exploration and self-fulfillment; it teaches them that their own hopes, aspirations and desires are to be subordinated to the higher goal of having particular large firms succeed.

4. How Did Corporatism Emerge in Egypt and Tunisia?

The emergence of the corporatist system in Egypt and Tunisia can be only understood in the context of the transition away from socialist economics to market economics under the auspices of international development organizations and the ruling authoritarian regimes.

[32] Hayek, F. A. 1945. The use of knowledge in society. *American Economic Review* 35(4): 519–30. American Economic Association.

[33] Hayek, F. A. 1945. The use of knowledge in society. *American Economic Review* 35(4): 519–30. American Economic Association.

[34] Ferguson, A. 1782. *An essay on the history of civil society*, 5th edition. London: T. Cadell.

This reform movement was a seminal part of the politics and economics of Tunisia and Egypt for the past two decades, like many other developing countries around the world. The political rhetoric of these reforms was heavily-loaded with capitalist free market terminology: ownership of state assets was to become "privatized," entrepreneurship was to be encouraged, government intervention in the market economy was to be curtailed. The reality of these reforms, however, was different: Instead of ushering in a free market capitalist economy, these reforms fostered a corporatist and sclerotic unfree market system. It is thus more accurate to refer to these reforms as unfree market reforms.

Whereas state-owned enterprises were privatized, these assets remained under state control and "regulation", under the pretexts of ensuring that the privatization would meet social goals that the government was deemed fit to evaluate. This regulation essentially entailed limiting access into and out of the market to be decided by government employees rather than by the workings of the market economy. Whereas countless initiatives and programs were designed to encourage entrepreneurship, the reality for the majority of ordinary people remains that starting a business is a prohibitively complicated process at the mercy of bureaucrats.

Government continued to play a significant role in ordinary markets like those of food, fuel and other essentials. In spite of the enormous amount of evidence that price controls have overall negative consequences there is barely an essential good whose supply, price and production is not regulated in some form by the central governments of Egypt and Tunisia. Decades after the collapse of socialism, centralized bureaucracies like ministries of planning, agriculture and industry, continued to function and to centrally-plan economic production, with predictable consequences.

5. Examples of Egyptian and Tunisian corporatism

5.1 Ezzsteel

Ahmad Ezz was Deputy Secretary General of the NDP, Member of the People's Assembly and Chairman of its Budget Committee and also a close personal friend of Gamal Mubarak, the president's son and head of the NDP's Policies Committee. In addition to holding these high-ranking political positions, Ezz was one of the richest men in Egypt and one of its most prominent businessman as founder, chairman and majority shareholder of Ezzsteel, the largest steel company in the Middle East and North Africa. Ezzsteel controlled a large share of the steel market in Egypt. Allegations of corruption, monopolistic practices and illegal obtaining of licenses had surfaced for years around Ezzsteel, but no action was taken by the government against it. The Ministry of Trade and Industry tasked the Egyptian Competition Authority to investigate Ezzsteel under the Egyptian Competition Law in 2006 but cleared Ezzsteel and Ezz of any wrong-doing[35]. There were persistent complaints by consumer advocacy groups and political opposition movements that the company did indeed engage in monopolistic practices and that the government's investigations were politically influenced to clear Ezzsteel of all wrong-doing. After the demise of the Mubarak regime, however, Ezz was arrested and tried for "abusing his position to illegally accrue wealth and expand his steel business by monopolizing the industry and benefitting from state privatization projects."[36] Ezz was convicted on September 15, 2011. He was sentenced to 10 years in prison and fined

[35] Ezzsteel Investor Relations. Competition compliance. http://www.ezzindustries.com/main.asp?pageID=112

[36] Al Ahram. 2011. Steel tycoon and head of Egypt's former ruling party will have assets frozen. Ahram online, Saturday 3 Sep 2011, doi: 1/64/20194 http://english.ahram.org.eg/NewsContent/1/64/20194/Egypt/Politics-/Steel-tycoon-and-head-of-Egypts-former-ruling-regi.aspx

LE660 million ($110m)[37]. The court also revoked the production licenses awarded to Ezzsteel under Mubarak, requiring the firm to pay LE660 million to keep the licenses.[38]

