

Reconstruction and peace in Lebanon

Post-war economic policy

A conversation with Sami Atallah

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Post-war economic reconstruction policies

Lebanon's post-war economic performance has achieved only modest economic growth, averaging around 4.4 per cent over the last 20 years. This is comparatively weak for a country emerging from a 15-year civil war during which GDP dropped by half.

Growth rates differ across economic sectors: banking, real estate and tourism are doing relatively well, whilst agriculture and industry have been left behind. Job creation has been poor, especially with regard to the aspirations of Lebanese youth, and this has led to high levels of emigration to the Gulf and Europe. Lebanon needs to generate about 17,000 jobs a year, but creates only 3–4,000. Poverty is around 30 per cent. Despite initial improvements in the early 1990s, infrastructure is now in decline. There has not been 24-hour supply of electricity across the whole country since the eve of the war in 1974–75.

Monetary policy

Post-war monetary policy was aimed at stabilising Lebanon's currency and ending the period of hyperinflation between 1987–93. This was seen as an essential component of establishing a sustainable economy. Lebanon was initially quite successful in pursuing this strategy and was able to attract foreign capital, a process supported by the rapid recovery of the banking sector.

The architects of Lebanon's post-civil war economy recognised the importance of making the most of this, and Lebanon's 'banking secrecy law', which provides comprehensive guarantees for client confidentiality,

ensured Lebanon became a haven for capitalism. The government also sold off treasury bills (T-bills), which were very attractive for investors. Money was coming in both from foreign sources, and from Lebanese based abroad through family remittances.

However, too much foreign capital was spent on consumption than on investment. This drove up prices in non-tradable goods, which many Lebanese saw as profitable – opening restaurants, hairdressers, as well as schools and universities. Lebanon also has a very narrow market structure. It is not a market economy with a broad and open private sector. Instead a small number of companies dominate their respective sectors, rendering them uncompetitive, pushing up prices, making it harder to compete internationally, and reducing the purchasing power of citizens at home.

So while post-war monetary policy may have succeeded in stabilising the currency and boosting capital flow into Lebanon, it benefitted only a few, and this had negative repercussions for specific sectors and for many people's wellbeing.

Fiscal policy

Fiscal policy has also been inequitable, benefitting the rich and hurting the poor, while public spending has also been highly inefficient. After the war the top band of income tax was reduced from 45 per cent (at its highest) to as low as 10 per cent; it currently stands at around 15 per cent, and in fact few rich Lebanese even pay that. Self-employment is high and because of the bank secrecy

law it is very hard to assess under-reporting or real earnings. Many rich Lebanese avoid inheritance tax by setting up holding companies. To boost public income, governments have increased indirect taxes – VAT, tax on vehicles and passports – which tend to hurt the poor disproportionately.

Public spending has been high over the last 20 years and some of this has gone on infrastructure – electricity, water, bridges and telecommunications. But there are major discrepancies between reported infrastructure investment by the government and the relevant public debt incurred. The question remains, therefore, what has happened to the difference? In the early 1990s there was a lot of waste in public spending, primarily in investment projects: roads costing many times more than they should have; over-charging for garbage collection; scandals in the port or in telecommunications; the government cancelling contracts and paying millions in compensation to companies with links to politicians' families.

Clientelism, public administration, citizenship and accountability

A lot of public money has been spent – for instance on education, health and public sector salaries. But Lebanon has a bloated bureaucracy in which many people are hired for clientelistic reasons that support sectarianism. For instance, if you want to build a new school in a Sunni town, you will probably have to build schools in Shia or Maronite towns as well. Money is spent not according to need but to maintain sectarian balance – or so that sectarian leaders can demonstrate benefits for their own community.

Clientelism essentially means that money, goods or services are provided in return for political loyalty: 'vote for me and you get something'. Public servants become assets of the politicians who appoint them; their role is to distribute all sorts of privileges to the politicians' constituencies. These relationships become much more important in election years. The public administration has not been reformed because there is no incentive for politicians to change it.

All this explains poor services in Lebanon. There is no accountability: public servants report to politicians rather than the state, and certainly not to the citizens who are left requiring political connections to get any services beyond the most basic. While this encourages people to seek access to the state through politicians, it comes with a cost – of relinquishing political choice.

This problem has worsened since the war, illustrated by the numerous funds that have been set up. The Fund for the Displaced was put in the hands of Walid Jumblatt, the

head of the Progressive Socialist Party (PSP), while the Council for Reconstruction and Development was managed by former Prime Minister Rafiq al-Hariri. The leadership of the 'Council of the South' is allotted to the Speaker of the House, who becomes a kind of patron of southern Lebanon. All leaders want to show their constituents that they are able to negotiate hard with other sects and extract a bigger piece of the pie, but many also benefit personally.

Efforts to professionalise the civil service or institute more competitive recruitment processes are also political. All parties have to agree to respect the public administration. In the longer term this could be achieved through electoral reform to dilute political parties' monopoly on power, introducing new parties and so increasing political competition. Recent positive developments include much deeper public scrutiny of the budget over the last couple of years by the Parliamentary Budget Committee, which helps to counter inefficiency or embezzlement in government spending.

Reconstruction and peace in Lebanon: the role of the international community

It is up to the Lebanese to change the system. International partners could explore ways to engage with Lebanese citizenry more directly. But major international initiatives like the Paris I, II and III assistance conferences for Lebanon, which pledged billions of dollars to Lebanon linked to economic reform, in fact have essentially helped to endorse and sustain the existing system. The solution to Lebanon's problems does not lie in importing political ideas from Europe. We have our own ideas and we understand our own system; the rules of the game are different in Lebanon.

The main question is how to create a 'critical political mass' that can say 'enough is enough'. This is very hard, but Lebanese people care, are interested and can develop useful initiatives. There is now an NGO to create public spaces, like the public park in Beirut which is currently only open to foreigners. Micro-initiatives such as this are perhaps the best way to build momentum and create a public desire for reform, in order to try to access the macro-level in Lebanon that is currently mired in multiple vested interests.

Lebanese society is divided vertically. Sectarian leaders are central to people's political decisions, including resort to violence. Lebanese people need to revolt against their own leaders! The joke in Lebanon is that we do not have an Arab Spring here because there are seven dictators to revolt against, not just one, and so coordinating across all these groups is much harder!

Interview by Aaron Griffiths