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*CORPORATISM, CAPITALISM
AND THE ARAB SPRING*

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Abstract

This paper examines the economics of the popular revolutions that removed the ruling regimes of Tunisia and Egypt in early 2011, and presents the concept of a corporatist economy as a better framework for understanding the economic systems of these countries. The deposed regimes had instituted a deep corporatist governance system that placed control of most economic activity in the hands of the regime and its closest loyalists. This corporatist system was very beneficial for the regime and its cronies, but was very destructive of economic freedom of the majority of people, leading to economic stagnation, youth alienation and the eventual mass protests that deposed the regimes. Moving forward, what these economies need is not a return to socialism, nor a retrenchment of corporatism, but a move towards dynamic free market capitalist economies that allow individuals the freedom to make their own living and determine their own future.

Section 1 introduces the three main types of economic systems: socialism, capitalism and corporatism, and discusses a modern case study of the difference between corporatism and capitalism. Section 2 discusses the corporatist elements of the Egyptian economy and presents a case study of the steel industry. Section 3 discusses the corporatist elements in the Tunisian economy, presenting the banking and radio sectors as a case study. Section 4 explores the connections between corporatism and the recent revolutions. Section 5 concludes and discusses avenues of future research.

1- Socialism, Corporatism and Capitalism

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

i- Socialism

Encyclopedia Britannica defines socialism as a:

“social and economic doctrine that calls for public rather than private ownership or control of property and natural resources. According to the socialist view, individuals do not live or work in isolation but live in cooperation with one another. Furthermore, everything that people produce is in some sense a social product, and everyone who contributes to the production of a good is entitled to a share in it. Society as a whole, therefore, should own or at least control property for the benefit of all its members.”¹

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 processes².

According to these definitions, 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 1960's 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 plan³. Tunisia has also had a functioning stock market since 1969.⁴

¹ *Encyclopædia Britannica. Encyclopædia Britannica Online Academic Edition. S.v. socialism. Encyclopædia Britannica, 2011. Web. 11 Aug. 2011. <<http://www.britannica.com/EBchecked/topic/551569/socialism>>.*

² Rothbard, Murray. 'The End of Socialism and the Calculation Debate Revisited'. *The Review of Austrian Economics*, Vol. 5, No. 2 (1991): 51-76

³ Abdelly Samir. Tunisia: The Privatization Process. 2007. Legal Media Group. <http://www.iflr1000.com/pdfs/Directories/3/Tunisia.pdf> Accessed Aug 2, 2011.

⁴ Official Website of the Tunisian Stock Exchange. www.bvmt.com.tn.

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 1950's and 1960's, and the state was to establish many public manufacturers, including in areas such as steel, cement, cars, and construction. The state's share in investments was around 80-90% of total investment until the 1980's. The government of Gamal Abdel-Nasser closed down the Egyptian Exchange in 1961, which had been active (in various names and forms) since 1883.⁵ During the rule of President Anwar Sadat, Egypt began to move away from the state-controlled socialist model, under the policy of *Infitaah* (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 1980's. 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.⁶ The Egyptian stock market was reopened in 1992.⁷

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

⁵ Official website of the Egyptian Exchange. www.egyptse.com

⁶ Privatization Coordination Support Unit. 2002. Privatization in Egypt. Quarterly Review provided to the United States Agency for International Development.

⁷ Official website of the Egyptian Exchange. www.egyptse.com

another voluntarily in 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."⁸

Further, 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 socialist societies but even if it were, 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.

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' 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' criterion for socialism as being the absence of a stock market where the means of production can be traded among the public. The

⁸ 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.

existence of a capital market is itself the coordination mechanism that allows individuals to make production decisions based on their calculations of prices, costs, returns, 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 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 put it in his seminal essay *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."*⁹

The coordinating role of the price mechanism and an open market for capital is not just 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-trying 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."*¹⁰

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

⁹ Hayek, Friedrich A. "The Use of Knowledge in Society." *American Economic Review*. XXXV, No. 4. pp. 519-30. American Economic Association . 1945 .

¹⁰ Mises, Ludwig von. 1949. *Human Action: A Treatise on Economics*. New Haven: Yale University Press.

“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.”¹¹

Mises’ description from 1920 may have been written by an observer of the Soviet Union in the 1980’s, 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 their socialist system only survived for a few years.

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

ii- Capitalism

Encyclopedia Britannica defines capitalism as an

¹¹ Mises, Ludvig von. "Economic Calculation in the Socialist Commonwealth," in F. A. Hayek, ed., *Collectivist Economic Planning*. London: Routledge and Sons, 1935, pp. 87–130

“economic system, dominant in the Western world since the breakup of feudalism, in which most of the means of production are privately owned and production is guided and income distributed largely through the operation of markets.”¹²

But this generic definition misses the nuance that is very important for this paper. 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.”¹³

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 any 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.¹⁴ 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

¹² Encyclopædia Britannica. Encyclopædia Britannica Online Academic Edition. S.v. capitalism. *Encyclopædia Britannica*

¹³ Phelps, Edmund S. (2009) 'CAPITALISM VS. CORPORATISM', *Critical Review*, 21: 4, 401 — 41

¹⁴ Schumpeter, Joseph. 1942. *Capitalism, Socialism and Democracy*. Harper and Row, New York.

is forestalled, the unproductive and wasteful survive and grow, and the productive is punished. This eventually brings the economy to a standstill and destroys its dynamism, 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.