The most high-profile case in Ezz's ascent was his takeover of Alexandria Iron and Steel Company Dekhila (AISCD). Established in 1982 and owned by a consortium of state-affiliated banks and petroleum companies, AISCD was the largest steel producer in Egypt, and its transition from statist control to Ezz's ownership is a good microcosm of Egypt's transition from socialism to corporatism. Ezz, who had owned the smaller Al-Ezz Steel Rebars (AESR), acquired a stake in AISCD in 1999 with little capital upfront and through large loan facilities secured through his political connections. He gradually increased his stake in the company until it was subsumed into his Al-Ezz Steel Rebars to form Ezz Dekhila Steel Company. Ezz was also granted a government contract for LE500 million ($100m) to build a railroad track between AISCD's plant in Alexandria and Al Ezz Steel Rebars plant in Sadat City, at a time when the public railroad network in Egypt was crumbling in disrepair. With his acquisition of AISCD and the railroad linking it to AESR, Ezz cemented his grip on the steel industry in Egypt, since AISCD was the only domestic producer of pig iron billets, the intermediate stage in the production of steel from iron ore. This put all his competitors at a significant disadvantage.[39]

The extent of Ezz's enrichment from his political connections was not restricted to the steel industry. He also benefitted from several government initiatives and laws pertaining to Industrial Zones as well as Build-Operate-Transfer (BOT) contracts. Further, Ezz was able to secure millions of square meters of property in tourist and residential areas for investment. His fortune has been reported to be in the range of LE50 billion.[40]

This is not an isolated case. Some of the most politically powerful people in Egypt were themselves influential businessmen. These sorts of relationships are evidence of a corporatist system, and casts major doubt on labeling Egypt a free market economy or a capitalist system.

Attention is usually paid to the outsized benefits that accrue to beneficiaries of the corporatist regime, but far more important are the costs of this corporatist system to the rest of society, which far exceed the money that the corporatists made. These costs are inestimable, for we will never know what an Egyptian market economy freed from the shackles of corporatism would have produced in the previous years. In a dynamic competitive Egypt where insiders have no advantage over upstarts, one can imagine many new businesses would have been started, many entrepreneurs would have created new products, and many individuals would have rewarding careers in free market enterprises. This is an area that could benefit from future research.

5.2 Tunisian Banking

Tunisia's largest bank by revenue is the *Banque International Arabe du Tunisie*. Its largest shareholder is Mabrouk group, owned by Ben-Ali's son-in-law Marwan Mabrouk. Another major bank, and the oldest bank in the country is *Banque du Tunisie*. The chairman of the bank was Belhassen Trabelsi, brother of Ben-Ali's wife, and the CEO was Alya Abdallah,

[37] Abd al-Fattah, Wael. 2011. Ahmed Ezz goes to jail: The downfall of Mr. Steel. *Alakhbar* September 17,2011 http://english.al-akhbar.com/content/ahmed-ezz-goes-jail-downfall-mr-steel

[38] Namatalla, Ahmed A. 2011. Ezz drops to two-year low on report Egypt seeks $111 million. Bloomberg, September 19,2011, http://www.bloomberg.com/news/2011-09-19/ezz-tumbles-to-lowest-since-2009-as-egypt-demands-111-million.html

[39] Aljazeera Net. 8.2.2011. The empire of Ahmed Ezz. Aljazeera Net, accessed February 8, http://www.aljazeera.net/NR/exeres/9E635655-07E1-4476-9E6D-B3AF1ADF3F46.htm

[40] Aljazeera Net. 8.2.2012. The empire of Ahmed Ezz. Aljazeera Net, accessed February 8, http://www.aljazeera.net/NR/exeres/9E635655-07E1-4476-9E6D-B3AF1ADF3F46.htm

wife of Abdelwahhab Abdallah, a close advisor of Ben-Ali and one-time foreign minister. Ben-Ali's other son-in-law, Al-Matiri, was also involved in banking. He had made his fortune acquiring *Banque du Sud* in a highly controversial privatization deal, for which he received funding from another bank that was close to Ben-Ali, the Arab Tunisian Bank, which had provided extensive financing to the Ben-Ali family. After the demise of Ben-Ali, fourteen branches of the Arab Tunisian Bank were torched by demonstrators. Al-Matiri was to later open his own bank, *Zaytoona*, in 2009.

This oligopolistic capture of the banking system is not just problematic because it allows insiders to gain large amounts of money, but more importantly, because it places in the hands of the ruling family enormous power in the vitally important capitalist function of allocating credit and capital. According to Tunisian Central Bank statistics, the family of Ben-Ali alone received loans from the Tunisian banking sector amounting to $1.75 billion, approximately 5% of all loans in Tunisia. These loans went to 182 companies owned by the family spread over most sectors of the economy, including banking, telecommunications, industry, cars, food, tourism, media, construction, insurance, import/export, and more[41].

