1

The Politics of Privatization

In 1967 when the popular Egyptian folk singer Sheikh Imam sang his dirge "Ghifara Mat," mourning the death of Che Guevara and daring Nasser to be a true *munadil* (freedom fighter) like the slain Argentine revolutionary, he was promptly arrested and imprisoned for three years. Sheikh Imam's lyrics reflected the gloom that had settled over Egypt after the 1967 War, as heady dreams were dashed and grandiose promises shattered. After the 1952 Revolution, Egyptians—leaders and laymen—had looked toward Latin America for solutions and prescriptions for economic autonomy and freedom from the neocolonial yoke. Nasser sent delegations to South America and received Che Guevara and Raoul Castro and embarked on a project of state building and development inspired in part by Brazilian leader Vargas's state-labor alliance and corporatist legal code and Argentine leader Peron's antiparty political movement. By 1967, though, Egypt was in a deep economic and political crisis: the country lacked the hard currency to finance its import-substitution policy and welfare commitments to workers, bureaucrats, and the peasantry and was facing growing unrest from students, leftists, and Islamists calling for the return of Sinai.

Three decades later, Egyptian state elites were looking toward Latin America for a different kind of deliverance, casting an admiring eye at the market revolutions that swept across Chile, Mexico, and Argentina and the neoliberal guerrillas who defeated vested interests, eviscerated bloated bureaucracies, and steered their inward-looking economies toward the world. Egyptian eyes settled on Mexico, where economic restructuring was carried out swiftly, without the bloody repression that characterized economic reform in Chile under Pinochet. Since the mid-1990s in conferences, symposia, and articles, Egyptian policy makers, academics, and commentators have touted the "Mexican model," with analysts lauding Mexico's pacted transition to a market economy, technocrats' ability to reverse capital flight, and the Mexican ruling party's adaptability,[1] even as the Mexican model was coming under criticism in Latin America.

This book is a comparative study of Mexico's (1988–2000) and Egypt's (1996–2007) experiences with structural adjustment, particularly privatization, and Egypt's efforts to replicate the "Mexican model." Both Egypt and Mexico (prior to reform) were populist-distributive dominant-party authoritarian regimes that relied heavily on external revenues—oil, aid, and loans—and embarked on economic reform programs after external shocks led to fiscal crises and an inability to finance populist policies and debt repayment. However, while Mexico privatized much of its public sector with little agitation from labor, liberalized trade, and drew foreign investment (twenty-one billion dollars in 1993 alone), Egypt has managed to privatize less than half of the state-owned enterprises slated for sale. Due to labor protests and for fear of unrest, Egyptian reformers have not been able to overcome labor resistance and divest the larger state-owned enterprises (SOEs). Likewise, while Salinas reformed the upper echelons of the state bureaucracy, weakening statist ministries, and created a pro-reform coalition that included foreign and domestic capital, Mubarak, after promoting a mini-investment boom in 1998, has not been so successful.

The question I am addressing is the following: why has the Egyptian state, which is more repressive and authoritarian than its Mexican counterpart (which allows sexennial elections), been unable to overcome the opposition of a labor movement that is smaller, less organized, and more repressed (a military order passed by the Free Officers in 1953 banned all strikes) than the Mexican labor movement? Differently put, Mexican leaders were able to lay off 500 thousand workers, while Egyptian leaders have been unable to lay off the projected 650 thousand workers necessary for far-reaching divestiture.[2] Through agitation or the threat of agitation, Egyptian workers have been able to hinder the reform process, while the Mexican labor movement, which is larger, better organized, and less repressed, was unable to resist privatization. I contend that Mubarak's inability to overcome workers' resistance to reform and to direct different societal actors toward his developmental goals derives less from the organizational strength of the Egyptian labor movement or the labor elite's veto power than from the Egyptian state's low capacity. In Mexico, reformers could use the ruling party to mobilize support for reform, co-opt opposition, and maintain stability. Egypt's National Democratic Party, for historical reasons, lacks the Mexican ruling party's (PRI) channels of access and representation and the capacity to deliver public goods. Despite efforts by Sadat and Mubarak to build an Egyptian PRI and imitate Salinas's National Solidarity Program, the Egyptian state remains a "lame Leviathan," a fierce but weak and isolated state with limited control over society.