The real meaning of capitalism becomes apparent when we understand the meaning of the other market economic system: corporatism.

iii- Corporatism

"التجارة من السلطان مضررة بالرعاعيا و مفسدة للجبابة"

--ابن خلدون

"Trade by the rulers is harmful to the populace and detrimental to state revenues"

--Ibn Khaldoun

Encyclopedia Britannica defines corporatism as

*"the theory and practice of organizing society into "corporations" subordinate to the state. According to corporatist theory, workers and employers would be organized into industrial and professional corporations serving as organs of political representation and controlling to a large extent the persons and activities within their jurisdiction."*¹⁵

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 (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

¹⁵ Encyclopædia Britannica. Encyclopædia Britannica Online Academic Edition. S.v. corporatism *Encyclopædia Britannica*

¹⁶ Phelps, Edmund S. (2009) 'CAPITALISM VS. CORPORATISM', *Critical Review*, 21: 4, 401 — 41

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 key 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. In an idealized capitalist system, economic activity is free and 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. In the corporatist system, however, 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

¹⁷ Phelps, Edmund. 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

¹⁸ Phelps, Edmund S., and Hans-Werner Sinn. 2011. *Perspectives on the performance of the continental economies*. Cambridge, Mass: MIT Press.

establish 'leaders' in certain industries. It seeks to ensure that 'stakeholders' 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.

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 granting licenses is a very common method of establishing such benefits. Those who are connected with the ruling regime can operate their businesses without competitive pressures, making outside 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 systems cannot really be subject to corruption, rather, 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.

But this moral hazard is not half the problem with corporatism. The bigger and more detrimental problem is its impact on economic dynamism, which Phelps defines as

¹⁹ Phelps, Edmund S., and Hans-Werner Sinn. 2011. *Perspectives on the performance of the continental economies*. Cambridge, Mass: MIT Press.

'innovativeness in commercially viable directions'²⁰. 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 Polanyi 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 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."*²¹

Corporatism does not allow for free entry and exit into 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."*²²

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

²⁰ Phelps, Edmund 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

²¹ Phelps, Edmund S., and Hans-Werner Sinn. 2011. *Perspectives on the performance of the continental economies*. Cambridge, Mass: MIT Press.

²² Phelps, Edmund S. 2009. 'Capitalism v Corporatism', *Critical Review*, 21: 4, 401 — 41

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, 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."*²³

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 removes from society's shoulder the burden of having to support unproductive and detrimental firms.

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

²³ Phelps, Edmund S. (2009) 'Capitalism v Corporatism', *Critical Review*, 21: 4, 401 — 41

rich countries.²⁴ 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 job; 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.²⁵

Thirdly, corporatism will inevitably suffer from the same problem Mises identified with socialism: the lack of a functioning price mechanism to determine the uses of capital. 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.

A fourth problem with corporatism is in its application in the setting of a developing country. 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 steel 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) as being the means by which poor countries became rich and

²⁴ Phelps, E. S., and G. Zoega. 2004. Searching for routes to better economic performance in continental Europe. *Forum* 5, no. 2. CESifo, Munich.

²⁵ Phelps, Edmund. 2009. Capitalism vs. Corporatism. *Critical Review*.

prosperous, when in fact these sophisticated 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 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 now are 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*, he imagines that a developing country like Egypt could be transformed into Germany if the government aggressively sets about constructing 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.

- *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*²⁶ 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”²⁷.

The Agency for Industrial Innovation was set up to oversee this project, mainly, at a cost of \$2billion—the bulk of which went to *Quaero*. The AII has 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.”²⁸ Fully 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 countless press releases, a lot of funding, and no functional search engine. At the time of writing, *Quaero*’s website (www.quaero.org) continues to exist as 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

²⁶ *The Economist*, Mar 10, 2006. “The Attack of the Eurogoogle”

²⁷ *The Economist*, Mar 10, 2006. “The Attack of the Eurogoogle”

²⁸ *The Economist* magazine Jan 4, 2007 “Business This Week”.

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.

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 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 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."²⁹

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 have 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.

²⁹ Adam Ferguson. 1782. *An Essay on the History of Civil Society*, 5th ed. London: T. Cadell.

There is another lesson to be gleaned from the tale of Google and Quero, 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 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 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.

