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THE POLITICAL ECONOMY OF POSTWAR RECONSTRUCTION IN LEBANON
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THE POLITICAL ECONOMY OF POSTWAR RECONSTRUCTION IN LEBANON

HAYAT MOSTAFA HARIRI

ABSTRACT

Postwar reconstruction has attracted the attention of many scholars in the last few decades. Different theories offer alternative routes to postwar reconstruction. Some theories suggest that postwar reconstruction entails financial security and policy, while others contend that reconstruction programs cannot be effective without building state institutions as a precondition for fiscal security.

Lebanon is an important test case for theories of postwar reconstruction. This thesis examines postwar reconstruction in Lebanon. It does so by examining closely the late Prime Minister Rafik Hariri’s economic plan “Horizon 2000”, its outlines, goals, origins, contents, and financing. It aims at analyzing how its adoption molded and reshaped the economic and political postwar system in Lebanon, and to evaluate its effectiveness and underscore its shortcomings. This examination will be placed in the broader context of the literature on postwar reconstruction. Specifically, the thesis interrogates the impact of Hariri’s economic choices on postwar state building, clientalism, corruption, and sectarianism.

Keywords: Postwar reconstruction, Fiscal policy, Clientalism, Sectarianism, Lebanon, Rafik Hariri.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I – Introduction</td>
<td>10-17</td>
</tr>
<tr>
<td>1.1 –Relevance of the Study</td>
<td>10-14</td>
</tr>
<tr>
<td>1.2 – Research Questions</td>
<td>14-16</td>
</tr>
<tr>
<td>1.2 – Methodology</td>
<td>16-17</td>
</tr>
<tr>
<td>1.3 – Plan of Research</td>
<td>17</td>
</tr>
<tr>
<td>II – Theories of Postwar Reconstruction</td>
<td>18-34</td>
</tr>
<tr>
<td>2.1 –Introduction</td>
<td>18-19</td>
</tr>
<tr>
<td>2.2 – Theories of Ethnic Conflict</td>
<td>19-21</td>
</tr>
<tr>
<td>2.3 – Postwar Reconstruction</td>
<td>21-29</td>
</tr>
<tr>
<td>2.4 – Political and Economic Reconstruction</td>
<td>29-33</td>
</tr>
<tr>
<td>2.5 – Conclusion</td>
<td>33-34</td>
</tr>
<tr>
<td>III – The Pre-War Political Economic Situation</td>
<td>35-56</td>
</tr>
<tr>
<td>3.1 – Introduction</td>
<td>35-36</td>
</tr>
<tr>
<td>3.2 – The Nature of the Lebanese Political System</td>
<td>36-39</td>
</tr>
<tr>
<td>3.3 – The Political and Economic Situation in Lebanon: 1943-1958</td>
<td>39-44</td>
</tr>
<tr>
<td>3.5 – The Political and Economic Situation in Lebanon: 1964-1975</td>
<td>45-47</td>
</tr>
<tr>
<td>3.7 – The Taef Accord</td>
<td>55-56</td>
</tr>
<tr>
<td>3.8 – Conclusion</td>
<td>56</td>
</tr>
<tr>
<td>IV – Political and Economic Reconstruction in Postwar Lebanon</td>
<td>57-88</td>
</tr>
<tr>
<td>4.1 – Introduction</td>
<td>57-58</td>
</tr>
<tr>
<td>4.3 – Hariri’s Economic Philosophy</td>
<td>62-63</td>
</tr>
<tr>
<td>4.4 – Hariri’s Macroeconomic Policy</td>
<td>64-82</td>
</tr>
<tr>
<td>4.5 – Defending Hariri</td>
<td>87-88</td>
</tr>
</tbody>
</table>
4.6 – Conclusion 88

V – Conclusion 89-95

VI – Bibliography / References 96-98
Introduction

This thesis examines postwar reconstruction in Lebanon. It does so by examining closely late Prime Minister Rafik Hariri’s economic plan ‘Horizon 2000”, its outline, goals, origins, contents, and financing. It aims at analyzing how its adoption molded and reshaped the economic and political postwar system in Lebanon, and to evaluate its effectiveness and to underscore its shortcomings. This examination will be placed in the broader context of the literature on postwar reconstruction.

Rafik Hariri was born in Sidon, Lebanon in 1944. He moved to Beirut to pursue his university studies in commerce in the Arab University of Beirut. In 1965, he moved to Saudi Arabia, and worked as a school teacher and accountant, until he launched his own business. Hariri’s involvement in Lebanese political and economic life started before he became a prime minister. In fact, Hariri used his relations and position in Saudi Arabia to play the role of mediator and advisor during the civil war. Moreover, Hariri’s company “Oger Liban” was to begin the process of cleaning demolished buildings, and worked on opening the streets and roads in the Lebanese capital after the 1982 invasion. In 1984, he participated in Geneva and Lausanne conferences that were held to achieve political reconciliation in Lebanon between the different political parties that participated in the war. In 1989, he played a crucial role and was the “maestro” of the Taef Agreement in Saudi Arabia, the agent that ended the war and amended the Lebanese constitution.

Postwar reconstruction is a main area of research in international relations and comparative politics. Political scientists are divided in discussing postwar reconstruction. Economic theories suggest that any postwar reconstruction program will not be efficient
without addressing what is known as Horizontal inequality, in addition to establishing a fiscal policy that ensures economic and social development. In contrast, political theorists believe that postwar reconstruction programs will not be effective and successful without building state institutions, ones that constitute the legitimate base and umbrella for implementing economic projects. On the other hand, the literature on postwar reconstruction suggested that both components are essential and should be present to achieve successful postwar reconstruction.

When Hariri became prime minister in 1992, he started to implement immediately his reconstruction plan. The plan focused on physical infrastructure but neglected other productive sectors. Opponents of Hariri’s project argue that the economic policy the Hariri government adopted was transformed into a “monetary-biased policy”, in which he focused on building physical infrastructure by inviting foreign investments. Thus, to encourage these foreign investments, the government tended to issue T-bills with high interest rates. As a result, this policy led to inflation, and created a network of interests between the government and commercial banks. Also, and due to the high returns they enjoyed from interests, investors did not use their money in productive sectors as the plan called for, but they were employed in real estate sector and in treasury bonds at high interest rates. The productive sectors that constitute the cornerstone of any postwar reconstruction program were neglected. Instead, Hariri’s government focused only on building the physical infrastructure.

Hariri’s economic project was also characterized by the financial support for different sectarian regions in Lebanon. This was accomplished through the establishment of two councils- the Council of the South and the Central Fund for the Displaced- and the
strengthening of the Council for Development and Reconstruction (CDR). In fact, the CDR played a major role in the reconstruction process, in which it enjoyed great independence and escaped accountability. Also, CDR was crucial in facilitating the creation and functioning of the private company Solidere which was given the task of reconstructing the central district. Opponents argue that this policy did not meet the “balanced development” the Taef accord called for, where other regions were neglected in favor of reconstructing the central district of Beirut.

In contrast, proponents of the project believe that Hariri’s project failed due to political circumstances, and not because of a problem in the project itself. Former Prime Minister Fouad Siniora believes that “if we were to go back many years backward, probably we would have to do the same thing all over again”. Siniora argues that starting directly with the physical infrastructure was an economic priority since the GDP per capita was low, and the economic situation was suffering from hard conditions. Also, he refuses the assumption that physical reconstruction led to an increase in the debt. Rather, “spending money on the security apparatus, in addition to continuous demands for an increase in the salaries for employees of the public sector are the main reasons”, he argues. Discussing those who approved the reconstruction projects, Siniora argues that changes in the social structure existed well before Hariri came to power. He describes economists who opposed the project as “someone who is sitting back in a car while you are driving. And he starts telling you why you did that, go to the right here and to the left there. Then you stop and you get bored and you tell him to drive instead of you. However, you will see nothing good

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from him”. Moreover, Siniora insists that “Hariri was under pressure in implementing his project”. An example of this was the establishment of the two councils, and “how political factions managed them in a way to serve their own interests at the expense of the reconstruction program”. He concluded that, “One has to be pragmatic of course, but I think that Hariri went too far in his subordination to blackmail”.

1.1 Research Questions

The main questions that this research attempts to answer are: What was the impact of Hariri’s economic choices on postwar state building, clientalism, corruption, and the sectarian system? Were Hariri’s economic choices the reason behind corruption in the state? And, finally, why did Hariri choose economic reconstruction and neglect political reforms? To answer these questions, this thesis examines the working of the following institutions.

Established in 1977 by Lebanese President Elias Sarkis and then Prime Minister Salim El-Hoss, the Council for Development and Reconstruction (CDR) was supposed to act as an “apolitical technical advisory unit reporting to, and answerable only to, the council of ministries” (Najem 2000). Its principal role was to “set the framework for the reconstruction of the country and coordinate external finance including loans and grants, for the reconstruction efforts” (Ibid). However, during the war, especially in the 1980s, CDR bypassed its role; it played a crucial role in the implementation of the individual projects for the reconstruction program as well as the day-to-day projects of the ministries, including public sector investment (Ibid). Hence, CDR’s authority extended to borrowing,

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2 Interview with Siniora, Beirut, 10 August 2010.
negotiating funding, and requesting that the Central Bank issue bonds single-handedly and outside the national budget (Adwan 2004). Because of its *ad hoc* status, CDR consistently escaped official accountability mechanisms and functioned in a secretive manner (Adwan 2004). In addition, CDR played a big role in facilitating the establishment and the functioning of the private company Solidere (Adwan 2004). In other words, CDR, nominally a governmental agency with a virtual monopoly over publicly financed reconstruction efforts, provided Solidere with free vital services such as roads, water pipes, telephone lines and all other necessary services (Deneoux and Springborg 1998).