Reform and Resistance

The process of privatization in Egypt has been repeatedly halted by labor agitation or the anticipation of such agitation. Between 1982 and 1993, Mexico sold or liquidated 891 of its 1,155 SOEs;[3] Egypt in 1991 put 314 SOEs—40 percent of the public sector—for sale; and, according to the Egyptian Public Enterprise Office, 142 SOEs have been partially or totally privatized, and 172 SOEs are still owned by the state, which also holds stakes in 695 joint venture companies. In total, less than half of the SOEs slated for sale have been liquidated, and less than 20 percent of the entire public sector has been sold.[4] Most scholars have attributed Egypt's inability to privatize to a lack of will, which purportedly stems from a reluctance to relinquish control of the public sector as a source of patronage and the fear that any sizable state sell-off would unleash popular discontent.[5] This at first blush seems like a plausible argument. Market reform obviously cuts against the interests of groups that were benefiting from the preexisting development strategy of import substitution industrialization and could lead to social unrest.

But it is not evident that Egyptian elites lack the will to reform. The controversial Law 203 of 1991, which provided the legal basis for widespread privatization, was passed, restructuring the public sector and creating holding companies. Between 1991 and 1993, scores of small SOEs at the local level were sold. In 1996, a new cabinet pushed the privatization process forward, and by 1998 twenty companies of the 314 slated for divestiture were partially divested. By 1998, twenty thousand workers had been dismissed, and, although economic liberalization led to a rise in unemployment and a fall in living standards, Egypt's privatization drew in $3.3 billion.[6] In November 1998, a World Bank official lauded Egypt's privatization effort for not having created social unrest, and an International Monetary Fund (IMF) report praised Egypt's "remarkable" privatization program, ranking it fourth in the world (after Hungary, Malaysia, and the Czech Republic).[7] Egyptian reformers also appeared willing to subcontract SOEs to private interests that could peacefully shed "excess labor." But frequent strikes and serious labor disturbances in 1998 and 1999 forced reformers to hedge in privatizing and delayed the passing of the new labor law first proposed in 1993, until it was finally adopted in 2003. In the 1990s, economic liberalization measures went forward in other areas: trade barriers and tariffs were reduced considerably, portfolio investment lured, and the exchange rate unified, but adjustment has been slow in areas that triggered resistance from labor. Mubarak's team seems to be committed to neoliberal reform on all fronts, but privatization schemes stalled or were abandoned because of labor protests and the threat of such protests.

The problem is how to deal with labor during privatization. In 1996, the Egyptian state employed 4.2 million people out of an active Egyptian population of 12 million, and the public sector employed 1.3 million people; 11 percent of total employment was in the public sector, 21 percent in the public administration and 68 percent in the private sector.[8] One study by a British consulting group found that 30 percent of the labor force in SOEs was redundant, 40 percent of the workers had a second job, and 40 to 45 percent were under- or unqualified. Yet shedding the excess labor through divestiture was and remains to be a daunting and politically explosive task. As Amin Ugumar, director of employment creation at the Social Fund for Development (SFD), put it, "If we dismiss 500,000 people the rate of unemployment will reach 20 percent and the social situation will become explosive. This means revolution. Besides, the state would have to pay $1.8 billion in compensation which it cannot finance."[9] Concurring with Ugumar, some observers argued that international financial support was crucial to the progress of the privatization process. The Social Fund for Development was established to alleviate the pain associated with privatization and received $672.5 million from international donors, of which $117 million was allocated to fund the early retirement compensation to fifty thousand laborers in thirty companies slated for sell-off.[10] But despite the international aid and expressed interest of regime cronies and foreign investors in buying failing SOEs, the Egyptian state lacks the capacity to restructure labor-intensive enterprises because of its inability to control and contain labor discontent.