With this background in mind, the central question of this paper can be tackled: What kind of economic system existed in Egypt and Tunisia before the revolution? This is much more difficult than the analysis introduced above which identified these economic system as not being socialist. Mises' criterion on socialism provides a straight-forward way to determine whether a country is socialist by looking at the ownership of capital, but no such clear-cut test exists for differentiating capitalism from corporatism. Both systems involve private ownership

of capital, both will have a market for capital and both will have a government in place. The distinction between being capitalist and corporatist lies in the sort of relationship that exists between the government and the corporate sector, and is thus a matter of subjective judgment. This cannot be ascertained with numerical certainty or statistical analysis; there is no substitute for careful judgment of the complex nature of this relationship.

The hallmarks of a corporatist system, as outlined above, and as typified by the Italian interwar political system can be summarized as: strong relations between the political powers and the important economic actors; extensive government involvement and intervention in economic affairs; and a strong police state that enforces the political and economic will of the government and its partners. The outcome of this system, in the long-run, is economic stagnation, lack of economic opportunities and stifling of entrepreneurship and dynamism.

This paper identifies some of these hallmarks of corporatism in Egypt and Tunisia. It is a provisional attempt to study the nature of corporatism in these countries and identify future avenues for in-depth research of this question. The paper examines the relationship that existed between private capital and the ruling regimes. If it is found that privatized firms remained at arms' length from the government and received little favors and protection, then the system can best be described as capitalist. If, on the other hand, it is found that these firms continued to have strong relationships with the ruling regimes and benefited from them, and that they were offered monopolies that protected them, then the system can more accurately be described as corporatist.

There are large differences between Egypt and Tunisia, and this paper does not attempt to conduct a full study of their economic systems, but rather to provide a starting point for the analysis of the corporatist elements in both economies. Evidence suggests corporatist tendencies in the Egyptian and Tunisian economic systems. Strong links existed between privately-owned and privatized assets and notable members of the political regime. As the literature on corporatism suggests, this economic system leads to widespread economic alienation among the population. It is found that economic conditions, lack of job opportunities and low living standards were the prime motivator of the 2011 revolutions. The most salient slogans and targets of the revolutionaries' ire were the corporatist class that had enriched itself in both countries. There is much to be desired in the quality of data and research on the economic

realities of Egypt and Tunisia during the previous years, in particular concerning the relationship between the corporate leaders and the government. Further research on Egypt and Tunisia is needed to elucidate the realities of corporatism and how it has held these countries back economically.

2- Egyptian Corporatism

The corporatist elements of the Mubarak regime become apparent by examining the previously-ruling National Democratic Party (NDP). There are several ways in which its economic policy exhibited the marks of a corporatist system. A case study on privatization is presented that further illustrates the corporatist dimension of Egyptian politics.

Established in 1978 by then Egyptian President Anwar Sadat, the NDP replaced the dissolved ruling Arab Socialist Union, which had been in power since the days of Nasser, signifying the shift under Sadat away from socialism. The NDP was headed by Sadat until his assassination in 1981, at which point it was headed by Husni Mubarak on becoming President, to remain under his leadership until his removal from power in February 2011. The NDP dominated the political process and maintained a majority of seats in the Egyptian parliament in elections widely viewed to not have been free and transparent.³⁰ A Gallup poll found that 49% of respondents did not have confidence in the honesty of elections, compared to only 28% who did.³¹

Until the year 2000, the majority of the members of the NDP were from the old guard of Husni Mubarak's generation. They ran a traditional sclerotic ruling political party whose goal was to maintain power above all. The party began to change in 2000 when Husni Mubarak appointed his son Gamal, along with several of his business associates, to the general secretariat of the NDP. In the party's general conference of 2002 Gamal and his associates began their domination of the party by establishing a new Policies Committee which was chaired by Gamal and responsible for introducing a "New Way of Thinking" to the sclerotic political party. Under the

³⁰ See "The White House describes Egypt's elections as worrying" Youm7, Accessed on <http://www.youm7.com/News.asp?NewsID=312036&SecID=65&IssueID=142>.

³¹ Younis, Mohamed, Feb 24, 2011. Before uprising, Egyptians lacked faith in honesty of election. Gallup Abu Dhabi. Accessed on :<http://www.gallup.com/poll/146309/Uprising-Egyptians-Lacked-Faith-Honesty-Elections.aspx>

Policies Committee, a Higher Council for Policies was established to push forward economic reform and liberalization. The HCP membership was comprised of around 200 members that were Gamal's cadres of choice: young mostly western-educated dynamic entrepreneurs and business leaders.³²

In 2004, Husni Mubarak announced the formation of a new government which comprised many of Gamal's new guard. The most notable of these were commonly referred to as "Gamal's trio"³³ and they handled the most economically important ministries: minister of finance Yousef Boutros-Ghali, minister of Trade and Industry Rachid Mohammad Rachid, and minister of investment Mahmoud Mohieldin. Another close associate of Gamal was Ahmad Ezz, who in 2000 became member of the People's Assembly and the head of its influential Planning and Budget Committee. This group's influence continued to grow inside the NDP as their numbers and influence increased. With Ahmed Ezz and the new guard in charge of the 2010 parliamentary elections for the NDP, they were able to achieve remarkable success, gaining 97% of the seats of the Egyptian parliament, a marked improvement over the 2005 and 2000 elections. The voting for this election, however, was widely viewed as rigged and is considered one of the main drivers for the public anger directed at Mubarak's regime.³⁴

Gamal Mubarak and his associates had very significant political power. They were naturally allied to the President, in control of the hegemonic ruling political party and the parliament, able to pass laws to their liking, and having a large sway over the conduct of government agencies and the court system. Economically, they were in charge of many privatization deals and of regulating and supervising private enterprise. Here it is instructive to examine the involvement these actors had in government economic decisions and their own businesses.