The thesis attempts to examine the impact expanding the authority and functioning of the CDR had on state building; In fact, the thesis argues that CDR undermined state institutions and in an indirect way contributed to the corruption of the state. The thesis also shows how the weakness of state institutions contributed to the failure of the economic plan Horizon 2000. Hence, in discussing the projects, the thesis will discuss how the reconstruction program undermined or gave little attention to other important aspects of reconstruction, such as the social and the health sectors in favor of physical reconstruction.

In addition to CDR, this thesis looks at the Council of the South and the Central Fund for the Displaced. The reconstruction program in Lebanon was based on a regional economic distribution pact justified by the need to achieve “balanced development”, as stipulated in the Taef Accords and hence in the new constitution of Lebanon (Dibeh 2005). Moreover, this type of regional distribution was supposed to transpire with the creation of two main funds; the Council of the South and the Displaced Fund entrusted with spending for the development of South Lebanon and for the repatriation of war refugees mainly in Mount Lebanon (Dibeh 2005). Such redistributitional mechanisms played a very important
role in the rebuilding of the physical, political and social capacities of the regions and the reintegation of the population and the legitimization of postwar authority (Dibeh 2005). However, the two councils were turned into tools of nepotism and rent seeking where they were either autonomous, independent, or beyond the reach of state accountability (Adwan 2004).

The research undertaken in this thesis contributes to the literature on postwar state building in general and postwar Lebanon in particular. As mentioned before, postwar reconstruction constitutes a key element in the academic literature. This study, through the Lebanese case, explores the challenges of postwar reconstruction in divided societies, and as a result, the mechanism of both political and economic reconstruction in these societies. This will be achieved by studying the factors and challenges key players should address to obtain effective postwar reconstruction.

On the level of Lebanon, this research aims to examine a crucial phase in the politics of postwar Lebanon in which the reconstruction effort left its impact on the institutional, societal, and economic levels. As a consequence, the study will show that the current Lebanese system is a result of past economic and political choices implemented after the civil war. Hence, this research should provide a better understanding of the functioning and the problems of the Lebanese system, offering a road map for a possible solution to the problem of postwar reconstruction in a sectarian country like Lebanon.

1.2 Methodology

The research adopted in this study is the case study method where postwar reconstruction in Lebanon will be discussed and analyzed in depth. It should be noted that
postwar reconstruction in Lebanon contains almost all the variables discussed in postwar reconstruction theories, and thus, helps test these assumptions practically. Indeed, the importance of this aspect lies in the fact that postwar reconstruction models are being applied in other divided societies such as Iraq. For that reason, Lebanon constitutes a useful and helpful case, one that may alert us to the problems of postwar state building in alternative contexts, and to the viability of institutional engineering in postwar divided societies.

Research for this thesis is based on personal interviews and a survey of the secondary literature. Indeed, a substantial part of the research for this thesis is based on personal interviews with individuals who participated in the planning and implementation of the reconstruction program, and were involved directly in postwar reconstruction in Lebanon. Hence, in an attempt to better understand the implementation of the project, this thesis is based in large measures on interviews with former Prime Minister Fuad Siniora, former Minister Mohamed Chatah, the economist Ghasan Dibeh, and the journalist Mohamad Zbib. The selection of the people interviewed was based on their role in the implementation process of the program, and of their contribution in evaluating and following the reconstruction phase. In fact, Siniora was the main architect of Hariri’s reconstruction program. He was involved directly in the project, and supervised all its stages. Similarly, Chatah is a strong advocate of the project, and accompanied Siniora when he was minister, prime minister, and then was one of the advisors of former Prime Minister Saad Hariri.

I decided to interview the journalist Mohamad Zbib because he represents the opinion of the opponents of Hariri’s reconstruction project, and has criticized the impact of
this project on the political economy of the country. As for the economist Ghassan Dibeh, he represents an academic voice against Hariri’s reconstruction policies. Hence, the basket of interviews aimed at creating balance between the two opposed view points in the hope that readers will be exposed to both perspectives. These interviews help cast light on the calculations and assumptions of Hariri’s and his team and, consequently, help test the argument advanced in this thesis that the postwar reconstruction effort hardened sectarian identities and clientalist ties.

1.3 Map of the Thesis

This thesis consists of five chapters. The next chapter reviews the theoretical literature on postwar reconstruction. It discusses the different theories of ethnic conflicts and the different theories on postwar reconstruction. Chapter three presents the economic and political situation in Lebanon from the eve of the civil war until the signing of the Taef accord. This chapter examines the sectarian nature of Lebanese society, and the reasons for the outbreak of the war. Chapter four looks at the postwar reconstruction phase in Lebanon, its objectives, mechanisms, implementation, failure, and its impact on the Lebanese system. It thus discusses the objectives and origins of the reconstruction plan “Horizon 2000”, Hariri’s economic plan and economic policy, and how it led to a lopsided economy. The chapter also examines the role of commercial banks during the reconstruction phase, the creation of the CDR, Solidere, the Council of the South and the Displaced Fund. The final chapter summarizes the argument of the thesis and discusses its implications on postwar state building within the context of Lebanon’s sectarian system.
Chapter 2
Theories of Postwar Reconstruction

2.1 Introduction

Postwar reconstruction constitutes a main area in the studies of international organizations and governments. Indeed, in the international discourse, reaching global stability and security depends to a large extent on the reconstruction of post-conflict nations. The importance of the subject of postwar reconstruction can be attributed to many reasons. First, there is a common perception that the post-Cold War era is full of intra-state conflict. Second, the increasing number of conflicts and post-conflict situations has preoccupied international organization. Third, postwar reconstruction is a type of political engineering that aims at resolving divisions’ characteristic of divided societies.

Can postwar reconstruction end conflict in a divided society? And what is the best postwar reconstruction program that fits the needs of a specific divided society? This chapter examines these questions by discussing different theories on postwar reconstruction. The first section discusses theories of ethnic conflict by examining the different interpretations of ethnic conflict and the reasons for the outbreak of conflicts from the perspective of the different school of thoughts. The second section presents the different definitions concerning postwar reconstruction, and discusses the different political and economic theories of postwar reconstruction. The third section looks at a third theory that stresses the necessary of both political and economic factors in postwar reconstructions.

2.2 Theories of Ethnic Conflict
The twentieth century is an era of ethnic and religious conflicts, coming as it were following the post-colonial creation of new ethnic as well as political identities in the developing world. The increase in the number of these conflicts led many contemporary social scientists to investigate the causes and mechanisms of religious and ethnic conflicts in order to manage them better.

Ethnic conflict is a universal phenomenon. It has manifested itself throughout history as well as in almost every place across the planet. In other words, “the trend toward communal violence transgresses all established theoretical categories. Intergroup warfare appears in industrial, semi-industrial, and agrarian states; in capitalist and communist policies; in imperial centers and in the nations of periphery” (Rasidagic 2002, 20). In fact, domestic policy-making is highly politicized in deeply-divided societies. Hence, ethnicity affects various sectors, such as the structure of political parties and political unions, political and professional organizations, as well as the functioning and organization of the armies.

Divided societies lead to unstable states because of the constant struggle among the different groups for supremacy and control over the institutions and resources of the central government. In these societies, people are primarily loyal to their ethnic group, and not the state. Moreover, there is no developed civic consciousness which can make the loyalty to the state surpass loyalty to the group. Consequently, the state is viewed with suspicion by some, or even all the ethnic groups, who perceive it as a tool in the hands of one group over the others.

There are different schools of thoughts that discussed and studied the causes for the outbreak and continuation of ethnic conflict. One school sees that the interaction between
tradition and modernization processes influence or play a role in the existence of ethnic conflicts. Hence, social scientists who belong to this school make three arguments: the first suggests that tradition is the main reason behind ethnic conflicts since it forms an obstacle to the process of modernization. Another argument suggests that the existence of what is called primordial attachments is the cause of ethnic conflicts. An example of primordial conflicts is the pride of one group’s past achievements over others. Finally, the third argument suggests that “the process of modernization itself is responsible for the huge chunk of the ethnic problems as we see them today” (Rasidagic 2002, 24).

Proponents of this viewpoint that many ethnic groups are not historical realities but relatively recent innovations by certain political actors, such as colonial authorities that influence the different groups and lead them to oppose each other, or overzealous dictators attempting to achieve cohesion among the members of one ethnic group by exacerbating the potential threat of them coming from members of other groups (Rasidagic 2002; Junne & Verkoren 2005).

The second school of thought believes that ethnic conflicts are the result of economic factors. Proponents of this view argue that some occupations are restricted only to members of certain ethnic groups. As a result, other groups will compete over these posts (such as civil servants, army officers, and businessmen) with suspicion which will lead to ethnic conflicts.

