

# Lebanon: Contemplating “The Day After” Amidst the Collapse

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Brief Analysis

**Lebanon continues to face a historic, unprecedented “stress test” for which it is woefully unprepared.**

**T**he current course of political, economic, and social developments in Lebanon is leading to an irreversible collapse set to obliterate Lebanon as it has been known. These developments are set to permanently deny the country its former advantages and leave it as a festering problem—for its own population, its neighborhood, and the world writ large.

A comparable situation to the one faced by Lebanon today is that of Somalia in 1990, with the dissolution of government and the devolution of its society into tribalism, warlordism, banditry, and piracy. The main difference is that Lebanon’s baseline is higher, and that the effects of the fall, as tragic and disastrous as they were in Somalia, can be expected to be far worse.

While the disaster is already overwhelming, and affecting every aspect of Lebanon, its magnitude can be ascertained by a consideration of its impact in two areas upon which Lebanon had capitalized.

### **The Banking Sector: Gone Forever**

Lebanon’s banking sector was the most developed in the Middle East, and best endowed prior to the Lebanese wars of 1975 to 1990. Its recovery in the past decades was not based on upgrading its structures or functions to compete with emerging regional banking centers in Dubai, Manama, and Amman.

Rather, it instead focused on attracting depositors and investors, initially to partake in the ambitious reconstruction of a reemerging Lebanon. Even after the reconstruction project suffered serious setbacks, notably the assassination of its main champion PM Rafiq Hariri, the banking sector maintained its attractiveness by offering extremely high interest rates through what amounts to a generational pyramid scheme, with little effort at justification from a policy standpoint.

To fund its sprawling expenditures, the Lebanese government compensated for the lack of revenue from a dismal Lebanese economy riddled with abjectly corrupt practices by borrowing funds from the Central Bank through legally questionable venues. For such purposes, the Central Bank insured the availability of the needed funds through “financial engineering,” through which local banks were encouraged to increase their Central Bank deposits in exchange for vastly inflated interest returns. From the banks’ point of view, customer deposits were better moved to the Central Bank given these reliable high returns than invested in local enterprises.

Given this opportunity, Lebanese banks also depleted their own capital hard currency deposits in overseas banks, repatriating and moving them to the Central Bank. The risk associated with this pyramid scheme was evidently well understood. Major withdrawals for the benefit of the plutocratic class then were sent back overseas, into the private accounts of politicians, industrialists, and their entourage.

Yet with the repayment date of government loans looming, and with less influx due to international economic realities, the pyramid scheme unraveled. It revealed to Lebanese depositors that their funds are not backed by any reserves, amounting instead to mere notes issued by a Central Bank and a government with no option but to default. While depositors have no access to their funds, Lebanese banks continue to charge exorbitant maintenance fees for funds they would not release and in reality do not hold.

If Lebanon reaches “the day after” point and a recovery plan is conceived, the real dilemma facing the Lebanese will be how to compensate the mostly resident and overseas Lebanese depositors when the only assets available for potential compensation are the physical properties of the State. Already scarce and needed, though far from sufficient, these physical assets are all that is available for any recovery plan.

What is a current certainty for any holder of funds is that the Lebanese banking sector cannot be relied upon. It is hard to conceive how this sector could set a course to gain back the interest and trust of investors. The likely outcome is that the Lebanese banking sector is gone forever.

### **Lebanese Professional Talent: Severely Depleted**

Despite serious regression, the Lebanese schooling and higher education systems were able to survive the Lebanese wars of 1975-1990 and to engage in considerable remedial and constructive improvements in subsequent decades. While the ranking of its universities at the global scale has lagged, Lebanon was able to maintain and nurture a creative, professional talent pool, with many entrepreneurs succeeding in braving the antiquated administrative systems to launch meaningful initiatives in multiple sectors. Likewise, many highly educated and trained specialists chose to stay in their homeland in spite of the many opportunities accorded to them elsewhere and the many difficulties they faced in Lebanon.

