**Dumping humpty dumpty: Blockages and opportunities for Lebanon's economy after the October 2019 protests**

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**Abstract**

Lebanon’s protests were sparked by economic misery, especially the decline of the long-standing currency peg. What is surprising about the currency collapse is not that it happened at all, but that the country’s unsustainable economic model avoided it for so long. A unique coalition had kept the system going: central bank and finance ministry created rents, banks appropriated rents, politicians were sharing rents, diaspora remittances kept rent-creation going, and foreign governments were tolerating or even underwriting the mechanism. This rentier coalition has now fallen apart. Protestors and critical economists, meanwhile, remain locked out of decision-making by an unaccountable political class. Options for the future include chaos and predation under militia rule, an International Monetary Fund agreement bringing privatisation and austerity, a growth-oriented interventionist state put together by technocrats of the left, and grassroots initiatives of mutual aid pioneered by protestors.

**Keywords**: Lebanon, political economy, corruption, protests

On 17 October 2019, Lebanon’s capital Beirut erupted in protests. The government had proposed a range of taxes, including on voice calls via messaging services such as WhatsApp – an essential service in Lebanon, where mobile telephony is hugely overpriced. The protests spread throughout the country and demonstrators denounced not only the new taxes but the corruption of the country’s political class, which had presided over a failing economy and failing public services – from electricity to water, from health to education.

The protests followed a summer of disasters. Fire fighters were unable to suppress raging forest blazes because their helicopters had not been serviced in years. Most ominously, the value of the currency was deteriorating. Between 1997 and 2019 the US dollar and the Lebanese lira were used interchangeably in everyday transactions and Lebanese had a choice whether they wanted to maintain their bank deposits in either currency. By September 2019, banks were restricting access to dollars and some traders refused to accept Lebanese lira. The currency slide led to rising panic among Lebanese who were facing the prospect of high inflation and plummeting living standards when the majority were already at the precipice of poverty.

The disasters continued. Governments were unable to halt the slide of the currency. By August 2020, the Lebanese currency had lost about 80 percent of its value since October 2019. Covid 19 struck and while a lockdown prevented a catastrophic spread of infections, it further depressed economic activity. And on August 4 an enormous explosion at Beirut port delivered the coup de grace to a city in crisis. At the time of writing, 180 had been confirmed dead and over 6,000 had been injured.

Lebanese demonstrators are protesting their corrupt political class, which is responsible for the failing economy and public services. A crucial piece of the puzzle of Lebanese corruption are the ways the regional and global political economy enable Lebanese corruption. I will focus on the collapse of the currency because it was at the heart of Lebanon’s political economy after the end of the civil war in 1990. For years, a coalition of forces inside and outside of Lebanon kept the system ticking over until it disintegrated just before the October protests. It is neither possible nor desirable to put humpty dumpty back together again. What new constellations of internal and external forces are trying to reshape Lebanese capitalism? In other words: What are protestors up against?

*The transnational coalition behind the currency peg*

Maintaining the dollar peg equalled a near-impossible balancing act in a country which imports most of its needs, exports relatively little, runs persistent government deficits and has accrued one of the highest debt levels in the world. What is surprising about Lebanon's currency crisis in 2019 is not that it happened, but that the country's unsustainable economic model avoided currency collapse for over twenty years. The key to maintaining the peg was to offer attractive interest rates that would entice capital from abroad, which would, in turn, finance the current account- and government budget deficits: In a period of historically low interest rates around the globe, Lebanon’s commercial banks would commonly offer around 10 percent interest even on ordinary deposits (Cornish, 2019).

These capital inflows came mostly in the shape of deposits from the large and wealthy Lebanese diaspora and also from Gulf citizens. Lebanese banks – owned by a small coterie of politically connected individuals – were earning handsome profits by mediating these inflows and channelling them primarily into government debt and central bank debt instruments. Commercial bank profits in the three years from 2014 to 2016 reached $5.5 billion after tax (Association of Banks in Lebanon, 2017, p. 135). The different components of the coalition – central bank, commercial banks, diaspora, politicians – were not discrete entities but overlapped. Politicians held major stakes in the banks (Chaaban, 2019). Prior to taking his post in 1993, central bank governor Riad Salameh had worked at Merrill Lynch where he managed the account of Rafiq Hariri. Hariri was a Lebanese-born Saudi contractor who became prime minister in 1992 and was the driving force of Lebanon’s reconstruction after the end of the civil war in 1990 (Baumann, 2016). Another key figure was Fuad Siniura, Hariri’s school friend and manager of one of his banks who served as finance minister during Hariri’s repeated stints as prime minister in the 1990s and early 2000s. Hariri epitomised the blurred line between Lebanese diaspora capital, often accumulated in the Gulf countries, domestic capital and the state. His assassination in 2005 caused a political earthquake. His son Saad took on his political mantle and much of his business empire.