³² Kashfhesab "A comprehensive study about the establishment and the leaders of the National Party and a documentation about the most important files about its corruption and forgery," Accessed October, 2011, <http://kashfhesab1.blogspot.com/>

³³ Gamal Essam El-Din, "How Gamal brought the whole Mubarak house down" Ahramonline , Friday 15 Apr 2011 , doi: 1/64/9988 <http://english.ahram.org.eg/NewsContent/1/64/9988/Egypt/Politics-/How-Gamal-brought-down-the-whole-Mubarak-house.aspx>

³⁴ See "The White House describes Egypt's elections as worrying" Youm7, Accessed on <http://www.youm7.com/News.asp?NewsID=312036&SecID=65&IssueID=142>

The press was not free to explore the full extent of their political and business conduct under Mubarak's rule and the judiciary rarely investigated them. Recently, more detailed investigations of their conduct have emerged. While not all of the newly released information may be completely accurate, and some information may never be known, there is still enough to paint a picture of the nature of corporatist Egypt. This is an area where further research needs to be conducted, but some preliminary facts are presented below.

A post-revolution investigative report by Egypt's Al-Ahram daily has examined the financial dealings of Gamal Mubarak.³⁵ It found that before he entered politics, Gamal had acquired shares in Cyprus-based Bullion Company LTD, which was an umbrella group for several investment funds that operated in Egypt. During his tenure at the Policies Committee, these funds were to generate large profits investing in companies being privatized by the Egyptian government. While Gamal's Policies Committee of the NDP was putting up state companies for privatizations, investment companies in which he was a partner were buying these companies. This is a clear conflict interest and an indicator of the corporatist tendencies of the Mubarak regime.

Yousef Boutros-Ghali, who held the position of Egyptian minister of Finance from 2004 until the Revolution of 2011, was one of the leaders of the privatization program in the Policies Committee, and as minister of finance he was head of the Ministerial Economic Committee which was in charge of implementing economic reforms. Among many charges, Ghali has been accused of diverting 36m EP of public funds from the ministry of finance to the election campaign of the NDP³⁶, as well as being involved with Mohamed Mohieddin in the unpopular and now void privatization of famed chain-store Omar Effendi (see below)³⁷. On the day that Mubarak stepped down, Boutros-Ghali fled Egypt to Lebanon. His assets were frozen and he was tried and convicted in absentia and sentenced to 15 years in prison for wasting public money and a further 15 years for illicit gains. He was further ordered to repay 60m EP to the

³⁵ Salma Hussein Salma El-Wardani, "All the king's men: Who runs Mubaraks' money?" *ahramonline*, Sunday 15 May 2011, doi:3/12/8793 <http://english.ahram.org.eg/NewsContent/3/12/8793/Business/Economy/All-the-king%E2%80%99s-men-Who-runs-Mubaraks-money-.aspx>

³⁶ "LE 36 million is a whole lot of propaganda," *Egypt Today*, " 3 April 2011, <http://www.egypttoday.com/news/display/article/artId:255>

³⁷ Emad Mekay, "Privatisation Aided Egypt Revolt, Army Says," *IPS*, Apr 8, 2011, doi:55187, <http://ipsnews.net/news.asp?idnews=55187>

Egyptian government.³⁸ The Egyptian army has announced that several other corruption investigations have been initiated against Boutros-Ghali.³⁹

Like Boutros-Ghali, Rachid Mohammad Rachid also joined the Egyptian cabinet in 2004 and served until 2011 revolution whence he fled the country. Considered the first businessman to join an Egyptian government, Rachid was appointed Minister of Trade and Industry and was a champion of the 'free market reforms' that the Mubarak regime had instituted. His assets were frozen and he was tried in absentia for embezzlement and stealing money from a government export development fund. He was sentenced to five years in prison and ordered to repay the Egyptian government 10m EP.⁴⁰

As Minister of Investment, Mohieldin was a key actor in the market reforms instituted by the Mubarak regime in its later years. The most high-profile case related to Mohieldin concerns the privatization of the historic retail chain Omar Effendi in 2006. Facing strong public opposition, Gamal Mubarak and Mohieldin managed to successfully sell the retail chain to Saudi Arabian investors for a price that was viewed as being less than half of the value of the chain's real estate alone. A post-revolutionary court revoked the 2006 sale of Omar Effendi as it posited that this was one of many illegal sales made by the government directly to buyers without a public bidding process. Mohieldin was also involved in the privatizations of Nasr and Mansoura.