The professional layer of Lebanese society is multinational in character, balancing its interests and lifestyle—whether residence, work, study, or leisure—between the homeland, the West, the Gulf, and Africa. The conditions faced by Lebanon in the past two years, exposing the artificial nature of the country’s economic stability, have forced much of the Lebanese professional class to engage in hard decisions out of necessity more than choice. The potential for obtaining income has dramatically dwindled, while programs and departments in universities, laboratories, and hospitals were no longer tenable options. All aspects of the lifestyle expected in the professional class seem heading towards becoming no longer possible in Lebanon.

This has resulted in a self-propelling process of flight and draining of professional talent. Such episodes had occurred previously, with talent relocating overseas for security considerations, and repatriating upon their resolution. The difference today is that the current challenges, in setting the course for a new economic reality, hit the professional class at its livelihood. Even were it to recover from its current crisis, Lebanon may no longer be able to afford its creative, talented, now almost-defunct professional class.

## **Lost Trust Between the People and the Government**

The risk of imminent collapse that Lebanon faces manifests itself materially in myriad ways: economically, in the severe devaluation of the currency and the associated loss of purchasing power, and in the contraction of the economy, inflation, and unemployment. In terms of daily life, the aggravation of the vexing electricity outages, the increased costs and shrinking coverage of the alternative generator power market many Lebanese rely on to manage said outages; the threat to the subsidies to basic food commodities; and the reduction in gasoline availability and its rising costs. Societally, in the attrition of the middle class and the visible descent of social layers into poverty and destitution, the disintegration of state structures, and the disappearance of social and cultural institutions; in healthcare, the inadequate response to the pandemic the faltering of both the public and private medical systems and the shortages in pharmaceutical supplies.

This crisis is further compounded and amplified by the repeated disillusionment of the citizenry with the functioning of their state institutions. The October 2019 protests expressed this disillusionment, rallying the Lebanese in a moment of enthusiasm, with the expectation of revolutionary change and institutional reform. However, the political class was able to weather the storm, and has aptly used the pandemic to diffuse and contain this revolutionary impulse.

Even so, the frustration of the Lebanese reached new heights as a result of the Beirut Port blast on August 4, 2020, which proved itself to be a microcosm of the plight of Lebanon. It exposed once more the level of dysfunction and corruption in state institutions, especially as the political class collectively maneuvered to avoid any accountability. A further layer of outrage is built on the main political characters' resumption of their pre-October 2019 petty rivalries, leaving Lebanon without a functioning government at its time of utter distress. Even worse, ample evidence demonstrates that the many partners/rivals within the political class are still identifying creative methods for further graft and siphoning funds from any attempt, bilateral or multinational, to provide support for Lebanon in its hour of need.

Despite the multiple material problems facing the country, the real underlying issue is the loss of trust between its political leaders and its citizens. Yet through the invocation of communitarianism—rallying their respective base to shield themselves from the public condemnation—the political class in Lebanon is collectively confident of its formula for permanence.

The Lebanese citizenry as a national collective may indict the political class, yet there are enough citizens in each community willing to excuse and exclude their political leader from condemnation. The net result is a self-protecting system that insures the continuity of even the most reviled of the national leaders.

## **Hope in a New Generation**

Yet, amidst this abjectly dystopian reality, there remains a reason for hope in Lebanon's human capital.

The growing consensus among advocates of reform is that the key for breaking the deadlock is to strengthen the "horizontal" connections between Lebanese citizens by building on shared concrete concerns to the point that the new alignment become stronger than extant "vertical" connections. It is these vertical connections that, through emotional communitarianism, patronage, and clientelism, guarantee the political class's continuity of leadership.

Concern over the potential of "horizontal" connections in Lebanese society explains the lack of responsiveness of political leaders to calls for reform, whether expressed by the Lebanese public or international interlocutors. Reform not only denies them personal gains but also injures clientelism, and therefore reduces the ability of the political leaders to mobilize their base.