The financial benefits of the debt-fuelled and precarious scheme to maintain the peg were distributed highly unevenly. The bulk of the profits flowed to a small group of commercial banks and depositors – with both banking ownership and deposit structure concentrated in a small number of hands. Lebanon’s middle- and lower classes earned little from this scheme, although they did benefit from the ability to afford imports which were made relatively cheaper by the peg. By 2014, income was so unequal that the top 10 percent of income earners were receiving 57.1 percent of income, while the bottom 50 percent were left with a mere 10.6 percent (Assouad, 2017).

In times of crisis confidence in the peg was severely tested and there were several points in the 2000s when investors looked like they might abandon Lebanon. At those points Gulf governments would provide well-publicised capital injections to bolster confidence. During Israel’s 2006 war with Lebanon, Saudi Arabia and Kuwait deposited US$1.5 billion with the central bank. One report suggested that foreign donors were thus providing an “implicit guarantee” for Lebanon (Schimmelpfennig & Gardner, 2008). The reasons for Gulf support were both political and economic. It was designed to bolster Saudi Arabia’s Lebanese ally Rafiq Hariri and later his son Saad. Secondly, Lebanon’s finance, real estate and tourism sectors were a profitable outlet for Gulf investment. They became even more attractive investment options after the 2008 global financial crisis choked off lucrative opportunities elsewhere.

*The unravelling of the currency peg*

Over the last ten years the coalition that had kept the currency peg in place was slowly unravelling. The push and pull factors that had channelled capital into Lebanese bank accounts were disappearing. The Syrian war after 2011 threatened to destabilise Lebanon. One effect was the influx of refugees. Another was the collapse of Gulf tourism, which had been an important driving force of Lebanon’s hospitality and real estate sectors. An oil price slump in 2014 reduced the amount of cash the Lebanese diaspora in the Gulf and Gulf investors were able to deposit in Lebanon. Meanwhile, public infrastructure was deteriorating further and coming under strain through having to serve over one million Syrian refugees fleeing war. During the 2015 “garbage crisis”, mountains of uncollected waste in the streets of Beirut sparked a wave of protests which were a precursor to what was to happen in October 2019.

Gulf financial support eventually grew more uncertain. Initially Saudi Arabia strongly supported Saad Hariri after his father’s assassination in 2005. Over time, however, Riyadh came to abandon their local ally. King Salman’s son and crown prince Muhammad bin Salman, who has emerged as Saudi Arabia’s new strongman, has fractious relations with Hariri, whose inherited construction empire effectively collapsed after being cut off from royal contracts in 2015 (Dalton & Parasie, 2017). In 2017 bin Salman strong-armed Hariri into resigning from the post of prime minister by holding him in confinement in the Saudi capital (Barnard & Abi-Habib, 2017). Although Hariri was eventually able to return to Beirut and resume his post as prime minister, relations with Riyadh had broken down and his pleas for aid for the country’s financial system fell on deaf ears.

With capital inflows slowing down and Gulf support waning, the central bank was forced into desperate measures. It designed complex deals with Lebanese commercial banks which involved paying exorbitant interest rates to keep US dollars flowing into Lebanon. Central bank governor Riad Salameh referred to them as “financial engineering” but critics dubbed it a Ponzi scheme (Cornish, 2020). By the summer of 2019 the central bank could no longer stem capital outflows. US dollars were becoming scarce. Soon after the protests started, commercial banks started imposing limits on the amount of US dollars depositors could withdraw, sparking intense popular anger at the commercial banks. As the Lebanese government failed to respond to the October 2019 protests with meaningful political or economic change, the currency plunge continued unabated.

The protests forced Prime Minister Saad Hariri to step down at the end of October 2019. The new prime minister, academic Hassan Diab, carried no political heft and proved unable to stand up to the commercial banks who were trying to minimise their losses. The Diab government’s failure to present a united front to the International Monetary Fund (IMF) led to a breakdown of negotiations for a rescue package. This came after successive governments since the early 2000s had first negotiated neoliberal reform packages with foreign donors and then failed to carry out the promised privatisation policies and fiscal retrenchment – from a series of conferences dubbed Paris I-III in the 2000s to the CEDRE conference of 2018. After the explosion Diab’s government became untenable and he resigned.

*What political constellation are protestors facing after the Beirut port explosion?*

The days after the Beirut port explosion saw an immediate clean-up marked by civic initiatives and an absence of the state, as well as a return to protests and a brutal crackdown by security forces. The economic situation became ever more critical. Buildings in the immediate vicinity of the port had collapsed, but there was also extensive property damage for miles around. Initial estimates suggested 300,000 people had been made homeless and put the cost of reconstruction at $15 billion. While such a headline figure can convey the scale of the economic challenge, it fails to convey the political challenge the Lebanese protestors now face to rebuild more equitably and sustainably.