Finally, the third school believes that the cultural factor is the reason behind ethnic conflicts. Proponents of this school argue that a pluralistic society is an unstable creation. One reason is that such societies are characterized by cultural divisions and the absence of shared values.
The one factor that is nearly all-encompassing for determining the causes of ethnic conflicts is social mobilization; indeed, this factor is a necessary precursor for any kind of inter-ethnic strife in a given country. This term is widely examined by some social scientists. Social mobilization signifies the transformation from a peaceful state of coexistence with other ethnic groups, to one where concerns about the group’s well being, as compared to other groups, are being increasingly emphasized. It leads to changes in the social behavior of ethnic groups and results in their involvement in mass politics. Such a political or social mobilization can happen as a response to one or several external or internal impulses, such as deepened ethnic divisions as a result of an economic crisis, regional war(s), foreign interference, or the intentional manipulation of ethnic conflict by internal and external group (Rasidagic 2002, 29).

2.3 Postwar Reconstruction

2.3.1 What is Postwar Reconstruction?

Different interpretations are given to the term “post-war reconstruction”. The World Bank defines “post-conflict reconstruction” as an aim for achievement. According to the World Bank, reconstruction has two overall objectives: to facilitate the transition to sustainable peace after hostilities have ceased, and to support economic and social development (World Bank 1998). This can be achieved by “investment in key productive sectors; good governance; repairing physical infrastructure; and normalizing financial borrowing arrangements. (World Bank 1998, 4-5).
The UN describes peace building activities as “disarming the previously warring parties and the restoration of order, the custody and possible destruction of weapons, repatriating refugees, advisory and training support for security personnel, monitoring of elections, advancing efforts to protect human rights, reforming or strengthening governmental institutions and promoting formal and informal process of political participation (Boutros-Ghali 1995). Another interpretation sees that “reconstruction entails rebuilding, and in some cases constructing, both formal and informal institutions in weak, failed, and postwar countries. More specifically, the reconstruction process involves the restoration of physical infrastructure and facilities, minimal social services, and structural reform in political, economic, social sectors, as well as security apparatus” (Coyne 2008, 9).

2.3.2 The Postwar Economy

Civil wars damage national, social, and economic institutional transformation in areas of public governance, trade and commerce, massive capital flight, destruction of physical capital, social interactions, human rights, crime and its enforcement (Obidegwu 2004; Junne and Verkoren 2005). “It also challenges the authority of the regime in power, erodes the legitimacy of the institution of government, damages public facilities and weakens the provision of public services” (Obidegweu 2004, 13). Hence, these damages lead to changes in the economic structures of the national economy and create a “conflict economy”, in which people who profit from this kind of economy have a strong interest in the continuation of a conflict situation, including continuous security problems and the lack of law enforcement.
What then is the structure of a conflict economy? And who are its dominant actors? Four different economies can exist in post-conflict situations: First, the international aid economy characterized by the arrival of several organizations that demand many services such as housing, offices, luxury consuming good, etc. Second, the criminal economy characterized by criminal activities such as organized criminal acts (drug trade, sale of state property, monopolized trade, security services, etc). Third, the informal economy characterized by subsistence farming. Finally, the remaining formal economy, and it covers a small fraction of total economic activities (Junne and Verkoren 2005, 192).

As a result of the conflict economy, a form of “patron-client” relations exist based on religious, ethnic, personal, and mafia linkages. As a result, the majority of the population did not depend anymore on formal institutions, but jobs were given according to ethnic and conflict party affiliation (Junne and Verkoren 2005, 192)

2.3.3 Horizontal Inequalities

In any reconstruction plan, it is important to address the main factors that lead to conflicts. It is also important to address other requirements that are necessary to achieve economic growth, such as demobilization and infrastructure reconstruction. This section examines and studies horizontal inequalities in post-conflict reconstruction because it constitutes one of the main challenges faced in reconstruction policies.

Horizontal inequalities (HIs) are inequalities between groups with shared identities. These groups may be created according to religious or ethnic ties, or any other factor that binds people together (Stewart 2005, 6). Hence, it is essential to put the analysis of any conflict in its political and economic context because cultural differences do not lead to
conflict alone. Rather, there are other economic and political causes. As Abner Cohen has argued:

“When men do fight across ethnic lines it is nearly always the case that they fight over some fundamental issues concerning the distribution and exercise of power, whether economic, political, or both” (Cohen 1974).

HIs function in four areas: political participation, economic assets, incomes and employment, and social aspects. Each of these contains a number of elements. For example, HIs in political participation can occur at the level of the cabinet, the bureaucracy, and the army amongst others. In addition, HIs in the ownership of and access to economic assets include access to land, livestock, and human capital. HIs also exist in particular regions of a country that are deprived or privileged compared to other regions. Consequently, the deprived regions may seek political and economic rights or control over government institutions (Stewart 2005, 7).

HIs lead to conflict in many situations, especially when inequalities persist for a long period. Also, HIs can lead to conflict when incomes in a country are low or stagnant and when the government is irresponsible. It should be noted however, that HIs are not the only source of conflict, but there are other economic explanations of conflict which include private incentives (arising particularly in the presence of natural resources when war provides opportunities for enrichment); individual grievances of various kinds particularly associated with low incomes and high levels of poverty and unemployment; environmental pressures leading to conflicts over resources, especially land; and failure of the social contract to deliver public services, security, and incomes. Thus, “HIs represent predisposing conditions for conflict such that deprived groups have strong grievances. However, at the same time, the simultaneous presence of major political horizontal
inequalities makes violent conflict much more likely, that’s why policies must address political as well as economic and social HIIs” (Stewart 2005, 9).

HIs can be addressed via affirmative action policies. This action aims at addressing the needs of disadvantaged groups and covers public sectors activities. Its main task is to increase these groups’ share of entitlements through allocating the political and economic entitlements on the basis of membership. One of the main elements in HIs policies is achieving equality. Thus, three types of policies can be adopted to achieve greater group equality. First are policies towards changing processes which are either directly or indirectly discriminatory. Second, assistance can be directed to particular groups such as training people for interviews and subsidizing housing. Third, targets and quotes can be introduced for education, land distribution, financial and physical assets. Moreover, a number of economic and social policies should be implemented in order to address horizontal inequalities.

In implementing economic policies, the government should distribute state-owned land to ensure group ownership of land. Also, policies should address the dilemma of restrictions on lands, and forcible eviction. Third, financial regulations should be addressed to help group ownership, ensure education among the community, address public sector infrastructure, and create employment opportunities to reach stable and fair incomes (Stewart 2005, 11).

In discussing policies, some researchers warn against reconstructing everything damaged. In contrast, reconstruction as a development process, needs to be selective and should initially be directed at social services and productive activities that provide benefits
to the greatest number of people, such as health facilities, schools and rural roads for agricultural activities (Barakat 2005; Obidegwu 2004).

However, reconstruction policies have failed to address HIs. In economic policies, reconstruction focused only on building physical infrastructure and creating and reestablishing the market economy. From a political perspective, policies focused on how to ensure governance reforms that are, according to most of researchers, essential for multiparty democracy. An example of these reforms is transparency and accountability.

2.3.4 Postwar Reconstruction Theories

Most economic theories of postwar reconstruction emphasize the need and importance of establishing a fiscal policy in order to strengthen the peace agreement and to ensure an effective peace building process. Hence, most researchers believe that in order to ensure a successful transition from war to peace, policies should be addressed in a way to ensure liberalization and stabilization (Obidegwu 2004, 26).

In economic theories, privatization is perceived as a crucial element in the post-conflict period. It increases the opportunities of reform; it also contributes to the liberation of the enterprise from burdens of bureaucracy and the confused objectives often identified in state-owned enterprise (Paris and Sisk 2008, 141). In contrast, some other researchers warn against the negative consequences of privatization. For example, in Mozambique and Cambodia privatization has led to corruption and failed to produce mechanisms for directing credit to potentially progressive domestic capitalists. It has also led to substantial fiscal burdens rather than strengthening the fiscal capacity for institution building (Paris and Sisk 2008, 141).
Like fiscal policy, some researchers argue that monetary aid is a central part of most, if not all, reconstruction efforts (Coyne 2007; Junne and Verkoren 2005; Obidegwu 2004). Hence, the International Aid Economy is a key element in the economies that exist after wars. It is characterized by the arrival of several aid organizations and the flow of money from foreign countries. Here, some argue that it is not just the total amount of aid that is important, but also how effectively aid is allocated and utilized (Coyne 2007; Junne and Verkoren 2005; Obidegwu 2004).

William Easterly, in his detailed analysis of foreign aid, emphasizes the dual issues of incentives and delivery mechanisms. In his opinion, “policymakers and statesmen in the country receiving aid must have the incentive to utilize and distribute aid funds effectively”. Easterly demonstrates that it is often the case where the incentive structure created by the provision of foreign aid directs these policymakers towards unproductive activities that generate perverse outcomes and cause harm rather than goodness. However, even if the correct incentives are in place, and in practice, underdeveloped, weak or failed states often lack the delivery mechanisms to allocate the aid effectively. Therefore, it is wrong to expect that monetary aid itself can be a catalyst for sustainable political, economic, and social change in illiberal states. On the contrary, experience shows that monetary aid is in fact not an effective tool in solving the major problems that weak countries face (Coyne 2007, 182).