The Lebanese political class is not a monolith. Within it, there are many well-meaning bonafide public servants who

would seek reform in principle. The current reality, however, is that the interest of the political class as a collective is in preserving the country's system of "stable equilibrium"—built on kleptocracy and corruption, and maintained through its ability to empower compliant politicians to offer rewards to their supporters, while denying those politicians who may opt for a corruption-free path the ability to survive. It is a sad fact that in Lebanon, the far easier path in government is to join in the corruption.

However, Lebanon is undergoing a generational shift. The "war generation"—socialized during the fifteen years of the Lebanon wars—is ceding its place as the dominant visible and creative element in the public space, even while it retains its control of the political system. They are being replaced by the "second republic" generation, young citizens socialized in the 1990s and early 2000s.

This is not a smooth transition, with the new generation often feeling thwarted and expelled from any effective participation in shaping state and society. This is evidently a general characterization with considerable divergence at higher granularity. Yet this is nonetheless a meaningful opportunity given the considerable differences in values that frame the respective generational ethos. Simply stated, the "war generation" had reinterpreted the experience of the generation that preceded it—the "golden age" generation socialized between 1960 and 1975—as having been built on a false claim of success; that the prosperous modern Lebanon of that time was largely an illusion.

Pessimism and a sense of impending calamity were in the background of much of the social, economic, and political decision patterns of this generation. It also translated into a high tolerance for corruption, a complicity with successive occupations, and resignation to the unstated assumption that Lebanon's glory has already elapsed. In contrast, the "second republic" generation has been imbued with a baseline of optimism and the conviction that Lebanon can be part of an open and forward-looking global community, even if the immediate circumstances do not appear favorable.

True, social and cultural trends do not switch on and off within conceptually delineated generations. Still, a critical shift in behavior and values can be discerned. Lebanese citizens from the "war generation" may never have ventured outside of their district, and have maintained and often strengthened the class and regional distinctions of the "golden age" generation. On the other hand, their successors from the "second republic" generation may have explored remote areas of Lebanon, and through social media and global consciousness overcome much of the stigma that had previously afflicted the periphery.

The October 2019 "Revolution" was decisively an event of the "second republic" generation, both in its makeup and its discourse. As such, the movement revealed both the potential and the shortcomings of the organizational reality of its generation.

Across generations, through its human and cultural wealth, along with the relatively free environment for creativity and difference that the Lebanese have negotiated, Lebanon continues to provide considerable albeit subtle opportunities to extract itself from the disaster into which it was thrust.

Elections are set to be held in 2022. Lebanon's configurations of power continue to favor the political class. Yet promising individuals and groups emerging from the October 2019 protests and from the activism that preceded it may constitute a real alternative to the status quo. In particular, these activists focus on concrete concerns—especially as the current crisis has aggravated these concerns—and in their denunciation of the corrupt practices and dismal record of the political class.

Future leaders will need to address four immediate priorities: (1) to stop the collapse of state institutions and the attrition of social and economic structures; (2) to provide remedial support for those affected by the collapse; (3) to recover as much as possible of the wasted resources and institute a process of accountability; and (4) to reform the institutional and administrative framework to serve the public as expected and to avoid a relapse into decay.

ilibrium of corruption being endorsed and enhanced by a de facto Iranian occupation that threatens regional wars that may upend Lebanon on the basis of Tehran's interests. Still, many are aware of the magnitude of the tasks and are ready to begin tackling them with sober determination. They are actively seeking means of empowerment to gain a foothold in the parliament and to start the long process of recovery, breaking the deadlock and reorienting Lebanese politics towards a citizen-centered reality. In a country where the political class actively refuses to shy away from shameless abuse, the international community, including the United States, should in turn not shy away from providing the new generation of activists the attention, advice, and moral support that it needs. ❖

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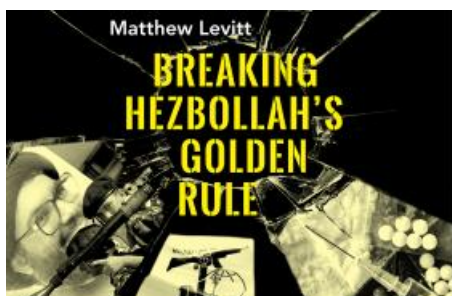
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