The Argument

I present three interrelated arguments: First, I argue that the capabilities of the Egyptian and Mexican regimes can be understood through a historical analysis of the state-building and incorporation periods following the populist revolutions that brought Nasser and Calles to power. The postrevolutionary regime in Mexico would have more success in integrating society. The Nasserist revolution was not as transformative of Egyptian society as its Mexican counterpart; the Egyptian revolution did not decimate the power of the landed elites and never successfully incorporated urban political groups. While Mexican state builders used the PRI to incorporate and mobilize the popular classes into the regime, Nasser, inspired by Peronism and the Brazilian Estado Novo (New State), banned political parties, attached labor and the peasantry to the state, and channeled participation into the state bureaucracy. While Mexican corporatism relied on the active inclusion and participation of the lower classes, regularly reaching out to workers and peasants for electoral support, Nasser opted for the passive inclusion of labor and the peasantry, granting them numerous welfare guarantees in exchange for political quiescence and absolute docility. Finally, while party corporatism granted workers voice and sanctioning power making unionists more representative and responsive to the rank and file, state corporatism extended benefits to workers and in effect divorced upper-level unionists from the base, making their careers hinge more on state approval than on the workers' votes, which increased chances for dissent and defection among the rank and file.

Thus while state-society relations in Mexico were mediated by the ruling party, and state elites could control the lower classes through thousands of unionists and local political bosses (*caciques*) who were party members, the state-society configuration in Egypt would remain fundamentally different even after Nasser created a single party (the Arab Socialist Union, later the National Democratic Party), lacking the PRI's numerous middlemen through which to mobilize the support of urban voters. Both the Egyptian and Mexican regimes have historically employed strategies of indirect rule, using labor unionists and rural notables to control the lower classes. But after the 1986 and 1988 electoral debacles, when labor and rural elites failed to deliver the vote, Mexican leaders decided to sideline these traditional power brokers, many of whom were resistant to reform and, through the PRI and Pronasol, cultivated new pro-reform intermediaries in the labor, peasantry, and private sector. Mexican reformers reconstituted the regime's base and revitalized the state's capabilities by developing new intermediaries in the private sector and lower classes who could help administer the public good and mobilize support for the new economic-political project. In Egypt, while the rural middle class is still a reliable ally, the labor elite—the state's intermediaries in urban areas—have consistently failed to deliver rank and file; workers, indeed the popular classes in general, are increasingly finding that allegiance to Islamist power brokers (who have resisted the state's attempts at incorporation) is materially more beneficial than loyalty to the state or ruling party.

My argument thus disagrees with the standard view that the Egyptian regime has not restructured its public sector because of a lack of political will and access to external revenue, which is used to placate vested interests. My argument is also at variance with the "moral economy" thesis, which may account for the "symbolic protests" of the 1970s, 1980s, and early 1990s but cannot explain the waves of full-blown strikes of the past decade and the growing demands for a new workers' confederation and a labor party.[11] I also differ with the more recent thesis that Egyptian labor has been able to block privatization because of the labor leadership's influence on the policy-making process.[12] While I concur that corporatist institutions in Egypt are weak and the party-state has been unable to subordinate labor to its political will, I do not think this institutional weakness has afforded the union elite "substantial influence" and veto power over the decision-making process. While some high-level unionists did oppose privatization in the early 1990s, the Egyptian Trade Union Federation (ETUF) leadership did not resist Law 203 of 1991, which passed to facilitate public sector reform, and in 1996 the confederation issued a statement in support of privatization; in 1999 the ETUF executive council declared its support for the controversial new labor law.[13] Unlike in Mexico, where strong party and corporatist institutions could contain and isolate labor dissent at different levels of the union hierarchy, the privatization process in Egypt has been repeatedly halted by the political agitation of rank-and-file workers and shop-floor leaders over whom the trade union confederation and National Democratic Party (NDP) have little control. Because of weak party institutions and the trade union federation's structure—where, since 1959, the ETUF remains the single official union organization, with a hierarchical structure allowing only one federation to represent workers in any given industry and where top-level unionists are selected and protected from being voted out by lower level unionists—the Egyptian state simply lacks the capacity to control the political behavior of low-level unionists and rank-and-file workers.