However, some political scientists argue that in order to have effective post-war reconstruction, political reconstruction is the primary and most important catalyst for effective post-war reconstruction. Postwar state building entails strengthening or constructing legitimate government institutions in countries that are emerging from
conflicts. Hence, the first thing in any postwar reconstruction is to rebuild and develop institutions. This is why great emphasis should be placed on constructing public institutions, the machinery of the state, civil society, peace, reconciliation and security.

The state-building literature suggests two alternatives. The first argues that it is difficult to make reforms in divided societies and that if they are undertaken, these reforms will be resisted. In contrast, post-conflict reconstructions scholars argue that state-building and constructing the rule of law is possible and likely to happen in war-torn societies. To test these two assumptions I will give a brief example of the return of rule of law in El Salvador as an example of a poor country with territories affected by its armed conflict, and with a political culture inhospitable to democratic and constitutional reforms.

After signing the peace accord in 1992, guerilla forces in El Salvador were demobilized and transformed into political parties, and elections took place making the state the only authority in the country. A number of reforms then took place. However, despite these reforms, crimes continued to occur in the post-conflict era. A number of reasons lie behind such incidents. First, the demobilization of the majority of combatants occurred in a very short period of time, in which they were left unemployed. Second, the peace process left thousands of weapons in civilian hands. Third, the transition costs of security reforms abetted growing crime. Also, a large number of former combatants, who later became in security forces, participated sometimes in crime activities (Call 2003, 843). The successful formal reform of policing in El Salvador, did not lead to fully accountable, responsive citizen-oriented public security, however. Moreover, and because of the lack of support and political will among elite to support the reforms taking place, judicial reform efforts focused only on improving technical capabilities such as case-loads, case
management, judicial administration, police investigative skills, and forensics capabilities (Call 2003, 849). In conclusion, “the Salvadorian experience indicates that state-building is possible in poor, post-conflict societies, but according to certain patterns and limit. Finally, the Salvadorian case suggests that judicial reforms, even when initiated in adverse wartime conditions for patently political purposes, may lay the groundwork for improved judicial institutions once a political transition occurs.” (Call 2003, 850).

Another theory of political reconstruction focuses on the importance of disarmament, demobilization, and reintegration of former combatants in order to achieve a successful transition from war to peace, and to have effective political reconstruction. Hence, without a clear comprehensive reintegration strategy, war-torn countries, which demobilized their combatants, risk returning to conflict. The transitional process requires four steps to achieve a successful and peaceful state-building. “The first step is the disarmament of former combatants, and it is the collection, control, and disposal of small arms and light weapons, and the development of responsible arms management programs in a post-conflict content. The second step is the demobilization, and it consists of a planned process by which the armed force of the government and opposition or factional forces either downsize or completely disband. The third step is the reinsertion assistance, and it aims at ameliorating the process, often includes post-discharge orientation, food assistance, health and educational support and a cash allowance. The final step is the reintegration, and it is the process whereby former combatants and their families are integrated into the social, economic, and political life of civilian communities.” (Ozerdan 2009, 14).

2.4 Political and Economic Reconstruction
What then are the conditions or prerequisites for having an effective and successful post-war reconstruction? Is it the economic condition or the political one? The literature on postwar reconstruction believes that both components are essential and should be present to achieve successful postwar reconstruction. Hence, three programmatic arenas are necessary for reconstructing the postwar environment. These are: rebuilding governance through developing democratic processes, institutions, civil society, peace, reconciliation and security; rebuilding social capital through the ensuring cooperation and trust between different groups and constituencies. This is likely to happen through creating social networks; Rebuilding the economic and the physical capital through the development of the economic activity, physical infrastructure and housing, and environmental sustainability (Barakat 2005, 161). In order to attain these goals, these reforms should take place at three levels. The first level is setting reconstruction concept-guiding principles and program design which includes sustainability, strengthening and developing communities and beneficiaries such as housing and social recovery. The second level is reconstructing strategies-policy making and program policy. The third level is the implementation of the project (field level action) (Barakat 2005, 161).

The immediate flow of monetary aid after the cessation of hostilities is what characterizes many post-conflict countries such as Afghanistan, Albania, Algeria, Republic of Congo, Croatia, Bosnia, Herzegovina Kosovo, Iraq and Lebanon. However, the weak political and administrative capability made this pattern of aid ineffective, and not used in the proper way. In this regard, stabilization, recovery and development should be based on three pillars: rebuilding the state and its key institutions, improving and developing the economy, and addressing urgent needs of reconstructing communities. Thus, it is important
and essential to restore state capacity for macroeconomic management and fiscal operations. In fact, post-conflict countries suffer in many critical areas, and thus, it needs a reform process that entails project and program design, budget formulation, execution and reporting, as well as design and implementation of critical reforms. Thus, there is an urgent need to strengthen the capacity of the state in the immediate aftermath of a crisis, which allows state institutions to exercise its role in financing the reconstruction of the economy and provide the population with basic services (Rogers 2006, 7).

A “virtuous cycle” exists between institution building and the implementation of good economic policies. For example, improvements in public expenditure management and tax administration help establish fiscal discipline. “This in turn contributes to success in achieving macroeconomic stability and growth, thereby providing a more stable and productive environment for further institution building. In fact, strengthening institutions and economic policies, reduces the risk of future conflicts, and that without appropriate institutions and sound policies, recovery may not be broad based, high levels of poverty are likely to persist and the probability of a return to conflict will remain high” (Rogers 2006, 8).

In any reconstruction program, it is the responsibility of the government to ensure effective post-war economic recovery. Hence, any government should be able to determine and set a number of priorities with the cooperation of donors, focus on them, and implement them with transparency. For this reason, strong leadership is necessary to guarantee the trust of foreign stakeholders in the government’s credibility. This could be achieved through the centralization of decision-making authority in the head of the state during the war and pre-war period (Rogers 2006, 8).
In fact, strong institutions and economic policies in post-conflict countries is their existence will open the way to attract private investment. Indeed, post-conflict countries need strong and sustained increases in private investment to support broad-based economic recovery (Rogers 2006, 8). “The lack of capital and the high operational and political risks limit new private activities to areas where investments requirements are low, returns are high and the payback period is short, such as in transition, export and import operations, trading in foreign exchange and trading in and distribution of agricultural merchandise” (Obidegwu 2004, 23).

What elements should be included in post-war recovery? The literature on postwar reconstruction stress that the first and ultimate goal in any postwar reconstruction is to meet people’s needs, i.e. improves their living standards. Thus, in order for the population to benefit from economic reconstruction policies key priorities should include the stabilization of prices (restoration of a functioning capacity for monetary, fiscal and budget management in the central bank and the ministry of finance), the revival of private sector activities, particularly small-scale commerce and agriculture, and the rehabilitation of the social infrastructure and the revival of social services (schools and health facilities that bring economic and social benefits particularly to rural areas) (Barakat 2005; Obidegwu 2004). Initial efforts at public administration reform should focus on: first, reforming the budget system by guiding it toward participation, transparency, and accountability. Second, reviving the institutions of the budget, build the capacity and restore a credible budget process. Third, concentrate on eliminating systematic distortions and opportunities for abuses in public administration by clarifying functions, regaining control of the numbers in the establishment, eliminating ghost employees, reforming the systems for managing the
payroll, linking employment in the civil service to the budget process, and introducing transparent systems for recruitment, retrenchment as well as the development capacity building in order to deliver services to the population in key priorities areas (social and economic services). In the latter phase of the transition and in line with the reforms for the political transition, the preparations should be made in a fundamental model for the institutional governance-related changes; that will include the decentralization of political and economic decision-making, as well as the development of the strategic framework, in order to reform the public administration sector in addition to the budget. Further key actions in this phase also include the preparatory actions to disengage the state from microeconomic activities, the establishment of the regulatory framework to promote private enterprises, particularly the growth of small-scale enterprises, enhance access to new technologies, and improve private sector governance (Obidegwu 2004, 33).

The implementation of economic and political policies may also face a number of challenges, such as lack of public support. This is largely due to the persisting ethnic divisions and inequalities in the economic opportunities. Moreover, the absence of a strong political institution plays a role in preventing any consensus for reforms. Finally, the lack of human and institutional capability will affect the sustainability of any reconstruction project, threatening any support for the reform program (Barakat 2005; Obidegwu 2004).

In his book *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-faire*, Toufik Gaspard explains the reasons behind Lebanon’s poor economic development. First, the laissez-faire system does not always lead to development and growth. This depends on factors and elements that play different roles in different situations. That is why Lebanon experienced a failure in productivity and industrialization. Second, the extent of
capitalism in the structure of the economy is another factor that plays an essential role. Here, proponents of the importance of the economy’s institutional aspects claim that the Lebanese economy was never a pure capitalist one in terms of waged employment. Hence, all the expected accumulation and developments of capital did not have the opportunity to operate as they should have (Gaspard 2004, 225). Also, in his explanation of the failure of the Lebanese economy, Gaspard refers to the importance of the manufacturing sector. To him, assuming that manufacturing alone will lead to growth is unrealistic (Gaspard 2004, 226). For example, the European experience showed that European high economic performance was not the product of the market, although the market was a key instrument; it was the result of political struggles and of the presence of a civil society. In fact, civil society worked towards producing education, skills and social networks. Hence, in the Lebanese case, even though manufacturing was designed along capitalist lines of production, market failures and underdeveloped skills persisted in the economy (Gaspard 2004, 227).