On April 16, 2011 and bending to popular pressure, The Supreme Administrative Court dissolved the NDP and ordered its funds and property be handed to the government. In its ruling, the court stated that the NDP had "adopted policies that bolstered dictatorship and monopolised power... The party rigged elections and controlled parliament and retarded the country economically and socially."

- *The case of Ezz Steel*

³⁸ "The Egyptian Court sentenced in absentia the former finance minister to 30 years," BBC Arabia, accessed June 4, 2011, http://www.bbc.co.uk/arabic/middleeast/2011/06/110604_egypt_boutrosghali.shtml

³⁹ Emad Mekay, "Privatisation Aided Egypt Revolt, Army Says," IPS, Apr 8, 2011, doi:55187, <http://ipsnews.net/news.asp?idnews=55187>

⁴⁰ "Jail for former Egyptian trade minister," Aljazeera, Jun 25, 2011, <http://english.aljazeera.net/news/middleeast/2011/06/2011625124346762725.html>

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 and the most high-profile of his acolytes. On top of holding these high-ranking political positions, Ezz was one of the richest men in Egypt and 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-doing⁴¹. 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."⁴² Ezz was convicted on September 15, 2011. He was sentenced to 10 years in prison and fined 660 million Egyptian pounds (EP, \$110m)⁴³. The court also revoked the production licenses awarded to Ezzsteel under Mubarak, requiring the firm to pay 660 million Egyptian pounds to keep the licenses.⁴⁴

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

⁴¹ Ezzsteel. Investor relations , "COMPETITION COMPLIANCE",doi:112 .
<http://www.ezzindustries.com/main.asp?pageID=112>

⁴² Ahram online, "Steel tycoon and head of Egypt's former ruling party will have assets frozen", Saturday 3 Sep 2011, doi: 1/64/20194 <http://english.ahram.org.eg/NewsContent/1/64/20194/Egypt/Politics-/Steel-tycoon-and-head-of-Egypt-s-former-ruling-regi.aspx>

⁴³ Wael Abd al-Fattah," 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>

⁴⁴ Ahmed A. Namatalla," Ezz Drops to Two-Year Low on Report Egypt Seeks \$111 Million" Bloomberg, sep 19,2011, <http://www.bloomberg.com/news/2011-09-19/ezz-tumbles-to-lowest-since-2009-as-egypt-demands-111-million.html>

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 500m EP (\$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.⁴⁵

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 50b EP.⁴⁶

The political and economic clout of Gamal Mubarak, Rachid, Boutros-Ghali, Mohieldin and Ezz suggests strong elements of corporatism in Mubarak's Egypt. Some of the most politically powerful people in Egypt were themselves influential businessmen and there is clear evidence to suggest they had used their positions of power to further their private interests. This casts major doubt on labeling Egypt a free market economy or a capitalist system. There are elements of a corporatism in the economy of Egypt.

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

⁴⁵ "The Empire of Ahmed Ezz," Aljazeera Net, accessed February 8, <http://www.aljazeera.net/NR/exeres/9E635655-07E1-4476-9E6D-B3AF1ADF3F46.htm>

⁴⁶ "The Empire of Ahmed Ezz," Aljazeera Net, accessed February 8, <http://www.aljazeera.net/NR/exeres/9E635655-07E1-4476-9E6D-B3AF1ADF3F46.htm>

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.

3- Tunisian Corporatism

In Tunisia, President Zine al-Abidine Ben Ali had a strong authoritarian hold over the economic and political affairs of the country. His family and that of his wife had a large business network that enriched them massively. Ben-Ali is a product of the internal security system of Tunisia, and his feared intelligence services severely repressed freedom of speech and political life, to an extent not seen in Mubarak's Egypt. Even under Mubarak's authoritarianism, there was some margin for dissent, public opposition and protest--all things that Tunisia did not have. As a result, the economic activities of the Ben-Ali regime and its acolytes are not well-documented or researched. But these problems were largely known to most Tunisians, and the revolution brought to the fore significant public anger over the behavior of the ruling regime.

From the information available at the time of writing, which mainly comes from investigative journalists, it appears the relatives of Ben-Ali had monopolized a large section of economic activity in a corporatist manner. Transparency International estimates that up to one third of Tunisia's Gross Domestic Product was produced by companies owned by him and his relatives⁴⁷.