The Egyptian state's isolation, along with dwindling resources, has limited reformers' ability to co-opt opponents and mobilize urban constituencies for reform. Mubarak's inability to finance welfare commitments to the lower classes has meant that the regime's populist coalition is fraying as workers and peasants are flocking toward the Islamist and leftist opposition. With widespread poverty and the urban poor's mobilization by Islamist groups, Egyptian reformers fear that an attempt at political liberalization and inclusion could flood the political arena with the "logic of distribution" rather than the "logic of accumulation." Bereft of intermediaries, unable to incorporate the Islamists' social capital, and incapable of reaching directly to the popular classes, Egyptian leaders are increasingly opting for exclusion and coercion. Despite attempts to strengthen the ruling party, increase participation, and shore up support in urban areas, Egyptian leaders' failure to establish some type of pro-reform bargain with labor is leading to an exclusionary corporatism. And the more access to the state is closed off, the more political agitation occurs outside the party and corporatist framework, further isolating and weakening the regime.

My second argument also challenges the conventional wisdom that Egypt—and, more broadly, Middle Eastern states—has not reformed its economy because of its access to external revenue and foreign aid. The poor record of economic reform in the Arab world is often attributed to low state capacity, specifically the regimes' inability to contain "popular backlash" against adjustment, which is in turn chalked up to the reliance on external rents.[14] One version of this rentier state argument holds that, while Latin American states also rely on external rents and loans, the loans come from international financial institutions and with stringent economic conditionalities, whereas Arab states avail themselves of rents from Western governments that require little more than support for U.S. foreign policy and stability in the Middle East. Incumbent leaders, the argument runs, enjoy significant financial autonomy and have neither the interest nor will to reform their economies.[15] This line of argument is problematic. To begin with, rentier state theory tells us little about the institutional origins or evolution of the modern Egyptian state whose corporatist bargains were put in place before the flow of Soviet or American aid, nor can it explain the institutional building that has taken place since 1979 when Egypt became heavily dependent on American rents. The Egyptian state was born in a context of military conflict different from that of Mexico's, which grew out of a civil war and revolution. The size and complexity of the Egyptian state apparatus would be shaped not only by the nationalist struggle against the British but also by the Palestinian-Israeli conflict. The wars of 1948, 1956, and 1967 would affect the process of state building and incorporation in ways neglected by most rentier analyses: by strengthening the military, narrowing alternatives available to regime elites, and paving the way for nationalization.

I demonstrate that the claim that aid to Latin America comes exclusively from private sources and with strict economic conditionalities is also overdrawn; the case of Mexico shows how economic reformers relied heavily on aid from international financial institutions (IFIs) but also benefited from generous politically motivated funding and bail-out packages from the United States. Some political economists observe that structural adjustment in Mexico was bankrolled and sponsored by the United States more than any other reform process in the developing world.[16] The political nature of Egypt's and Mexico's relationships to the world economy and the United States is critical to understanding their reform experiences. Egypt's geostrategic location as a "front-line state" would shape that country's institutional development and engender a relationship with the United States that was political and "special" like the Mexican-American relationship, albeit underpinned by a different security and balance of power calculus. Mexico, like Egypt, has benefited from "soft money" and also evinces a budget with "soft constraints"—and, in fact, has lower rates of direct taxation than the Egyptian and Middle East and North Africa (MENA) average. I argue that the reason Mexico was able to reform, while Egypt is stalling, is because it could: Mexico's institutional capabilities, greased by oil rents, aid, and loans from the United States, IFIs, and commercial banks, could contain opposition and mobilize support for painful reforms. In comparing the two countries' institutional capacity, I do not simply focus on extraction and allocation capacity, as most scholars of the Middle East do, but I look at the state's capacity to deliver public goods, channel participation, respond to societal demands, and reverse policy course.