A number of key elements should exist in order for a country such as Lebanon to rise above its postwar trauma. According to Gaspard, one of the most important elements in achieving growth is to have a central authority that will place the country’s economic development as a main national objective (Gaspard 2004, 228). Hence, both the government and the private sector should work together and negotiate strategies. At the same time, they should both be aware that the laissez-faire system is not a suitable instrument for Lebanon, and that they should work together to implement other more suitable policies (Gaspard 2004, 228).
2.5 Conclusion

This chapter examined the different theories and approaches on postwar reconstruction. In the first section, I have presented a general overview on ethnic conflicts and the nature of divided societies. The importance of this overview lies in the fact that it gives the reader a better understanding on how divided societies functions and the reasons why conflicts outbreak in these societies. Hence, this will help the reader to better understand and examine the postwar reconstruction programs implemented later. In another section, I have discussed the different definitions of postwar reconstruction from an economic and political perspective. What is postwar economy? A substantial portion was allotted to postwar economy, since it leads to the existence of what is called “Horizontal inequalities”. Indeed, HIs play a crucial role in the outbreak of conflicts, and it has a great impact on the political (political participation) and economic life. For that reason, examining HIs is a crucial element in the paper since it gives the reader a better understanding on the circumstances that lead conflicts to occur and how any reconstruction program should be directed to end any conflict situation. Finally, in the last section I have discussed the main postwar reconstruction theories. These are: economic, political, and theories that stress on both political and economic. The next chapter examines the political and economic philosophy of the Lebanese society since the independence in 1943 to the signing of the Taef accord.
Chapter 3

The Pre-War Political Economic Situation

3.1 Introduction

The Lebanese political system developed in the 1940s till 1970s, is an example of the model developed by the political scientist Arend Liphart in the 1960s. Liphart studied and developed a unique model for divided societies to manage their conflicts. His model was based on what he called “consociational democracy” model, consisting of “a government by elite cartel designed to turn a democracy with a fragmented political culture into a stable democracy” (Najem 2000, 5).

In order to achieve a successful "consociational democracy", a number of conditions - namely social structure and mass political culture - have to be present. These conditions are the followings: the necessity of creating limited boundaries between subcultures and between the different ideologies in order to limit tension and hostility; the elites of each group have to work together, but at the same time are obliged to maintain the loyalty of their followers; the necessity of ensuring a balance of power between subcultures, and the total loads on the system. Liphart explains this last point further by referring to what he calls “the stability of the system,” which is measured by its capacity to afford and handle increased demands (Najem 2000, 5).

How did the Lebanese system function before the outbreak of the civil war in 1975? What are the effects of such a system on the postwar period? This chapter answers these questions by discussing and examining the political and economic philosophy that existed
before the war, and the circumstances that led to the outbreak of the war. The first section presents a general overview of the nature of the Lebanese system and the collapse of the Lebanese political system. The second section discusses the political and economic situation that existed in Lebanon between the years 1943-1958. The third section examines the political and economic situation that existed between the years 1958-1962 and 1962-1975. The chapter then looks at the reasons and circumstances behind the outbreak of the civil war, and the effects of the war on the political and economic life. The last section presents a general overview of the signing of the Taef accord and the changes it produced.

3.2 The Nature of the Lebanese Political System

Many factors create divisions in Lebanese society. These are religious, ethnic and regional divisions. However, the most important factor that has played a crucial role in shaping the political situation in Lebanon is sectarianism. The idea of the interaction of a number of sects, which lies at the heart of the concept of ‘Lebanon’, has existed from the late sixteenth century to the emergence of Grand Liban. “Even after the emergence of the ‘Lebanese’ polity, however, the sects continued to live out their inner lives.” (Najem 2000, 6).

A number of scholars and political scientists have tried to explain the reasons behind the collapse of the Lebanese political system in 1975. However, one of the most important explanations of the failure of the consociational system is presented by Michael Hudson. He argued that it is difficult to apply the consociational model in the developing countries such as Lebanon, because the system is too static to accommodate changes unleashed by social mobilization. Hence, “the Lebanese political system was unable to
adjust to a broad range of political, economic, and social developments” (Hudson 1976, 113). Five schools of thoughts discussed the reasons behind the outbreak of the war in 1975.

Marxist and non-Marxist economic explications suggest that the economy was the main cause of the war (Najem 2000, 11). This explanation is based on the idea of class conflict between a dominant economic class, a weak middle class, and a large proletariat (Najem 2000, 11). Proponents of this school also discuss the geographic factor. They argue that the heart of the economy is centered in Beirut while other sectors, such as agricultural, are neglected. To them, these economic inequalities led to a patron-client system, in which the traditional Zu’ama refused any possible help from the government. As a result, the poor turned to an increasingly radical and aggressive Leftist movement (Najem 2000, 11).

The second explanation is the sectarian argument. Proponents of the second school reject the assumption of the first school. Instead, they argue that sectarian lines are the main reason for the outbreak of war (Najem 2000, 11). The advocates of this explication claim that the lack of political community is the primary reason for the collapse of the Lebanese system. They base their argument on the nature of the National Pact, which rested on a compromise between the two major sects, the Maronites and the Sunnis, representing the Christians and Muslims respectively. However, Lebanon’s political community was extremely divided between a predominantly Muslim community, who supported pan-Arabism, and a predominantly Christian community, who supported a pro-Western Lebanon. The changes that took place in the Arab world, specifically the popularity of Arab nationalist and Arab socialist ideas, affected and undermined this compromise. As a result, sectarian mistrust superseded class interest as a reason for conflict. Hence, many Christians
perceived Muslims as a community highly linked with Arab nationalist and pro-Palestinian agendas, and as a result, believed that it was a disguise for a Muslim challenge and threat to the basic Western nature of Lebanon and to the traditional status and position of the Christians in the country. Therefore, two conflicting groups existed: leftists who were extremely consolidated with the Palestinians in Lebanon, and the Christian masses who supported and encouraged the Christian right (Najem 2000, 12).

The third school, that of political participation, explains that the main cause of the war was the demand for the redistribution of political and economic powers by groups who considered themselves not represented in the decision-making process (Najem 2000, 12). Proponents of this school base their argument on the fact that the political system that existed before the war failed to distribute political and economic rewards equitably.

A fourth school believes that the collapse of elite-mass relations, namely the failure of the elites to control their followers, was the reason for the war’s outbreak (Najem 2000, 13). For example, some argue that the Sunni Zu’ama could not control their followers anymore after the latter found alternative patrons among pan-Arabist and Palestinian groups. To solve this problem, the Sunni Zu’ama in Lebanon started to support pan-Arab causes such as the Palestinian presence in Lebanon. However, by doing so, they put their relations with other sects at the edge, especially with the Maronites who refused any Palestinian presence in the country. Like the Sunnis, the Maronite elites faced many problems with their followers due to their failure to solve the Palestinian problem. As a result, the government was paralyzed, and the slide to war started (Najem 2000, 13).

The final school argues that the pressure originating from external factors, such as the Palestinian-Israeli conflict, was the main cause behind the war. Iliya Harik and Goerge
Corm are the pioneers of this fifth school. Both political scientists argue that “Lebanese society was not genetically flawed; this is not to say that Lebanon was a country without problems, but only that there was little time to adjust to and assimilate the tensions, imbalances and shortcomings which are also common to other societies before the regional conditions that destabilized the country appeared in 1967” (Najem 2000, 13). Hence they argue that the Arab-Israeli conflict and the armed Palestinian presence in Lebanon were the major external loads on the Lebanese system that led to polarizing Lebanese domestic politics. In fact, the Palestinians, by their presence in Lebanon as well as their support to the Leftist movements in Lebanon, pushed the Maronites to react aggressively, because the latter feared that the Palestinians will change the political balance in the country. As a result, and due to the weakness of the Lebanese government, the Maronites armed themselves in 1975 and began to attack the Palestinians and drove the country to the war.

As aforementioned, many explanations were attributed to the outbreak of the civil war in Lebanon. The importance of this section is that it introduces the reader to the different theoretical perceptions on the possible reasons and factors that led to the outbreak of the war. Hence, this will allow the reader to better understand the following sections, which will present the economic and political situations that existed in Lebanon since the independence in 1943 to the outbreak of the civil war in 1975.

3.3 The Political and Economic Situation in Lebanon: 1943-1958

3.3.1: The Economic Situation

The Lebanese economy was stable, after independence in 1943, and it experienced favorable conditions in which the financial and industrial sectors were revitalized due to
active trade operations. In fact, until 1948, the economy was oriented toward industrialization, and experienced a remarkable growth (Gaspard 2004, 55). In effect, during that period, national income witnessed growth as a result of an increase in investment and employment. Nonetheless, at the same time, it witnessed negative features such as a surge in consumption, trade deficit, rapid increase in unemployment, and hard conditions due to the decrease in the market of agricultural products. Also, “the war in Palestine exacerbated the adverse trade performance, and practically eliminated the market for Lebanese agricultural products and the income from Palestinian tourists” (Gaspard 2004, 56).