While Ben-Ali himself seemed to not be extensively personally involved in business affairs, the most important economic role was played by Belhassen Trabelsi, elder brother of Ben-Ali's wife Leila. Belhassen's fortune is estimated to be in the billions, and he amassed it in fields as diverse as banking, hotels, airlines, media, industry, sugar and car dealerships. He has been accused and is facing trial for illegal monopolies, in particular in the sugar and media industries.⁴⁸

⁴⁷ Aiden Lewis, "Tracking down the Ben Ali and Trabelsi fortune," BBC News, January 31, 2011
<http://www.bbc.co.uk/news/world-africa-12302659>

⁴⁸ Aiden Lewis, "Tracking down the Ben Ali and Trabelsi fortune," BBC News, January 31, 2011
<http://www.bbc.co.uk/news/world-africa-12302659>

Two other major figures in Tunisia's corporatist system are the two sons-in-law of Ben-Ali, Sakhr Al-Matiri and Marwan Mabrouk. When Al-Materi fled Tunisia in the wake of the revolution of January 2011, he had already established a large conglomerate of business interests in various sectors. His first major financial breakthrough came in 2005, one year after he married Ben-Ali's daughter, acquiring the local Banque du Sud from a privatization process which was widely regarded as an example of insider trading. He later obtained an exclusive deal to provide cars to the Tunisian government, as well as a license to open his own bank. He also has sizable investments in telecoms, media and other sectors.

Mabrouk, on the other hand, was heavily involved in the banking and telecommunications industry, securing a 51% share in cellular phone firm Orange Tunisie, one of Tunisia's only three mobile networks.

In July 2011, Zine el-Abidine and Leila Ben-Ali were tried in absentia for stealing public funds and sentenced for 35 years in prison. There are another 113 charges outstanding against Ben-Ali in the Tunisian court system pertaining to embezzlement and corruption.

In September, Belhassen was tried in absentia for charges related to banking and international trading and sentenced to 15 years of prison⁴⁹. He is still facing trial for theft of historical artifacts estimated to be worth \$13b. There are several other cases outstanding against him. Al-Matiri and Mabrouk have both fled Tunisia and are facing trial in absentia.

- *Banking & Radio Stations*

The extent of the ruling family's control of Tunisia is best exemplified through examining two highly important sectors of the Tunisian economy: banking and media.

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

⁴⁹ “ 15 years of jail for Ben Ali’s brother in law,” Aljazeera.net, September 29,2011, <http://www.aljazeera.net/NR/exeres/3189AAA8-BF11-470F-AF61-B0B1E5C5CD43.htm>

major bank, and the oldest bank in the country is Banque du Tunisie. The chairman of the bank was Belhassen Trabelsi, and the CEO was Alya Abdallah, 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 oligopolic capture of the banking system is not just problematic because it allows the family 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 more⁵⁰.

This is a very 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.

⁵⁰ "Tunisian Banks threatened due to loans," Ajazeera.net, February 17, 2011, <http://www.aljazeera.net/NR/exeres/D20F3BD2-BA6B-4EC9-ABBB-AD301BA8E1E1.htm>

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-Youssef⁵¹, 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 Qadeesh⁵².

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.⁵³ 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 people behind Kalima and Radio Six. But it was not possible to do that because it 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."

Further, the importance of the radio industry goes beyond the financial, due to its importance in affecting public opinion. 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,

⁵¹ "Criticism for Tunisian Radio Licensing," Aljazeera.net, September 15, 2010
<http://www.aljazeera.net/NR/exeres/3314C8A8-893E-4258-8F29-80DB923646B9.htm>

⁵² "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/اتهامات-سوس-طحتون-س-غفي-تنتشر-الخاصة-اذا-اعانت-الاضواء-تحت-احداث/>
[للسلطة-بالان-حي-از](http://www.albawaba.com/ar/للسلطة-بالان-حي-از)

⁵³ "Criticism for Tunisian Radio Licensing," Aljazeera.net, September 15, 2010
<http://www.aljazeera.net/NR/exeres/3314C8A8-893E-4258-8F29-80DB923646B9.htm>

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.

4- The Revolutions and Corporatism

As the literature on corporatism discussed above suggests, a big negative consequence of corporatist economic systems is that they stifle dynamism and restrict the economic opportunities for the masses, leading to widespread disaffection and alienation. This section is a preliminary exploration of linkages between the causes and motivations of the revolutions and the corporatist economic systems. Economic conditions, namely lack of job opportunities and low living standards, as well as anger at the corporatist leaders, were among the prime motivator of these revolutions. The most salient slogans and targets of the revolutionaries' ire were the beneficiaries of corporatism in both countries.

An opinion poll by the International Republican Institute conducted in Egypt in April 2011 found that of the revolution's supporters and participants, 64% cited 'Low Living Standards/Lack of Jobs' as their primary motivation for supporting or participating in the revolution. 'Lack of Democracy and Civic Reform' came a distant second with only 19%.⁵⁴ Rising unemployment has been widely recognized as a key motivation behind the revolution by many observers and participants.

A Gallup poll from early 2011 further paints a picture of a corporatist economic system: Egyptian and Tunisian well-being was plummeting even as GDP was rising.⁵⁵ This suggests a connection with the problems of corporatism identified by Phelps. Well-connected enterprises were prospering and generating large profits for their owners, thus raising GDP, but these gains were at the expense of restricting the economic freedom of the majority of the population. Hence, even as the value of goods and services produced in these economies was rising, the benefits were not widespread.