I also argue that the link between access to external rents and reform is neither simple nor direct. External revenue may lower the costs of repression allowing rentier states to forestall democratization,[17] but the cases of Egypt and Mexico show that while subsidizing authoritarian rule, external revenue can also promote economic liberalization and institution building. When asked about the lack of democracy in Egypt, in a now famous speech in January 2002, David Welch, the American ambassador, replied that "the United States considers Egypt to be a friend and we don't put pressure on our friends."[18] But the United States did press for economic reform. In June 2004, the United States granted Egypt three hundred million dollars in "cash transfer assistance" as a "reward" for reform steps taken, and Welch stated that the United States was prepared to offer two billion dollars in loans if privatization—particularly, of state banks—went forward.[19] Similarly, in the 1990s, the privatization process in Egypt often went forward when external resources were flowing, funding welfare and retraining programs for workers laid off by divestiture; and the process frequently would stop when these funds ran out or in face of domestic resistance. In other words, external rents can preserve authoritarian rule but do not necessarily impede market reform. The rentier effect in Latin America and the Middle East, while significant, is refracted by differing institutional contexts.

The third argument of this book involves policy diffusion and learning between states. Scholars have recently observed that as the United States establishes a presence in the Middle East, American-style models of capitalism, previously prescribed to Latin American allies, will be recommended to American client-states in the Middle East.[20] This observation is certainly true of Egypt and Mexico, two states dependent on American support, but it ignores the extent to which Egyptian policy makers and scholars were drawn to the "Mexican Miracle." If Egyptian state builders after 1952 were inspired by southern European and Latin American corporatism, since the mid-1990s Egyptian reformers have attempted in a number of ways to imitate the "Mexican model." Egyptian technocrats and bureaucrats have also lauded Salinas's antipoverty program, Pronasol, which used funds from privatization sell-offs to deliver welfare to targeted areas. With World Bank approval and financing, the Egyptian regime created the Social Fund for Development, which was modeled on Pronasol.

In praising the "Mexican Miracle," IFIs and Western policy makers often pointed to the opening of the economy to international competition; the drastic privatization and "deregulation" process; and the pacted agreement among business, labor, and the state, whose annual renewal became a major political event and which became a crucial institution underpinning the reform process and which distinguished adjustment in Mexico from that in Argentina and Chile.

Yet many experts who advocate the Mexican model misunderstand the degree of state intervention involved in that country's "neoliberal" revolution and the institutional legacies upon which Salinas built.[21] Increasingly, economists are noting that neoliberal reforms in Latin America were underpinned by extensive institutional interventions by the state. These scholars argue that what typifies the Mexican model is not its purported laissez-faire character but the economic transformation managed by a political party and underpinned by institutional interventions and "restricted democracy." Mexican technocrats used the preexisting institutions of the party and electoral systems to transform state-society relations and build a pro-reform coalition. The Mexican experience would be held up as exemplary and appeal to policy makers in other developing countries even after the peso collapse of 1995 and the subsequent austerity measures, which triggered the largest plunge in Mexico's GDP since the Great Depression of the 1930s and led to a widespread repudiation of Salinas's economic project as the economy shrank by 6.2 percent in 1996.[22] But the "Mexican Miracle" was represented differently by different interests.[23]

While Mexican officials, IFIs, the United States, and policy makers in different parts of the world were hailing the country as an "IMF success story," scholars (and even some Mexican policy makers) were pointing to Mexico as a case of effective and targeted state intervention similar to that of the East Asian newly industrialized countries (NICS) and noting that it was insufficient state intervention on the part of Salinas that led to the 1994–95 crises.[24] I examine this debate over Mexico as an exemplar of successful neoliberalism. A closer look at Salinas's reform policies illustrates the contradictions that often exist in state behavior between "image" and "practice," rhetoric (in this case, neoliberal) and policy.[25] The Mexican state intervened in allocating capital and market opportunities to business cronies, protecting banks from competition, overvaluing the peso, guiding investment, and disciplining small and medium-sized businesses who opposed trade liberalization. The state aggressively intervened in the polity to build a coalition for reform, rewarding supportive unionists, co-opting more pliant opponents, and extirpating union bosses (*charros*) opposed to the sell-offs.