This is a clear example of the corporatist economic system at work. As Phelps explains, a vital part of the capitalist system is the pluralism of experience and knowledge that financiers bring to bear on funding decisions. This pluralism combined with free market competition allows them to look for, and find, the most promising business plans to fund. This provides start-up capital to ambitious entrepreneurs whose new businesses could transform their lives and those of others around them. But if a banking structure is captured by a corporatist regime, the incentive no longer exists for them to find the most promising ventures to fund; rather, the focus is to further the interests of the corporatists. This is best achieved by channeling money to close associates regardless of the quality of their ideas and enterprises, and freezing out the best potential competitors.

5.3 Tunisian Radio

Another example of the Ben-Ali family monopolizing an industry can be seen in Radio. Before the outbreak of the revolution, there were only five private radio stations in the country: Mosaic FM, owned by Belhassen Trabelsi; *Al-Zaytoona* FM, owned by Al-Matiri; Shams FM, owned by Ben-Ali's daughter Sireen (wife of Mabrouk); *Jawhara* FM owned by Ali Belhajj-Youssef[42], a close friend and associate of Ben-Ali; and Express FM, owned by Murad Qadeesh, son of Ben-Ali's close advisor and personal doctor Mohammad Qadeesh[43].

The true cost of this corporatist regime in the radio industry becomes apparent when one examines the unseen side of this oligopoly. Two private radio stations, *Kalima* and Radio Six FM, were closed down by the authorities in 2009 for not obtaining licenses.[44] Their equipment was also confiscated. As noted above, the real problem of corporatism is not the money made by the Ben-Ali associates through their control of the radio sector, but all the opportunities lost for many private individuals being unable to partake in this sector.

Tunisia had many young entrepreneurs with visions of starting their own businesses, such as the entrepreneurs behind *Kalima* and Radio Six. But it was not possible to do that because it

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[41] Aljazeera Net. 2011. Tunisian banks threatened due to loans. Ajazeera.net, February 17, 2011, http://www.aljazeera.net/NR/exeres/D20F3BD2-BA6B-4EC9-ABBB-AD301BA8E1E1.htm

[42] Aljazeera Net. 2010. Criticism for Tunisian radio licensing. Aljazeera.net, September 15, 2010 http://www.aljazeera.net/NR/exeres/3314C8A8-893E-4258-8F29-80DB923646B9.htm

[43] Albawaba. 2010. The accusation of new private radio stations in Tunisia as being biased toward the ruling power. Albawaba, October 22, 2010, http://www.albawaba.com/ar/احداث-تحت-الاضواء/الاذاعات-الخاصة-تنتشر-في-تونس-وسط-اتهامات-بالانحياز-للسلطة

[44] Aljazeera Net. 2010. Criticism for Tunisian radio licensing. Aljazeera.net, September 15, 2010 http://www.aljazeera.net/NR/exeres/3314C8A8-893E-4258-8F29-80DB923646B9.htm

did not coincide with the interests of the ruling corporatists of Tunisia. This is the embodiment of Phelps' discussion of the costs of corporatism mentioned above. The benefits continued to accumulate for the ruling regime, but the costs in unseen lost business opportunities and dynamism for the majority of the people are incalculable. As Phelps puts it: "the deprivations for few or many of basic goods like careers, which are not morally compensated by the spoils of the advantaged, few or many."[45]

Further, the importance of the radio industry goes beyond the financial, as it is vital in affecting public opinion and influencing individual political and economic choices. An important part of corporatist systems is the political repression and propaganda that goes along with the economic regime. This is beyond the scope of this study, but exploring the links between economic sectors, media and the security apparatus is an area of promising future research that will go a long way towards explaining the nature of the Tunisian corporatist economy under Ben-Ali.

5.4 Egyptian food and fuel subsidies

One of the earliest and most essential lessons of economics is that price controls do not work. Studies of ancient Egypt itself provide some of the earliest lessons in the futility and counter-productiveness of price controls. The Babylonians, Romans, Chinese and countless other ancient civilizations learned these lessons the hard way[46.] The twentieth century witnessed an enormous amount of price controls and interventions applied across the world, particularly in socialist economies. As predicted by Mises and Hayek's analysis of the effect of disrupting the working of the price mechanism, price controls inevitably make matters worse.[47]

Yet Egypt continues with an extensive program of food and fuel subsidies. Decades of liberalization rhetoric has certainly changed the forms of intervention and controls the government applies to economic goods, but it has not changed the fundamental reality that virtually all the vital markets in the economy are centralized, price-controlled, subsidized, or taxed.

