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BEHIND THE FACADE OF RECONSTRUCTION The "Lebanese miracle" in danger

By Georges Corm

"Who is gaining from the reconstruction of Beirut? For nearly six years now, most Lebanese have been urged to rally round a "unifying" theme - the renaissance of their capital - and forget their own vital needs. But the promised miracle has become a mirage. From one end of the country to the other, life is growing increasingly difficult and inequalities ever more glaring. In their quest for an elusive peace in the region, Europe and the United States have chosen to ignore the seriousness of the discontent, continuing instead to dream of "their" Lebanon.

The reconstruction of Lebanon has acquired the status of an international myth. The images of desolation, the result of 15 years of war, gave way in 1992 to the good-natured face of Rafiq Hariri, whose main project as prime minister was the reconstruction of Beirut. Seeing models of sky-scrapers, broad avenues and marinas on the television screen, world opinion thought that Lebanon had ended its ordeal and was regaining its place as the Middle East's financial capital.

Since the ideological fashion is to sing the praises of the global economy, the pundits vaunted a Middle East made peaceful by new trade links between Arabs and Israelis. Lebanese reconstruction was immediately seen in the West as a first success along the road to

regional realignment after the upheavals of the cold war and the Gulf war.

What is the formula for Lebanese-style capitalism without borders or other inhibitions? It is planning large-scale road infrastructures to help growth in regional trade, introducing a 10% income tax ceiling, hoping to privatise what remains of the public services, turning to private capital to rebuild the historic centre of Beirut, using the Build-Operate-Transfer (1) formula in the area of telephony, for example. It is also putting very high real interest rates on treasury bonds, in Lebanese pounds, to attract foreign capital (from the Lebanese diaspora, businessmen in the Gulf and even a number of international investment funds) for its many projects, from land reclamation to curbing the trade unions...

This is what has made Mr Hariri's Lebanon a development model geared to the global economy and the opening up of markets. The lavish praise heaped upon him, especially in France, was matched only by the stifling of harsh internal opposition, filtered through rather sparingly by the major international media (2).

It is no surprise, then, that the Lebanese state and, more recently, its banks, have managed to issue a large number of dollar loans on the international capital markets, including the unruly Asian markets. Despite the disastrous state of Lebanon's public finances, the positive image of reconstruction remains dominant in international financial and political circles. In June 1997, James Wolfensohn, president of the World Bank, visited Beirut. He gave a resounding endorsement of the government's policies, singing the prime minister's praises despite the concerns officially voiced, for the first time, by the chairman of the Lebanon Banks Association. Mr Wolfensohn said that, until proved otherwise, he believed they could trust in the administration's financial good sense (3).

In fact, Mr Hariri's economic management record is cause for dismay. Having opted not to tax high incomes or capital gains on property or

capital itself - in a country where colossal fortunes have been built on war, drugs and emigration - he has triggered an alarming spiral of debt. Normally, when a war ends, governments tap the rich with a solidarity tax, either in the form of an extraordinary levy or by increasing the rate of direct taxation on the highest income bands, in order to help those who have suffered from the violence of war and lost their homes or their livelihood.

But here the reverse has happened. The first act of Rafiq Hariri's new government was a spectacular reduction in direct taxation, on the pretext of encouraging investment and thereby producing an increase in tax revenues. It resulted in nothing of the kind. Instead, as official statistics show, the internal public debt rose from \$1.5 billion in September 1992 (just before Mr Hariri came to power) to \$13 billion in June 1997. And over the same period the external public debt rose from \$300 million to \$2.2 billion. For a gross domestic product of \$13 billion, the total public debt is therefore more than \$15 billion, not to mention the \$2 billion owed by the private banking sector on international markets.

The result was that, in 1996, 71% of state revenues went on paying internal debt interest alone and a further 5% on servicing the external debt; and the percentage reached 91% in the first quarter of 1997. From 63% of revenues in 1993, the budget deficit climbed to 105% in 1996. With income tax producing only 10% of budget revenue and 5% of expenditure, the government has increased indirect taxation several times. These moves have exacerbated a social discontent, already fed by the war's human consequences, which the reconstruction policy has totally ignored.

Yet public investment expenditure has remained at a modest level, averaging half a billion dollars a year. Responsibility for the deficit therefore lies with ordinary general budget expenditure and extra-budget expenditure out of Treasury advances, over which there is little control. The government is using this to try and persuade public opinion that the explosion in public debt is a result of increases in civil

service salaries and social expenditure. But the truth is that the mess is the result of government policy. The prime minister pointlessly increased the number of civil servants by creating several new ministries and a large number of public establishments. The Refugee Fund alone has spent \$800 million, with absolutely no checks on its use. Not only were compensation payments not made conditional on the refugees returning and rebuilding their ruined homes, but they operated through the former militia chiefs, greatly increasing their hold over the population.

Luxury property and land speculation

However, the biggest expenditure item is public debt servicing, which rose from 784 billion Lebanese pounds in 1993 to 2,700 billion in 1996, 42% of the total. Yet with inflation at moderate levels, the cost of debt servicing could have been stabilised by lowering interest rates. Instead, the authorities have kept them at a very high level, with at least a 10% differential between rates on deposits in Lebanese pounds and those in US dollars.

This means that people with Treasury bonds denominated in pounds have been able to live very comfortably on the proceeds of their investment. Moreover, as they became aware of the enormity of the budget deficit, they saw interest rates on the Lebanese pound rise, so that the differential with rates on the dollar is now between 15% and 18%, depending on the maturity. Hence the tensions on the exchange market, which the central bank has so far managed to contain. Nevertheless, at the end of 1997 the Saudi authorities intervened, increasing the central bank's exchange reserves by means of a \$500 million deposit by a major Saudi bank.