Reforms in Mexico did not lead to state withdrawal as much as to new kinds of intervention; through market reforms, the Mexican state was able to expand its social bases and enhance its capabilities by allocating the provision of public goods to compliant private intermediaries. "Deregulation" gave way to "re-regulation"; rather than "shedding" (or in the words of Latin American economists, "disincorporating") state-owned enterprises, privatization often resulted in public-private ventures where the state would outsource functions, like port management and customs administration, to big business. Even in Egypt, I show how the limited growth and investment boom, which occurred in 1998 and 1999, prompting the *Economist* to call Egypt an "IMF Success Story," was achieved through dirigisme: the state intervened to allocate credit, protect the local currency, shield local manufacturers from foreign competition, bail out public banks, and invest in profitable businesses such as real estate. I question some Egyptian analysts' understanding of Mexico as a neoliberal success. One reason the Egyptian Social Fund has yet to develop the institutional reach of Pronasol or yield the political returns is because it is being created from scratch, while Pronasol was built upon successive antipoverty programs introduced by Mexican presidents since the 1950s.[26]

This study thus offers a critique of neoliberal theory, of the claim that privatization would lead to the retreat of the state, free the private sector, and spark economic growth and higher living standards. Aside from the now indubitable fact that market reforms have not raised living standards in Latin America, I argue that privatization has also not led to state withdrawal but rather to a redeployment of the state and new types of intervention. Divestiture has not unleashed an independent, dynamic private sector but rather produced a new relationship between state and capital and engendered public-private ("straddling") arrangements where the regime grants big-business market opportunities in exchange for the private sector's providing public goods and fulfilling some of the state's social control functions (such as monitoring smaller businesses and providing services formerly provided by the state). In Egypt, while the public sector is being restructured, the state is not shrinking; the civil service is actually expanding, and more joint ventures are appearing.

Analysts have evaluated the success of privatization by looking at a variety of indicators: the efficiency and productivity of enterprises transferred to private ownership and the role of divestiture in increasing government revenue, in reducing the fiscal burden, and in improving consumer welfare. While I consider the number of SOEs sold and the size of the public sector after privatization, since I am concerned with the state's capacity for social control and labor opposition to reform, I pay close attention to the public-private arrangements that have emerged from divestiture and how that "recombinant" property regime has enhanced state capacity and helped leaders achieve economic and political objectives. It is important to recall, as David Stark has argued apropos Eastern Europe, that there are "new forms of state ownership" and that counting the number of SOEs sold to the private sector tells us little about how the state retains control of these firms through public-private ventures.[27] Thus, rather than ask how many SOEs are sold or divested, I prefer to examine how the state intervenes and through which institutions and societal power centers it manages economic activity; such an approach can better illuminate the nature of the state-society and state-market configuration.

Privatization in Mexico, and to a lesser extent in Egypt, appears to be another phase in the continuing formation of these postcolonial states, where in bringing the private sector into the governing coalitions, the regimes expand their foundations and enhance their capacity for social control. By contracting state enterprises and state functions to trusted allies in the private sector, Mexican and Egyptian reformers create a new set of intermediaries in the propertied classes through which the state can govern and manage the economy. Privatization is thus a way for cash-strapped regimes to gain allies, draw capital, and enhance capabilities, but the recurring irony is that to privatize the state must have high capacity.

Plan of the Book

This book fits into the growing literature that attempts to deparochialize the study of the Middle East, a region long excluded from comparative research because of its purported cultural, political, and economic exceptionalism.[28] I try to explain Egypt's "political blockage" through a comparison with Latin American cases and their experiences with state and market reform; the ensuing analysis compares the historical trajectories of state formation in Latin America and the Arab world, assessing the impact of domestic institutional legacies and external rents in two countries heavily reliant on American largesse. By demonstrating how privatization in Egypt is stalling because of the nature of the state's institutional linkages to labor and the regime's isolation from society, which can be traced to its founding moment, I am offering a critique of the rentier state theory, which is influential in the study of Arab, African, and Latin American states.[29] And in showing how, rather than withdrawing the state, reformers in Egypt, Mexico, and Algeria (discussed in the concluding chapter) redeployed state institutions, this study contributes to ongoing attempts to reassess the political science and economics literature of the past decade on the politics of privatization and state retrenchment.