⁵⁴ Mary Beth Sheridan, "Washington post features IRI Egypt poll," The international Republican Institute, June 5, 2011, <http://www.iri.org/news-events-press-center/news/washington-post-features-iri-egypt-poll>

⁵⁵ "Egyptians', Tunisians' Wellbeing Plummet Despite GDP Gains" Gallup, February 2, 2011, <http://www.gallup.com/poll/145883/Egyptians-Tunisians-Wellbeing-Plummet-Despite-GDP-Gains.aspx>

The slogans recited in the streets by the protestors very frequently were directed at people who were profiting from the economic system. When the demonstrations began to gain steam in both countries, the protesters had not been calling for the demise of the regime yet. The first rallying cries of the revolutionaries had focused on the economic conditions, and were particularly targeted at the members of the corporatist elite mentioned above. In Egypt, Gamal Mubarak and Ahmad Ezz were the most notable targets of revolutionaries' anger, whereas in Tunisia it was the Trabelsi family along with Al-Matiri and Mabrouk.

Furthermore, as soon as the heads of the Egyptian and Tunisian regimes left office, the first targets of popular anger were always going to be the corporatist elite. Several of Ezzsteel's offices and plants were damaged by rioting crowds, as were the headquarters of the ruling NDP. Ezz and several other Gamal Mubarak associates were arrested soon after the revolution, while Rachid, Boutros-Ghali, Hussein Salem⁵⁶ and several others fled the country to avoid arrest. In Tunisia, many of the businesses of the Ben-Ali and Trabelsi clans were ransacked and destroyed.⁵⁷ Thirty-three members of the Ben-Ali and Trabelsi families were arrested, while six of them had fled the country, though warrants are outstanding for their arrest.

There were many problems in Egypt and Tunisia before the revolution, and many motives for the revolutionaries. But there was near unanimity in the opposition to the regimes' key corporatist figures. The nascent transitional governments in both countries knew it was in their interest to appease the public by cracking down on that elite, and that explains the hasty trials to convict them.

One further issue of note is that these revolutions were not 'bread revolutions' or revolutions for material needs⁵⁸. The protestors were not primarily after more government hand-outs or cash, they were not merely demanding changes in the prices of basic staples or goods, or asking for more subsidies. These protests were about freedom and not bread. The Tunisians' name for their revolution was The Dignity Revolution – not Hunger. It is notable that the initial reactions of both Ben-Ali and Mubarak to the growing protests was to provide small economic

⁵⁶ "Ally of Egypt's Mubarak sentenced to jail in absentia," Reuters Africa, October 12, 2010, <http://af.reuters.com/article/topNews/idAFJOE79B0EH20111012>

⁵⁷ Aiden Lewis, "Tracking down the Ben Ali and Trabelsi fortune," BBC News, January 31, 2011 <http://www.bbc.co.uk/news/world-africa-12302659>

⁵⁸ Egypt had witnessed such revolutions in 1976

'concessions' to the people. These only served to aggravate the protests and to mobilize many more to join them.

The most telling incident concerning the economic motivation of these revolutions is that of the initial spark that lit these protests. Mohammad Bouazizi, an unemployed 26-year-old from the small Tunisian town of Sidi Bouzid had started making a living by selling fruits and vegetables on a stand in the streets of his town. His stand and produce were confiscated by the authorities as he did not have the appropriate license for selling vegetables. Food prices were high in December 2010, and Bouazizi's providing foods to people in the heart of the city was an entrepreneurial move that responded to the market signal of rising prices. By dedicating his labor to selling food to city-dwellers, Bouazizi was increasing the quantity of food available to them, and lowering its price. In a free market, such actions would be rewarded with profits, encouraging more and more Bouazizis to set to work on providing food for their fellow citizens, and thus alleviating the food crisis. But in a corporatist economic system where the government controls many sectors of the economy, even fruits and vegetables become the subject of national importance, where the state's designs are more important than the wishes of private individuals. By denying him the opportunity to sell vegetables, the Tunisian government had destroyed the livelihood of Bouazizi, and also aggravated the problem of rising food prices. As a final act of protest, Bouazizi set himself on fire on December 19, 2010. His protest resonated in the Tunisian street which continued to demonstrate for weeks.

Bouazizi did not demand that the government provide him with a job, income or his basic needs. His was not a protest in demand for more government gifts and involvement in his life. On the contrary, all he wanted was for the government to leave him alone to make his living. Bouazizi had found the way to earn a living for his family. His new enterprise of selling vegetables would have not only allowed him an income to support his family, but would also have done so by providing a valuable good to his fellow citizens.