At the time of writing, protestors are facing an array of domestic and international actors and the spectre of geopolitics. Two days after the blast happened, French president Emmanuel Macron flew into Beirut to walk among the ruins near the port. He promised that no French aid would go to Lebanon’s corrupt elites and he organised a donor conference that pledged nearly $300 million in emergency funds. French goals are not entirely congruent with those of the protestors: The president is concerned about Lebanese “stability” and potential refugee flows to Europe as well as the strategic balance in the Eastern Mediterranean, where Beirut is a crucial port. Lebanese politicians are likely to reinvent themselves as reformists to gain entry into a new “national unity government” envisioned by Macron.

Hizballah is the most powerful political force in Lebanon and has put its weight behind the political class. Its main concern is not social and economic reform but its struggle against Israel (Daher, 2016). It sees the existing system as the best way to stave off any challenges to its status as an armed resistance movement. Iran is set to continue its support for their local ally. The flipside of the coin is that the United States are likely to use their influence over IMF decision-making to push for the exclusion of Hizballah from the political process and its disarmament (Wimmen, 2020). This comes on top of sanctions on Hizballah officials imposed in 2019 and recent US sanctions on the Syrian regime – dubbed the “Caesar Act”. They target those with military and financial ties to the Assad regime in Lebanon, putting not only Hizballah into the crosshair but also the many Lebanese who keep the extensive, economically crucial, and often illicit trade between the two countries going. Sanctions on Lebanese banks or trading houses could have a further crippling effect on Lebanon’s economy.

Given the dire situation of Lebanon’s finances, the country has had to approach the IMF for emergency aid. The Fund has signalled its willingness to help but such a bail-out comes with strings attached. The deep “structural reforms” the IMF generally demands would hurt the interests of the former warlords who have colonised state agencies. Some protestors in Lebanon see the IMF as a necessary ally in breaking the economic stranglehold of the sectarian elite (Salloukh, 2020). The political class may therefore try to block an IMF agreement. The only thing worse than an IMF agreement with punishing neoliberal reforms may be no IMF agreement at all. Things could get a lot worse if no further outside support is forthcoming and if Lebanon’s elites are left in charge. It is difficult to overstate the cynicism of Lebanon’s political class who had left almost 3,000 tons of a highly explosive substance lying around in centre of the capital despite widespread knowledge of its destructive potential. Many former warlords had spent the civil war (1975-1990) profiting from rackets for food or fuel within the cantons they controlled. They may revert to such means of economic and political control should Lebanon descend further down the road of economic collapse.

While an IMF agreement may be a necessary evil for Lebanon, it is likely to involve the usual mix of privatisation and austerity. The IMF has recently softened its tone but its neoliberal instincts are still intact and fly into the face of protestors’ demands. After all, what brought protestors onto the streets on 17 October had been opposition to the very kind of measures the IMF is likely to ask for: austerity in combination with tax rises and an reduced spending on the public sector. Lebanon’s public sector is indeed riddled with clientelism (Salloukh, 2019). A reformed public sector could be at the forefront of providing desperately needed public services in education, health, electricity, waste collection and much more but this would require extra money. Balancing the books cannot be the only guiding principle.

A November 2019 position paper by Lebanese economists fills in many of the gaps within IMF-style reform proposals (Arab Reform Initiative, 2019). Public finances cannot be put on an even keel through expenditure cuts alone. The state needs to recover stolen assets and, crucially, tax the wealthy who pay very little in taxes. Currently, much of government revenue comes from regressive taxes such as value added tax or the proposed “WhatsApp tax” that had brought protestors out on the streets in October. The economists caution that privatisation under current circumstances would represent a fire sale that brings in relatively little cash, while benefiting the well-connected oligarchs who dominate the economy. They call instead for an expanded social safety net and propose mechanisms for transparency and monitoring of public agencies to reduce corruption. And finally, they want to bring unions, professional associations and employers around the table to provide input into policy-making which up to now has been opaque and driven by politicians’ interests.

The greatest cause for hope lies not with the IMF, foreign donors, or foreign capital but the initiative of Lebanese citizens as well as refugees and migrant workers in the country. Alternative economies of mutual solidarity have been emerging in the wake of the 2015 trash crisis, the 2019 protests, and Covid-19. The aftermath of the explosion saw a huge civic effort to clear up the affected areas, with teams of volunteers from around Lebanon travelling to the capital to help. This stands in contrast to top-down “reconstruction” after the civil war, when properties in the city centre were handed over to a single private developing company which turned it into a luxury enclave for tourists and wealthy Lebanese (Fawaz, 2020). A new alternative economy must make space for these grassroots initiatives that do not profit Lebanon’s “one percent” but increase solidarity among citizens as well as the Syrians, Palestinians and migrant workers who live in the country.

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