Since the 1950s, Egyptian farming policy has aimed at making basic grain and bean staples very affordable. This has meant extensive programs of support, subsidies and incentives for farmers to partake in the production of crops like wheat, rice, beans, and lentils. The motivation for these policies seems laudable: providing cheap food for the poor of Egypt. But the economic impact of these policies cannot just be estimated by looking at how affordable these staples become; it is far more important to understand the opportunity cost of these interventions and the implied economic consequences from them.

Basic economics tells us that prices are relative and resources are scarce: bringing down the price of some food groups necessarily means that prices of other foods must rise, relative to the cheaper crops. By directing farmers and their resources towards the production of wheat, rice, beans and lentils, the government diverts these farmers and their resources from the production of fruits, vegetables, and meat. More and cheaper wheat, rice, beans and lentils necessarily means fewer and more expensive fruits, vegetables, and meat. The impact of this policy has been ingrained in Egyptians' diet, health and even folklore.

Modern nutrition research shows how cheap staple crops (grains and seeds like the ones the Egyptian government subsidizes) are at the root of modern diseases such as diabetes, obesity,

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[45] Phelps, E. S. 2011. *Modeling corporatist economies of the West and those of North Africa*. 4th Meeting in Economic Sciences, Lindau Meeting of the Nobel Laureates. Lindau, Germany. Aug 23-27, 2011

[46] Scheuttinger, R., and E. Butler. 2009. *Forty centuries of price controls*. Auburn, Alabama.

[47] See Mises, Ludwig von. 1951. *Socialism: An Economic and Sociological Analysis*. New Haven. Yale University Press; and Hayek, F. A. 1945. The use of knowledge in society. *American Economic Review* 35(4): 519–30. American Economic Association .

malnutrition and cancer[48]. These diseases have shockingly high prevalence in Egypt. It seems government intervention in the food market over the last six decades has favored unhealthy foods while making healthier options more scarce and expensive.

The detrimental impact of these policies has even been documented vividly in Egyptian popular culture, where comedians have for decades made jokes from the predicament of having to continuously eat the cheap fava Beans, with its famed mind-numbing effect, while meat remains a largely unattainable fantasy. Political singer Sheikh Imam Mohammad Ahmad Issa wrote a song entitled *El-fool w'El-Lahma* specifically about this topic, dedicated to mocking a government expert named Dr. Mohsen who announces that modern science has shown that it is in the interest of the Egyptian people to eat fava beans and not meat. Imam concludes the song by asking Dr. Mohsen why rich people like him can't start eating fava beans and leave the meat to the poor. The impact of these policies on Egyptian health and worker productivity cannot be underestimated, and constitute a fruitful avenue of future research.

Fuel subsidies are another example of the negative effects of price controls and corporatist economic management. The majority of Egyptian fuel consumption goes to the richest Egyptians; the individuals and industries that consume large amounts of energies. A fuel subsidy is essentially a regressive transfer from people who do not use a lot of fuel (mainly poorer) to those who use a lot of it (the richer). This regressive subsidy continues to weigh down on the poor not just in terms of the government revenue lost to these subsidies. More important is the distortionary impact on economic activity that these subsidies create, making it cheaper to buy cars and drive them around, as opposed to using public transportation. This contributes negatively to Egypt's disastrous traffic and pollution problems.

6. Why Did Corporatism Emerge in Egypt and Tunisia?

The two deep structural causes of the corporatist regimes can be identified as the rentier state and the police state. That the ruling elites in both countries could count on their foreign backers for support meant that they ran essentially extractive corporatist economies, not needing to be accountable to their peoples.[49] The large amount of monetary support these regimes received from abroad allowed them to build large police states to enforce economic corporatism and suppress dissent. This essentially led to a process of government that is heavily top-down, authoritative, and pervasive. The contrast is with forms of government that emerge from members of small communities accountable to their fellow community members.

Both Tunisia and Egypt received large amounts of economic aid and loans in various forms. The essential problem with this aid money is that it makes the sources of the funding of the government external to the people it rules over, reducing its accountability to them. As long as a government has to fund itself internally, the funding constraint exists as a deterrent against the growth of authoritarianism and tyranny. As government abuse grows, its unpopularity grows and it risks escalating resentment and refusal to pay taxation. But if it could count on external funding, it can arm itself to repress people into consent. This, essentially, is how the Mubarak and Ben Ali regimes functioned over their long tenures.