The economic performance in the period between 1945-1950 drove the Lebanese administration to adopt a new economic and political system that will shape the whole country’s nature in the coming years, and which, as we shall see later, will lead to major consequences affecting the economic, social, and political structure of the country. The new system was called “laissez-faire”. The choice of the laissez-faire system was accompanied by an intense debate concerning the philosophy of the economic system. Many reasons were behind the choice; however, the most important one was that the government was aware of the challenges of the new economic environment that existed after War World II. Also, the inefficiency of government institutions to regulate or direct the private sector played a role in the adoption of this system. Thus, to the government, the new philosophy was not only a long term policy for economic development, but also a national-raison d’être. In fact, it was perceived as an ideology that reflects Lebanon’s identity and calling. Proponents of the laissez-faire system base their argument on the fact that Lebanon’s history proved the efficiency of free economic exchange given its geographical location.
“The new system should therefore have as much as freedom and as few constraints as possible, a free system that respects the pluralistic traditions of the Lebanese system” (Gaspard 2004, 58).

It should be noted that after independence, and due to the exceptional powers enjoyed by the president, the presidency post transformed into a main pillar controlling economic interests. We shall see later, this tradition, which started under the first independent era (1946-1952) soon became a distinguishing aspect of Lebanon’s political economy. As a result, the existing financial-commercial oligarchy monopolized economic power in the country during the independence era. The oligarchy was composed of about thirty families rotating around a solid nucleus, “the Consortium”. Members of the Consortium occupied all important and key posts in all the economic sectors of the country. Hence, they owned a number of local banks, or banks with mixed capital in which the most prominent one was “The Syria-Lebanon Bank” (Trabousli 2007, 115). The role and power of the consortium members was not restricted to the ownership of banks. Most of the members imported western manufactured products that controlled the greatest share of the local market food stuff, arms and ammunition, agricultural and industrial equipment and machinery, building materials, beverages, pharmaceutical and medical products, stationeries, wood, coffee, cars and their spare parts, and many others (Trabousli 2007, 115).

In discussing the laissez-faire system in Lebanon, one should not ignore the role of the Lebanese banker and philosopher Michel Chiha. Chiha was the first who formulated a sample of the relationship between economic and political power in Lebanon. “Economic power was to be exercised mainly through the executive. The president of the republic,
rallying point and business partner of the commercial/financial oligarchy, represented, served and defended its economic interests. Similarly, the administration’s main task was to speed up business deals and transaction” (Traboulsi 2007, 117).

From a political perspective, this philosophy meant that the three main powers, the executive, legislative, and administrative powers have to be distributed according to sectarian lines, creating a balance among the different social groups. Hence, the new system seemed to be the natural choice for a free and prosperous country such as Lebanon. When it was established, the laissez-faire system was beneficial to the new middle class of entrepreneurs, merchants, and middlemen that had emerged almost a century ago in the second half of the 19th century. The business and political classes could then plainly see the advantages and profits that could be realized from a laissez-faire regime. In this regard, prices were determined according to the market with few restrictions from the government (Traboulsi 2007, 117).

The benefits of the laissez-faire system were obvious in the period after 1948, when a substantial capital flow was brought into the country as a result of the political instability in many Arab countries, and the immigration of the Palestinians to Lebanon. Gaspard has noted:

It was a period when a proposal of a long term industrial policy, as a principal element of a strategy for development, would have appeared inappropriate if not irrelevant. The laissez-faire was very suitable to the new middle class of entrepreneurs, merchants, and middlemen that had emerged almost a century ago in the second half of the 19th century. The business and political classes could then plainly see the advantages and profits that could be realized from a laissez-faire regime (Gaspard 2004, 59).
In this regard, and as mentioned before, prices were determined by the market with few restrictions.

3.3.2 The Political Situation

Since its independence in 1943, Lebanon has been a parliamentary democracy in which all powers, appointments, and jobs are divided along sectarian lines. In fact, it can be said that these jobs and appointments were in favor of and abused by politicians, as a means to consolidate their power, and to maintain the status-quo. In such a system, access to political power opened the road to economic power. Moreover, the system implied a number of governmental obligations. These included little interference in the market process; providing infrastructure such as roads, communications and electricity in urban areas and the capital, and ensuring basic needs; protecting monetary stability.

While in the first years, the Lebanese authority succeeded in achieving a large part of these objectives, the section that follows discusses the failure of the Lebanese laissez-Faire system and the circumstances that led to this failure and eventually led to the outbreak of the war.

3.3.3 The Crisis of Kamil Chamoun: 1952-1958

A number of conditions were behind the economic boom Lebanon witnessed during the presidency of Kamil Chamoun. These are: the oil boom in the Gulf and Saudi Arabia; the flow of Arab capital to Lebanon as a result of nationalization in Syria, Iraq, and Egypt. Also, the rise in GDP exceeded the demographic increase, and record rates were registered in the construction, banking and tourist sectors, and in the number of agencies of foreign firms established in Lebanon. Moreover, transit trade with Jordan, Iraq, and Saudi Arabia
led to revenues that compensated the losses following the breakup of the custom and monetary union with Syria. (Traboulsi 2007, 128).

Despite the advantages that some Lebanese groups enjoyed in the new system, the Lebanese boom during the first years of his presidency increased the social and regional differences. In turn, this increased the tension among the classes and regions since most of the economic activities were concentrated in the capital, Beirut, and in Mount Lebanon. According to the *Institut de Recherche, de Rormanet et de developpement* (IRDED), half of the population in early 1960s lived at or below the poverty line, and about third of the population lived in a middle level of income, and the rest of the population lived in comfort (Gaspard 2004, 75). Also, in the same period, the institute conducted a survey on the socio-economic and cultural conditions in 80 rural communities with their regional capital, and found that the highest percentages of underdevelopment existed in rural areas (Gaspard 2004, 19).

President Kamil Chamoun was known for his closeness to the consortium families. During his constitutional speech, he promised to fight corruption, and stressed on the humbleness of the presidential post and its asceticism, promising to cancel all the privileges and formalities attached hereto, including the confidential monies under the control of the president. Moreover, he promised to reform the administration, and to establish the State Council to end the misuse of power. In foreign policy, Chamoun stressed that Lebanon will be neutral in international and Arab conflicts (Traboulsi 2007, 129).

Chamoun’s exercise of power was far from what he delivered in his presidential speech, however. The first objective the new president aimed to achieve is centralizing power in his hands. For this reason, he chose weak prime, people who would always
depend on the president’s contributions and the privileges he granted more than on their political power. Second, he exercised control over the influential ministries such as foreign affairs, defense, finance, and public security. The individual authority exercised by the president over the executive authority was completed by his subjugation of the legislative authority (Traboulsi 2007, 129).

During Chamoun’s presidency, corruption was very high at all levels. For example, commissioners of the president imposed a number of shares in the joint stock companies to be presented as a “gift” to the president and his retinue in return for granting the establishment a permit. Also, the president was accused of transferring to his own personal account monies from the immigrants’ donations for the victims of the earthquake hitting Lebanon in 1956. In fact, the resignation of the businessman Emile Boustany from the Ministry of Construction validated this accusation (Traboulsi 2008, 22).

3.4 The Political and Economic Situation in Lebanon: 1958-1964

During his presidency, Fouad Chehab’s primary objective was to build and consolidate state institutions in order to promote economic and social development and equality especially after the IRFED studies on poverty in Lebanon. In fact, it was perceived by the president as a major national objective. As a result, Chehab started a plan to rationalize and strengthen his control of the Lebanese capitalism as a result of the chaotic development that took place during Chamoun’s presidency especially in the banking sector (Traboulsi 2007, 140). Hence, he passed the Law on Credit and Currency which allows The Central Bank that was established in 1964 to issue currency, stabilize exchange rates of the Lebanese pound, and to direct the economic performance (Traboulsi 2007, 140). In
addition, many institutions were created to deal with the different sectors and issues such as the civil service, agriculture, and road projects in rural areas. At the same time, a process of systematic and regular compilation and dissemination of a national accounting data began, and government schools were supported and developed, in addition to starting a social security program. For example, in 1965, a social security scheme was created and started to operate in early 1970s. In fact, it allowed people to have access to partial medical insurance, payment of family allowances, and a pension scheme. Although this new program was perceived as an important step towards raising the minimum wage, it was applied by relatively large corporations. Also, labor unions existed, but remained weak, as well as union membership, which remained relatively small due to control of the intelligence agencies, a characteristic of Chehab political policy (Traboulsi 2007, 141).

3.5 The Economic and Political Situation in Lebanon: 1964-1975

On the eve of the war, the structure of the parliament and the nature of the electoral system indicated a contradiction between the political system and the economical and social facts that existed in the country. Hence, the parliament consisted of 425 deputies, among them 254 belonged to families. Georges Naccache said: “Parliament, that arrogant alliance between money and the feudal system, was being increasingly dominated by moneyed interests, and the landed notables themselves were rapidly transformed into capitalist businessmen, shareholders in joint stock companies and holders of import quotas distributed by the state” (Traboulsi 2007, 171).