This has not prevented gloom and anxiety, even in government and business circles. Growth has been stagnant since the second quarter of 1996. First people blamed the Israeli attack of spring 1996. But it is now accepted that the massive concentration of Lebanese private

investment in luxury real estate and land speculation has tied up \$6 or \$7 billion in buildings that nobody wants. In the euphoria created at the start, by the Arab-Israeli peace talks and the dazzling image of Lebanese reconstruction, the new financial groups close to the prime minister made a rush for the property sector in the naive hope that Beirut would at long last become the regional Monte Carlo that part of the Christian bourgeoisie dreamed of before the civil war.

Travelling exhibitions of models of luxury building projects were even organised in the Gulf emirates in the quest for buyers. The result has been an alarming property bubble even though construction has not started in that part of the historic centre of Beirut owned by the Solidere company (much loved by the prime minister), nor in the area owned by the Linor company, which has reclaimed 2 million square metres of land from the sea north of Beirut. The juxtaposition of private and public sector building sites, with no thought for town planning considerations or the environment, has resulted in much pollution, destroying the beauty of places that once made Lebanon famous. Nothing has been done to remedy the situation despite numerous technical reports sounding the alarm (4).

Socially, too, discontent is rising. In 1996, one third of Lebanese families were living on a subsistence budget of \$600 a month (5). Unemployment is put at close on 20%. While well-paid jobs have been created for qualified people in banking, real estate and public works, there is a shortage of unskilled and semi-skilled jobs and rates of pay are depressed by the low wages paid to foreign workers, from Syria in particular.

And inter-communal strife is beginning to surface again (6). Although the business world's Maronite elite retains much economic influence and moves in government circles, the Christian communities have, in general, been politically marginalised by the powerful influence of Syria, even though they are still very active in the professional and other associations which form part of civil society. As a result, there is a keen rivalry between Sunni and Shia Muslims for control of the

wheels of state, which makes it easy for Damascus to impose its will. This confrontation is sharpened by the West's tendency to favour the region's Sunni communities, which it considers more "moderate", at the expense of the Shia communities, thought still to be too much under the radical influence of the Iranian revolution.

As the Christians are losing their political influence locally, they also find themselves excluded from the regional stakes. The national entente advocated by the Taif accords (1989) has never come about. Influential Christian personalities live in self-imposed exile (like Raymond Eddé or General Michel Aoun, whose forced exile has come to an end) or spend more time abroad than they do in Lebanon (like Dory Chamoun). The government cracks down on any public demonstrations, whether trade union or political; when they do occur, as after the banning of a televised interview with General Aoun in early December 1997, there are many arrests. Among the Sunni Muslims, the prime minister has a monopoly of the power; as does Nabih Berri, the president of parliament, among the Shia; and Walid Jumblatt among the Druze. It is the end of the old internal pluralism of the different communities that used to be one of the system's positive aspects (7).

Although the public's initial enthusiasm for the policy of reconstruction for a while took the place of a national entente, it is now giving way to disillusionment. Protests at the living conditions endured by the vast majority are combining with the exposure of corruption and scandal in high places, as well as violations of civil liberties. The Lebanese are fearful for the future. The crisis hitting the Asian economies, normally richer than that of Lebanon, is a reminder of the flimsiness of a policy whose cost in terms of public debt and property bubble can no longer be underestimated.

Will the West come to Lebanon's rescue as it did for Mexico and the countries of Asia? And will the consequences of such an intervention be bearable for a country that is still so fragile and mismanaged, still a prisoner of communal rivalries and so little in control of its own

destiny? What would be the conditions in terms of increasing the power of a prime minister so valued by the Western powers, or of redefining the role of Syria? These are all matters likely to increase internal tensions, as always heightened by regional ones.

This all goes to show how much anxiety surrounds the appointment of a new president of the republic, due to take place in September 1998. Even if the office, which is reserved for a Maronite, has lost much of its importance, Damascus has no intention of leaving anything to chance. Will the increasingly involved United States (8) still be prepared to leave Syria holding all the cards when its Israeli ally is finding the losses inflicted by Hezbollah in the south increasingly difficult to bear? With US-Israeli plans to reshape the Middle East partly in ruins, the geopolitics of the region look like turning Lebanon once again into a battlefield for a symbolic counter-offensive.

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(1) A modern version of the old public service concessions where a private operator undertakes to build and operate the required infrastructure, charging the user for a number of years before handing the concession back to the state.

(2) For example, the one-day curfew imposed by the army in February 1996 to forestall a large trade union demonstration against the cost of living went virtually unreported in France; as did the vain attempt by a trade union delegation to meet Jacques Chirac when he visited Lebanon in October 1996, when the forces of order simply surrounded the union's headquarters.

(3) World News, Story Page, "World Bank backs Hariri, boosts aid for Lebanon", CNN-Middle East, 10 June 1997.

(4) See for example, two highly instructive reports prepared for the Council for Reconstruction and Development: Metap, Lebanon: Assessment of the State of the Environment, May 1995; Ecodit-laurif, Regional Environmental Assessment, Report on the Coastal Zone of Lebanon, November 1996.

(5) Antoine Haddad, Poverty in Lebanon, United Nations Economic Commission for Western Asia (ECWA), Amman, 1996 (in Arabic). This report greatly angered the Lebanese authorities.

(6) See Samir Kassir, "Désordre établi au Liban", *Le Monde diplomatique*, February 1997.

(7) Such alliances continue to exist in the life of professional associations, and may prevent any elections that take place from assuming a communal nature. Alliances between Hezbollah sympathisers and those of General Michel Aoun are not uncommon.

(8) Washington has reopened its consulate, which had been closed since 1989, and lifted the ban on its nationals going to Lebanon.