The next chapter provides a brief literature review and shows how this book's thesis fits into ongoing theoretical debates over state formation, corporatist legacies, and market reform and presents a causal model to illustrate how Egypt's and Mexico's differing experiences with privatization can be understood by looking at the periods of state building and incorporation. The path-dependent argument presented in this study rests on the assumption that state capacity is shaped historically by the state's internal structure, the relationship between the state and society, and the structure of society, which can facilitate or constrain state intervention. Chapter 3 thus offers a comparative historical analysis of the state-building periods in Egypt and Mexico, contrasting the political contexts (civil war in Mexico versus intrastate war in Egypt) and the revolutions' disparate accomplishments. Chapter 4 lays out the sociohistorical status quo ante detailing the institutional legacies of incorporation—particularly the nature of state-labor and party-labor relations in the two countries—on the eve of economic reform.

Chapters 5 and 6 examine party-labor and state-business relations in Mexico, explaining how de la Madrid, Salinas, and Zedillo were able to transform the social base of the state. Chapter 5 shows how Mexican officials manipulated corporatist mechanisms of control—party institutions and the Federal Labor Law (particularly the strike and exclusion clauses)—to overcome labor opposition and (re)incorporate workers and other groups alienated by structural adjustment. Chapter 6 looks at how Mexican reformers were able to restructure key bureaucratic institutions and draw the support of an estranged private sector and overcome the resistance of small and medium businessmen; the chapter concludes with a discussion of the "Mexican model" and its appeal to Egyptian scholars and policy makers.

Chapters 7 and 8 examine how in response to worker opposition, which has repeatedly derailed privatization, Egyptian state officials have begun redesigning and restricting boundaries of participation in legislative and trade union elections to build support for pro-reform policies. But unlike Mexico, where state officials reshaped the political arena to absorb opposition from the left and the right, Egyptian leaders are using the ruling party (NDP) to mobilize the support of the "winners" of adjustment; they are recasting the Egyptian electoral landscape to include the middle and upper classes but exclude the populist sectors most opposed to adjustment. Chapter 8 details how as a state-business alliance is cemented and business is brought into the NDP, Egypt is moving toward a soft bureaucratic authoritarianism with organized labor economically excluded and politically demoted from its already subordinate position as a junior coalition. In the final chapter, I ponder how Egypt's turn toward neoliberalism is being accompanied by an institutional shift to an exclusionary party corporatism and provide further evidence for the thesis that an inclusionary party corporatism affords states a greater capacity for reform by looking at additional cases—particularly Algeria, which shows the perils of an exclusionary approach to reform.

Novelist Octavio Paz has likened Mexico's dense institutional setting to a pre-Columbian stepped pyramid, saying that Mexicans over the centuries built a multitiered set of institutions that became one of the "seven political-science wonders of the world," and scholars of Mexico used to argue that this burdensome institutional heritage would not be favorable to economic restructuring and democratization.[30] In a similar spirit, scholars have noted that the behemoth Egyptian state dates back five thousand years to when Pharoah Menas unified the Delta and Upper Egypt under one central authority and created a "total bureaucracy"[31] later expanded by Muhammad Ali and Nasser and that today poses the most significant obstacle to the country's development. Commentators regularly speak of Egypt's "political blockage," "regime inaction," and the Egyptian "government's strategy of immobilism" without exploring or explaining the historical roots of this institutional incapacity and inflexibility. By focusing on the period since regime formation, I hope to show how Mexico's dense institutional context has proven conducive to economic transformation, while Egypt's has not. The aim is to explain how political outcomes in both Egypt and Mexico can be understood as resulting from the same processes of state formation, coalition building, and dependency on external rents and American largesse. The comparison is particularly pertinent given the influence that Latin American political ideas and models of development have had on Egypt.