There is a lesson that the Bouazizi story provides that agrees with an important and forgotten insight of classical economics: The problem of employment is not about the inability of governments to provide jobs to their citizens; it is rather their active obstruction of their citizens'

ability to pursue the jobs, vocations and careers they choose for themselves⁵⁹. There is never a shortage of jobs, since there are endless opportunities for people providing others with goods and services they value. As long as humans have unmet needs, there is an opportunity for workers and entrepreneurs to provide them with these needs, and in the process, earn an income or wage doing so. The more dire the economic situation, the more there are goods and services that constitute opportunities for labor to provide them, thus improving the well-being of the producer and consumer. Poverty and material deprivation in a society is not an impediment to an individual finding a job, it is rather an invitation for free enterprise to provide society's members with more of their needs. What stops people from carrying out these jobs is the regimented government control of economic sectors which can make meeting others' needs illegal and punishable, as was the case with Bouazizi.

The more modern way of looking at the problem of unemployment sees it as the responsibility of the government to create employment opportunities for its citizens. Under this pretext large government-funded projects are undertaken, private businesses are closely regulated by the government and many restrictions are placed on the labor market. Such plans may directly produce jobs, but they arguably prevent more jobs from being created. The employment requirements from private businesses end up strengthening the relationship between business and government, encouraging more corporatism and protecting employers from competition. Labor market restrictions can forestall dynamism and entrepreneurship, making it harder for individuals to find productive employment. Thus one can understand the curious situation of Egypt and Tunisia, two countries that had spent decades specifically targeting job creation as a policy goal, and simultaneously witnessing increases in unemployment and underemployment.

One final important question that this analysis of corporatism raises is concerns the role of international financial institutions in this system. Free market reforms have been one of the most prominent topics in the politics of Tunisia and Egypt recently. After the economic problems caused by years of socialism and central planning, and with the global drive towards free market that occurred in the 1990's, there was a strong push in Egypt and Tunisia to implement reforms towards a free market system. The leading protagonists of the direction towards a free market economy were the international financial institutions of the WB, IMF and

⁵⁹ For more discussion of this point see FA Hayek's *Denationalization of Money* or Henry Hazlitt's *Economics In One Lesson*.

WTO. These institutions have continuously pushed for privatization deals since the late 1980's in Tunisia and the early 1990's in Egypt. They have advised governments on these deals and instituted several criteria for their completion.

Preliminary research on this question reveals very strong connections between the IFI's and the Egyptian corporatist regime. Finance minister and member of 'Gamal's Trio' Boutros-Ghali, an economist by training, had a long career in the IMF prior to working in the Egyptian government. He was Egypt's representative on the 24-member International Monetary and Financial Committee (IMFC), the IMF's policy advisory committee comprising finance ministers and central bank governors from around the world. From 2008 Boutros-Ghali served as chairperson of the IMFC, resigning after he was removed from his Egyptian cabinet post during the revolution of 2011.⁶⁰

Minister for Investment Mohamad Mohieldin did not quit the ministry during the revolution of 2011, as he had resigned in September 2010 in order to serve as a Managing Director of the World Bank. He continues in that job and has not faced any investigation in Egypt, even though he had worked on many of the controversial privatization deals for which Rachid, Boutros-Ghaly and others are being tried.

The World Bank's International Finance Corporation took an active role in the privatization of Omar Effendi retail chain, purchasing a 5% share in the retailer. The IFC issued a report admitting its failures in this case, but unlike other members of the Policies Committee, Mohieldin has so far faced no investigations in Egypt and continues in his post as World Bank Managing Director.

A closer examination of the corporatist nature of the Egyptian and Tunisian regimes shows that it is inaccurate to describe these organizations as having pushed for free market reforms; as many of their reform efforts created and strengthened the corporatist system in these countries. It is perhaps more accurate to characterize their reforms as 'unfree market reforms', replacing socialist systems with a restricted, regulated and corporatist market systems. This is another promising avenue of future research, and one that will carry very significant implications for other countries.

⁶⁰ International Monetary Fund, 2011. "Youssef Boutros-Ghali Resigns from the Chairmanship of the IMFC". International Monetary Fund, February 4, 2011. 11/29 <http://www.imf.org/external/np/sec/pr/2011/pr1129.htm>

5- Conclusion

This paper is a first attempt at analyzing the economies of Tunisia and Egypt outside of the dominant socialist-capitalist paradigm that usually shapes discussions. The concept of corporatism as an unfree market economy is introduced to suggest a different analytical framework for understanding these countries' political and economic systems. A preliminary overview of the connections between politics and business was presented and suggests that there are strong elements of corporatism applied in both countries.

As these countries transition out of the authoritarian regimes of the previous decades, they face serious economic challenges. The conclusion of this paper is that Egypt and Tunisia need to move towards a more free market capitalist system. This is the only system that can provide the masses of young Egyptians and Tunisians the chance to improve their own livelihood, pursue their dreams and live in an economically dynamic society of increasing prosperity.

This analysis, however, raises more questions than it answers, and is but the first step in a larger research project that needs to go much further to analyze these two countries. Avenues of future research include: The nature of the economic and regulatory barriers that the regimes used to consolidate their economic control; the nature of the security and political system that supported the corporatists' economic plans; the effect that these regimes had on their economic competitors; and the role of international financial institutions played in the growth of these regimes.

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