When he became president in 1964, Charles Helou sought to reassure the Oligarchy by stressing on the importance of free enterprise, yet, not sufficient to have effective
economic policy. Hence, “he maintained that the role of the state should be limited to building the infrastructure for the development of the services sector” (Traboulsi 2007, 145). To emphasize on the role of the state, Helou sent the parliament a development plan, one which was perceived as a copy of the Chehab plan that addressed building of popular residencies, dispensaries, hospitals, schools, vocational colleges and a unified campus for the Lebanese University (Traboulsi 2007, 145).

However, these economic measures did not prevent strikes and protests movements from occurring in different sectors. For example, in 1964 the General Workers Union called for a strike upon a pressure exercised by employees in the oil sector, public transport, the electricity company, and the Central Bank to raise wages, and in 1965, workers continued their strikes against a number of agreements. Also, in the education sector, school teachers went on strike asking for an increase in wages, in addition to strikes coming from peasants and farmers against the monopoly in industries and against exploitation of small and middle-level producers by the commercial networks (Traboulsi 2007, 146).

The economic and social crisis was politicized. It turned into a settling of accounts between the different groups of the bourgeoisie class and the ruling class. Few were the voices that wondered about the responsibility of the system in that crisis.

3.6 The Lebanese Political and Economic System, 1975-1988

Despite the civil war, the Lebanese political system continued to function from 1975 until 1988. Political life did not change; presidential elections were held in 1976 and 1982, though security situation prevented the election of a new parliament. The Lebanese bureaucracy continued to function. The government was very weak, however. The
Lebanese state lost its coercive capability after the army disintegrated in early 1976. “The Lebanese state was forced both to compete against, and to negotiate with, other more powerful actors in Lebanon, including various Lebanese militias, Palestinian groups, and the Syrian and Israeli governments, all of which were in de facto control of certain regions in the country. In short, the policies and actions of these groups, and of their international supporters, dictated the pace of developments in Lebanon during the war years” (Najem 2000, 15).

On the other hand, the militias created their own states within the state. For example, the Maronite militias controlled East Beirut and the Christians part of Mount Lebanon; the Leftist Lebanese National Movement and its ally the Palestinian Liberation Organization (PLO) controlled West of Beirut and a large area in South Lebanon; the Lebanese government with the support of the Syrian army-dominated Arab Deterrent Force, controlled North of Lebanon and the Bekaa Valley. Moreover, the militias extended their control to different sectors. For example, the Maronite militias developed a public service department, in which it provided services to the public, such as a public transportation system, water, electricity, telephone services through communities operating by civilians in villages and towns. They also collected taxes and made military service compulsory, and had a foreign affairs department with representative stationed in important world capitals (Najem 2000, 15).

Throughout the war and until 1982, the Lebanese economy performed well. Indeed, despite civil strife, the standard of living remained stable, and some sectors such as banking, construction, and engineering experienced some growth (Najem 2000, 16). Five factors explain this puzzle: 1) Lebanon had a strong reserve of gold and currencies
estimated to be above 4 billion dollars in value; 2) money transfers and remittances flowed in from Lebanese migrants who were working in the Gulf; 3) the Palestinian money spent in Lebanon mainly from the PLO, creating thousands of jobs; 4) money spent by the Lebanese militias from financed by their external backers; and finally, there emerged a social and spatial redistribution, i.e. the emergence of new leaders mainly those of the militias (Najem 2000, 17). In fact, the primary reason behind the stabilization of the economy during the war was the laissez-faire system, in which it succeeded in contributing to the economic activity and exchange with minimal disruption. The laissez-faire also contributed to the regular supply of commodities, and played a role in the quick resumption of activity whenever fighting stopped.

However, the Lebanese economy suffered from the negative consequences of the war, such as the physical destruction of the infrastructure (ex. hotels and roads), and the decline in many sectors such as tourism, industry, educational and health services. Hence, the Lebanese economy started to experience a serious decline beginning 1984 until the late Prime Minister Rafik Hariri came to power in 1992. Tom Pierre Najem noted that:

The gross domestic product GDP fell to less than one-third of its early 1980s level; the exchange rate dropped from 3.4 Lebanese pounds to the US dollar in the 1980 to 450 Lebanese pounds to the US dollars in 1989; and unemployment increased from 12 per cent in 1980 to 35 per cent in 1989. The collapse of the economy can be accounted for by a number of factors including the effective disappearance of many of the elements that helped propel the economy in the late 1970s” (2000, 17).

Moreover, the economic situation in the Gulf played a role in the decline of the Lebanese economy. To quote Najem again: “By 1987 there were only 65000 Lebanese working in the Gulf States. Remittances fell from a peak of 2254 million dollars in 1980 to
only 300 million dollars. In addition, the return of thousands of Lebanese workers from the Gulf increased pressures on the Lebanese job market” (Najem 2000, 17).

The Lebanese economy continued to experience hard conditions due to many factors: PLO’s withdrawal of their funds from the Lebanese banks; the severe destruction caused by the Israeli attacks, some of which were intentional and had economical goals; the decrease in bank deposits; the increase in the dependency of the economy, especially banks, on foreign capital and the transfer of a large part of the deposit outside the country. Consequently, the economy was dollarized and the Lebanese currency was depreciated. This is due to a large extent to the government’s practices of speculating with dollar through the central bank. It was estimated that in 1988, there were no less than 200 thousand accounts in American dollars in the Lebanese banks. Dollarization was mainly due to the fact that the country was barely producing anything and was importing everything. As a result, the public debt increased from 7 billion Lebanese liras in 1982 to 35 billion in 1985 due to a decrease in government’s revenues. Also, this led to an increase in the cost of living and at the same time, to a decrease of the value of income. In fact, the minimum living cost for a working family was estimated at 3000 Lebanese liras whereas the average monthly wage did not exceed 952 liras (Traboulsi 2007, 228).

By the end of the war, then, industry was characterized by flexibility and viability; merchandise exports maintained to a certain extent its activity, although imports were greater than exports; employment stagnated and labor emigration increased, accompanied with an inflow of low-paid unskilled labor; wages fell; and business investment decreased during the war years.

3.6.1 The Role of the Banking Sector during the Crisis
Before 1975, banks contributed less to growth. In fact, their role was inefficient compared to the role they can play. By 1975, banking activity focused only on short-term lending for trade and on recycling deposits. “Through its banking system, the laissez-faire has therefore turned into a new capital exporter. Instead of focusing on providing the crucial link between financial savings and domestic investment, banks continued to play the principal role of directing capital overseas” (Gaspard 2004, 197). For example, in the years 1972-1973, the government of Algeria, the state Bank of India, and the World Bank placed various L.L bond issues in the Beirut Market. In other words:

Major governments and international institutions were borrowing medium and long-term money from a market that would not provide more than simple short-term financing for commerce to its domestic enterprises. These bond placements, which were then taken as proof of Beirut’s emergence as an international money and capital market, were in fact stark illustrations of laissez-faire’s failure in a domain where it was supposed to display its greatest strength (Gaspard 2004, 197).

The negative role banks played in the war was best reflected in 1984 in which it started to buy foreign exchange, mostly US dollars, as a result of the political and economic situation. It should be noted that the speculation against the Lebanese Pound started by banks rather than by LL-wealth holders in general, i.e. essentially bank depositors seeking to protect the value of their wealth. In fact, the Lebanese monetary crisis depreciated the currency, destroyed much L.L dominated wealth, introduced a lasting dollarization in the economy, and exacerbated the misdistribution of income and wealth. Hence, speculations by banks against the Lebanese Pound in an environment of adverse expectations about the exchange rate quickly eroded the monetary stability that had lasted for about 40 years and reduced the income and wealth of many people.

3.5.2 Controlling State Properties in the 1980s
The 1980s period was characterized by a distribution of state properties between the different militias and sects. The Lebanese civil war established its own special system that is a misrepresentation of the governing political and economical system before the war under which the self independence of the religious sects turned into armed domination and sectarian cleaning. This system started a new type of war that was conducted by collective militias against the government and citizens. As a result, political and military power became the main tool to seize the overwhelming of financial surplus, and worked to create new economical interests and social relations (Traboulsi 2008, 403). This situation led Beirut to lose its central role in the economic, political, and administrative fields for the benefit of no less than 10 militias that controlled their cantons, most of which had outlets to illegal ports. Furthermore, some internal commercial towns lost their role or were replaced with other commercial towns. For example, Catholic Zahle had to concede its exclusive role as the economical and administrative capital of Bekaa for the benefit of other districts such as Baalbek, Deir al-Qamar, and Ba‘qleen (Traboulsi 2008, 404).

There were other, more serious issues related to ports. The first illegal port emerged on the Lebanese coast in the beginning of the war, and was used to smuggle cigarettes and weapons. Then, the port changed its activities to facilitate economic activities, and thus, it started to control external trading. For example, in the far North there was Abda’s small port, mainly concerned with goods destined to the Syrian markets, and there was the port of Tripoli that was run by the government but under Syrian protection and control. In the south of Tripoli, businessman Tarek Fakhreddine operated Al-Mehdi port to the account of fundamentalist Islamic movement Al Tawheed. In Shakka, the port was originally prepared to export cement. It was protected by the Marada organization led by Suleiman Frangieh
who shared some of the port’s revenues with the Syrian Socio-National party and a number of other pro-Damascus parties. Jounieh’s port imported food for Maronistan and ran a naval transit line to Cyprus after the Muslim militias took control of Beirut International Airport, and the Syrian forces controlled the airport itself. In Dbayei, a special port was established and named after the phalange chief Amin Jemayyel, to import fuel. On the other hand, the Beirut port, was under the control of the Kataeb party and the Lebanese forces. In turn, the Ouzai port in south of Beirut was controlled by Amal movement’s militia starting in 1984, while the neighboring ports in Khaldeh and Jiyyeh were operating under the control of the Progressive Social Party and served as an outlet on the sea for the Druze in canton in the Shouf.