These regimes thus enforced rules from above, through extensive patron-client networks in the bureaucracy and the ruling parties. This is manifest in the outsized scale of the central government compared to local and municipal governments. It is the central state's

[48] De Vany, A. 2010. *The New Evolution Diet*. New York, NY. Rodale Books.

[49] For more on rentier states, see: Beblawi, H., 1990, The Rentier State in the Arab World, in Luciani, G., *The Arab State*, London, Routledge

bureaucracy and the ruling party that impose political and economic rules on regions, rather than local members of their communities.

A related aspect of the rentier nature of these two regimes concerns their central bank reserves. Most of their reserves are composed of U.S. Dollars, with smaller amounts of Euros, gold and other reserve currencies. This over-representation of U.S. Dollars in central bank reserves is at the heart of the recent episodes of food price rises that occurred before and during the revolution of late-2010 and 2011.

As the U.S. has adopted overly loose monetary policy over the last several years, this has led to a large decline in the purchasing power of the US Dollar compared to other currencies, and most notably, against commodities. These inflationary impacts are not as severely felt in the U.S. itself, where basic food staples make up a far smaller share of expenditure than in developing countries, where it can have severe consequences.

This becomes apparent when one examines the data on the U.S. Dollar against basic foods and commodities. Figure 1 shows the average prices of six classes of commodities in U.S. Dollars from the twelve year period from January 2000 to February 2012. The average of these commodities' prices rose in that period by 162.8% in U.S. Dollars.

Figure 2 shows the same commodities' prices expressed in gold, which is traditional money of mankind. These commodities' prices declined to 42.89% of their value when expressed in terms of gold.

Figure 3 compares the two averages for prices in dollar and gold. As can be seen, the trend was generally downward in terms of gold, while upward in terms of the dollar.

The implication of this analysis is clear: The U.S. Dollar reserves of the Tunisian and Egyptian central banks lost much of their value compared to goods and commodities. This meant that the Tunisian and Egyptian currencies themselves suffered large devaluations compared to the basic commodities that citizens consume. This in turn meant that the prices of commodities in the local currencies were continuously rising for normal people. Had the central banks maintained a more diversified reserve portfolio, including higher gold reserves, the devaluation of the local currency would not have been as severe, and nor would have been the rise in food prices. This analysis is not just relevant looking backwards; it is a very pertinent issue which Egypt and Tunisia need to consider in light of the specter of endless quantitative easing and monetary debasement by the U.S. Federal Reserve.

7. Conclusion and Implications

This paper suggests examining the economics of Egypt and Tunisia from the corporatist analytical framework to better understand the roots of the economic discontent that brought down long-standing totalitarian regimes. These regimes' extensive control of economic activity has not been relaxed meaningfully with the slew of unfree market reforms enacted over the previous decades of supposed liberalization. This control has profited the ruling regimes and their cronies, but the bigger problem with it is that it denies individuals in these societies the freedom to grow creatively, financially, and intellectually by subordinating these individuals' dreams, desires and plans to the survival of the corporatist regime and its cronies. Two deep structural factors fostered these corporatist regimes: Firstly, the rentier state model of receiving extensive financing and lending from outsiders, not from citizens, thereby leaving the government accountable to foreigners rather than its own citizens, whom it can more easily repress. Secondly, these states ran extensive patron-client networks revolving around the police state and the ruling political parties' cadres. The opportunity for dynamic economic growth in Egypt and Tunisia depends primarily on the ability of normal citizens to engage in economic activity to serve each other freely. This, in turn, will only be accomplished with the dismantling of the channels of control of economic activity of these regimes, and the two deeper structural reasons that support it: the rentier state and the police state. The move away from being a rentier state should also be combined with a move to diversify central bank reserve holdings away from currencies that are depreciating quickly.

