

Is Lebanon Still Redeemable?

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In an alarming report published at the beginning of this summer, the World Bank declared that Lebanon's financial and economic crisis is likely to rank in the top 10, possibly top three, most severe crises episodes globally since the mid-19th century. Already in the autumn of 2020, Lebanon's economic crisis was also termed by the World Bank as a "Deliberate Depression."

Indeed, since the start of an ongoing collapse process, Lebanon's GDP plummeted from close to US\$ 55 billion in 2018 to an estimated US\$ 33 billion in 2020, with US\$ GDP/ capita falling by around 40 percent. On top of this, for over a year, Lebanon countered an assailment of compounded crises – namely, the country's largest economic and financial crisis in its history, Covid-19 and its effects, then the Port of Beirut explosion – all met with inadequate policy responses, mainly due to the complete absence of political will and/or the ability to act. On top of all the material duress they endure, the Lebanese also have to face a deep, almost structural, political crisis, as well as a moral one, which reaches into the ethical foundations of society and the bonds between its components.

It is probably more telling to describe this concretely; the Lebanese wake up every day trying to figure out the value of whatever savings they have left and whether or not they can afford everyday goods, the prices of which fluctuate daily. This has generated a swell of anger in the banking sector and the political establishment that has perpetuated the economic

collapse. Exacerbating an already dire situation, residents of the country face increasingly frequent shortages of key items, including fuel, medicine and electricity. A more recent phenomena has involved scuffles in supermarkets and angry protests outside over access to subsidized products. This is even occurring in high end supermarkets.

The social impact of the crisis, which is already dire, could rapidly become catastrophic, with more than half the population likely to drop below the national poverty line. Those paid in Lebanese lira – the bulk of the labour force – are seeing their purchasing power declining by the day.

As a longer-term prospect, Lebanon faces a dangerous depletion of resources, including human capital, since brain drain is making the situation increasingly desperate.

The economic implosion has catalyzed a new wave of Lebanese emigration, as the country's youth and highly skilled and educated population seeks stability and prosperity abroad. In 2019, the year when the economic underpinnings of the State became unhinged, the country witnessed over 65,000 Lebanese leaving the country without a return ticket, a 97 percent increase from 2018. Put simply, the economic collapse is contributing to the exhaustion of the country's social and human capital.

A Quick History of the Total Bankruptcy

Several analysts have described Lebanon's financial system as a nationally regulated Ponzi scheme, where new money is borrowed to pay existing creditors. This usually works until fresh money runs out. After the civil war, Lebanon, indeed, balanced its books with tourism receipts, foreign aid, earnings from its financial industry and the largesse of Gulf

Arab states, which bankrolled the State by bolstering central bank reserves. But remittances started slowing from 2011, as Lebanon's sectarian squabbling led to more political sclerosis and much of the Middle East, including neighbouring Syria, descended into chaos.

Then, the budget deficit started skyrocketing and the balance of payments sank deeper into the red, as transfers failed to match very high import levels. In 2016, banks began offering remarkable interest rates for new deposits of dollars and even more extraordinary rates for Lebanese pound deposits. Dollars flowed again and banks could keep funding the spending binge. This was a deadly illusion to entertain since what was less obvious to the naked eye was a rise in liabilities.

The final spark for unrest came in October 2019, when mass protests, driven by a disenfranchised youth demanding wholesale change, erupted against a political elite, many of them aging warlords who thrived while others struggled.

Foreign exchange inflows came to a halt, and the last dollars exited the country, in defiance of a semi-official capital control exerted arbitrarily by banks, according to the might of certain clients and depositors. Banks also shut their doors for almost two weeks, and the currency started to collapse, sliding from 1,500 to the dollar to a street rate of around 22,000 at the time of writing.

Compounding these macro-economic problems, Covid confinement and the resulting economic slowdown, and then the enormous explosion on 4 August at Beirut port, caused billions more dollars of damage.

Making Political Sense of the Collapse

Such a brutal and rapid contraction is usually associated with conflicts or wars. If this is not the case for Lebanon now, and if these aspects are not the causes of Lebanon's catastrophe, they could well become its consequences.

Already accomplices to this economic collapse due to years of corruption and mismanagement, Lebanon's leaders have been reviled for their limited response.

The financial and economic crisis has intensified Lebanon's fragility and fragmentation, increasing

the risk of social and civil unrest. With the Lebanese exasperated by their increasingly desperate situation, there could now be widespread social unrest and a major breakdown, which would have major humanitarian and regional security implications.

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The security implications of Lebanon's deepening crises are not to be neglected. Like in many other past instances, Lebanon's accelerating collapse could provoke a dangerous security crisis, marked by a sequence of widespread social unrest, vigilantism, then heightened sectarianism and polarization, which could dismantle the country completely. All scenarios would lead to chaos and the total breakdown of law and order.

In essence, Lebanon's overlapping crises hold the potential to spark a major breakdown in security – either from the top down or from the bottom up. So far solid and at bay from the overall polarization, the Lebanese army is now contending with growing disaffection as its troops experience the full brunt of the economic crisis. With the Lebanese lira losing nearly 90 percent of its value since 2019, security forces' salaries are declining precipitously, forcing many to seek second jobs. While military attrition still remains low, the Lebanese army chief visited Paris last month to warn that the situation is untenable. More recently, a French-organized international meeting was held in support of the LAF (Lebanese Armed Forces), with the aim of providing the troops with logistical aid; some Gulf countries (like Qatar) have also offered to provide the army with food and drinks in order to keep the morale afloat within the rank-and-file.

However, the abrupt dissolution of subsidies – without a big enough social safety net in place – could trigger widespread social unrest, even social explosion, leaving the troops facing their own compatriots and families' wrath.

The World Food Programme announced last month that it would triple its assistance to Lebanon, something unprecedented for a country that has, even during wartime, managed to address the basic needs of its inhabitants.

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Launching an international humanitarian appeal for Lebanon that targets major donors should lead to direct cash assistance to beneficiaries and is the most effective and efficient approach, minimizing market distortions, bypassing the Lebanese government and ensuring the beneficiaries' agency and dignity. Lebanon's extensive diaspora is also mobilizing to provide greater support, contributing to international appeals, as well as connecting directly to local Lebanese NGOs. The economic crisis is compounded by a political one, which has heightened fears of the country falling victim to regional and international divisions and competition.

As the political and economic crises worsen, it is more likely that political actors will turn to tried and tested strategies that increase sectarianism and political polarization in the country. Part of this strategy entails further aligning along regional and international fault lines (United States versus Iran; Iran versus the Gulf), thereby further internationalizing and regionalizing the country's problems.

Is There a Way out?

Today, France is leading international efforts to push Lebanon to tackle corruption and implement other reforms demanded by donors. Crucially, Lebanon needs to form a new government so it can resume stalled talks with the International Monetary Fund. But politicians and bankers – often a very unhealthy collusion – need to agree on the scale of the vast losses and on what went wrong, allowing Lebanon to shift direction and stop living beyond its means.

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Finally, to address the root cause of inaction by the Lebanese political class, the international community should apply concerted pressure for change. Deploying both the positive incentives of a financial rescue package and broader assistance, as well as coercive measures that target corrupt members of Lebanon's political elite (travel bans, asset freezes, targeted sanctions), the international community should demand the formation of an emergency cabinet with extraordinary legislative powers to implement the much-needed reforms. The country must look to the next legislative elections, in 2022, as a possibility to change what seems an almost irredeemable situation.