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Figure 1: Average Prices of Six Classes of Commodities (US$)

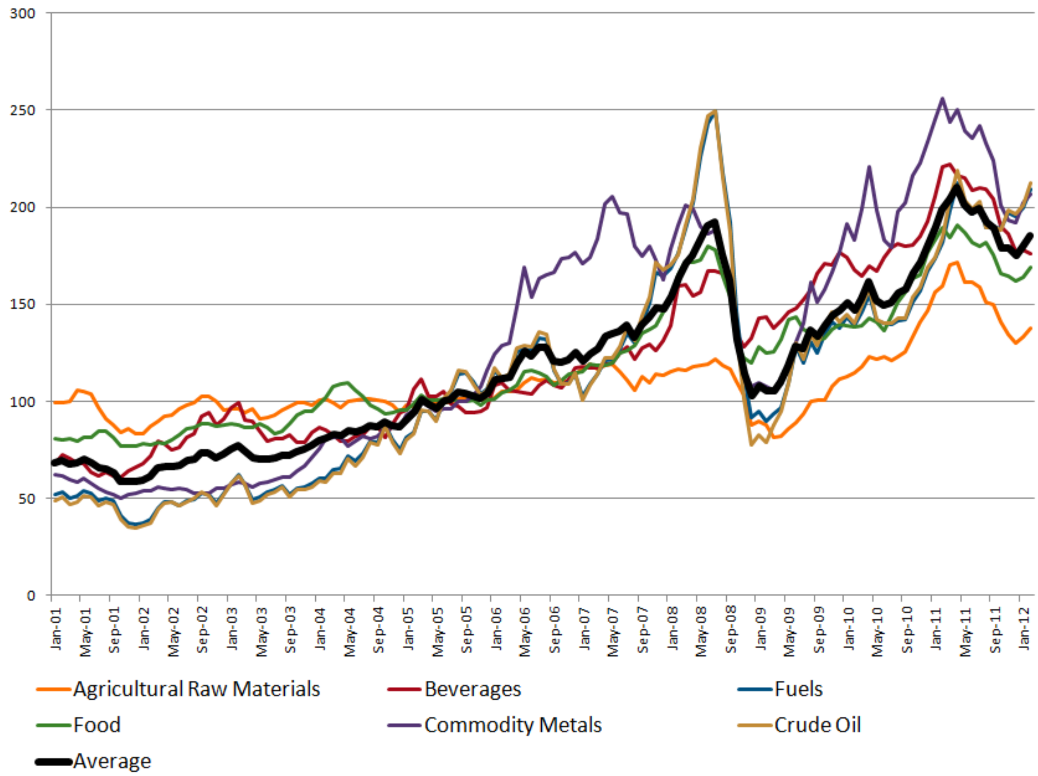

Figure 2: The Same Commodities' Prices Expressed in Gold

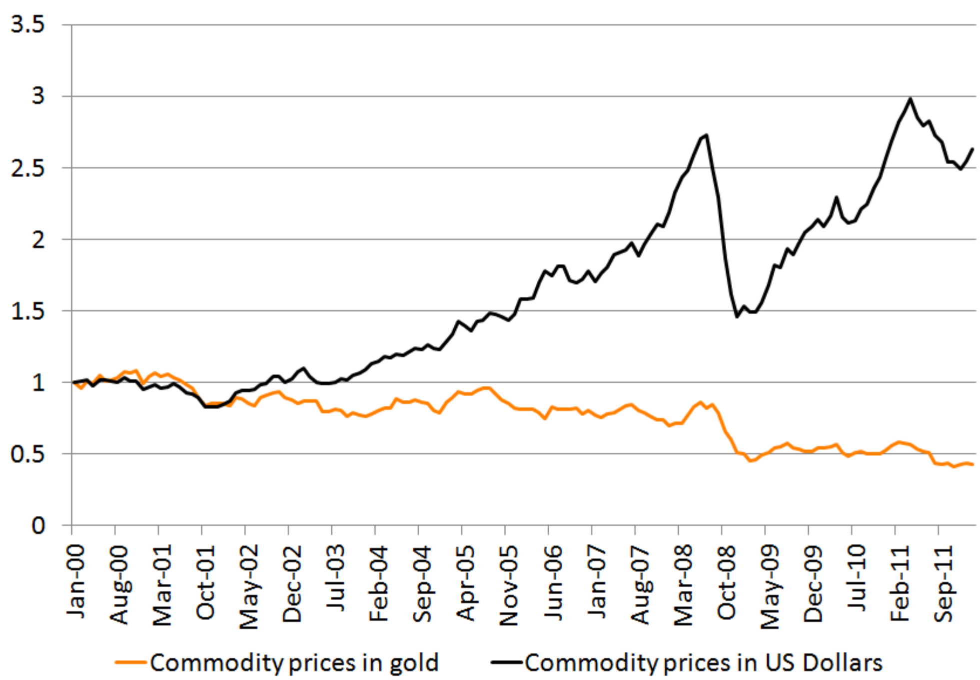

Figure 3: Comparing the Two Averages for Prices in Dollars and Gold