The above section discussed how militias during and after the war controlled state properties. The importance of this section lies in the fact that it gives a hint on the political economy that existed during the war; it helps the reader in the following section to compare and understand more how the changes that occurred until the militias participated in the political decision and was incorporated in state institutions.

3.6.2 The Political Situation

Throughout the war years, the government was marginalized. Its army was divided along sectarian base, and its authority extended only around the Baabda Palace. After the war, the government had to accept the fact that it was the weaker side in the duality of power with the militias. The militias confiscated the bigger part of government jobs that flowed income from customs fees and indirect taxes. Last but not least, at least a quarter of the government’s monopoly of the media smashed, with the appearance of tens of radio and television stations owned by the different militias (Traboulsi 2007, 233).
The first phenomenon of Lebanon’s civil war geography was the checkpoints and crossing at the “cantons” borders. These cantons had a dual function: to control entry and exit to and from the concerned canton, and to function as centers of customs collections. By that, the militias impose entry fees on cars, merchandize and individuals. Travelers pay per person, and cars pay according to their sizes, and the type of merchandize on board. At the Lebanese Forces checkpoints, for instance, merchandize was taxed 2% of their worth. For example, on the way from Beirut to the South of Lebanon, one had to cross the Nasirist Popular Organization checkpoints at the Saida entrance, followed by an Amal checkpoint that imposed charges on the trucks leaving the Zahrani Refinery. Further to the south were 5 checkpoints belonging to the Southern Lebanon Army whose purpose was to insulate the economically occupied border strip from the rest of Lebanon, and to divert its economy to northern Israel (Traboulsi 2007, 405).

Most militias made it a practice to collect taxes from individuals and impose kickbacks and income taxes on revenues for agricultural, industrial, and trading facilities. Afterwards, the collection was done according to the importance of the concerned facility. However, the biggest share of the Marada-controlled northern canton’s income came from kickbacks imposed on cement factories in the town of Shakka, where the fees averaged 3 to 5 dollars per ton of cement (Traboulsi 2007, 405).

Sectarian rule was not restricted to such activities only. It also aimed at controlling profitable sources of incomes such as big corporations like Middle East Airlines and the Reggie. In fact, these corporations used to pay immense amounts of protection money to most of the militias, and in the southern agricultural regions. Amal collected real estate ownership fees with an average of US$2 per acre. Also, fees and taxes were imposed on
consumer commodities: cigarettes (5% of the prices), cigars (3 dollars per pack), cinema and theatre tickets (3% of the price) and restaurant bills (5% of their worth) (Traboulsi 2007, 410). Moreover, militias used to collect fees on administrative proceedings prepaid to the government: fees on the registration of real estate ownership transfer, car registration, building licenses, work and residency permits for foreigners, etc. The decrease in government returns as a result of the loss of these incomes helped double the public debt five folds in a period of only five years from LP7 billion in 1981 to LP35 billion in 1985 (Traboulsi 2007, 411).

Besides confiscating government returns and imposing kickbacks and exorbitant fees on citizens, the militias controlled on the most profitable sectors of trade and services. After 1983, the big militias controlled the greater part of import trades and the distribution of fuel and flour. As a result, they monopolized vital resources, and imposed elevated fees on their consumption and reaped great profits from speculating on these resources (Traboulsi 2007, 411).

The militias also controlled a great share of external trade. The newly founded illegal ports became official companies owned by militia leaders and people close to them. For example, the Kataeb party and the Lebanese Forces bought the majority of the shares in the company that operated the Beirut ports. In those ports, the containers paid customs charges the equivalent of 29% of the goods’ worth. In Nakoura, Lebanese businessman Samir El Hajj dealt in re-exporting Israeli goods to the Arab markets as Lebanese products, and he paid the South Lebanon Army kickbacks worth 15 million dollars annually. This clearly gives an idea of the size of his trade and profits. The cooperation of the militias in the drug trade and distribution networks laid a basis for their cooperation in other fields as
well. Consequently, militia representatives would sit together, perhaps on the same day, as members of the executive boards of the corporation that they owned in partnership amongst themselves, or meet to divide the income from gas distribution in both sides of Beirut (Traboulsi 2008, 412).

Not only did the militias exchange services with sections of the bourgeois, but their economic ventures became big and self sustaining corporations. They gradually became part of the bourgeois. By the end of the war, militia leaders had laundered their capital and turned their companies into official, and registered companies. It should be noted that this militia economy also included a black market for imports destined to the Syrian markets, originating in a number of ports and towns in the Beqaa Valley (Traboulsi 2008, 412).

3.7 The Taef Accord

In 1988, a new political crisis broke out after the Lebanese militias disagreed with foreign powers on the election of a new president. As a result, two opposing governments were created, in which each one claimed its authority in the country. The first was led by Salim Hoss and dominated by Syria, and the second was led by General Michel Aoun and it was anti-Syrian in nature. These two governments remained until the end of the war in 1990 (Najem 2000, 18; Traboulsi 2007, 240).

As a result of the political and security crisis, international actors decided to end the conflict in Lebanon. Hence, the Taef accord was signed in 1989 after a series of Arab mediation efforts. The Taef accord ended the war, but it did not promote except minor changes in the political system. The only key achievement of the accord was the creation of balance of power between Muslim-Christian political parity. However, the political and
economic systems remained intact, and the confessional system continued to exist. As Najem argues:

Implicitly, the accord rejected the idea that parliamentary seats needed to be reallocated periodically to adjust for disparate rates of population growth, among the major confessional groups. Instead, the principle of parity provided the basis of an historic compromise meant to underscore the fact that Lebanon is a country shared by Christians and Muslims (2000, 19).

Moreover, “no changes to the laissez-faire nature of the Lebanese economy were envisioned; even though Lebanon’s economic problems had worsened considerably since 1975” (Najem 2000, 19). The signing of the Taef accord did not end the fighting, however. In contrast, the fighting continued for another year and in some cases, it was much heavier than it was before the accord. And although the accord was not that appealing to many Lebanese leaders, none of the groups allied to Syria opposed it. As Walid Jumblatt commented to the French newspaper Le Figaro: “I will be summoned to Damascus this week, and I will be told to accept the agreement: I have no choice. I will stupidly accept it” (Najem 2000, 20). In contrast, Michel Aoun opposed the agreement since it did not set a date for the withdrawal of Syrian troops. As a consequence, the Syrian attacked him militarily and ousted him, ending the civil war and any resistance to the new elected president Elias Hrawi (Najem 2000, 20).

3.8 Conclusion

This chapter examined the political economic system that existed in Lebanon after the independence in 1943 until the outbreak of the Lebanese civil war in 1975. The importance of this overview lies in the fact that it introduces the reader to the functioning
and nature of divided societies such as Lebanon. Also, the chapter illuminates the circumstances that led to the adoption of the laissez-faire system, a system which characterized the Lebanese economy. The collapse of the system outbreak of the war was discussed in the third chapter, and it highlights on the corruption of the system that influenced to a large extent the nature and the function of the postwar program implemented. The next chapter examines the postwar reconstruction program after the signing of the Taef accord, and its influence on state institutions.
Chapter 4

Political and Economic Reconstruction in Postwar Lebanon

4.1 Introduction

Signed in 1989, the Taef accord marked the start of a new power-sharing model between Lebanese different sects. At the heart of this accord is a variety of issues pertaining to Lebanon’s identity and political system. Lebanon is an independent, sovereign and free country, of an Arab identity, and a “final homeland” for all Lebanese. The political system is a parliamentary democracy rooted in the principles of separation, balance, and cooperation among the various divisions of government. The socio-economic system is based on a free economy which encourages individual initiative and the right to private property. Simultaneously, the system highlights the necessity of ensuring development in all the regions of the country to attain a form of social equity. Moreover, the accord promotes the abolition of political sectarianism, setting this as a primary national goal to be achieved according to a gradual plan. Hence, sectarianism was institutionalized in the new constitution. In fact, this was reflected by the reduction of the prerogatives of the president of the republic in favor of the prime minister, the speaker of parliament and cabinet in the collective capacity.

In 1992, the late Prime Minister Rafik Hariri formed his first government, announcing the beginning of a new era of postwar reconstruction. The new government devised a plan labeled “Horizon 2000” that aimed at reconstructing the country. Financial and macroeconomic stabilization was a major concern for the Hariri government; hence, its economic plan was based on a stable exchange rate policy, thus aiming at controlling both
the inflation and the currency crises that resulted from the civil war and continued to the early 1990s. Did the postwar reconstruction program fail to attain its objectives? Did it undermine state institutions in Lebanon? What is the impact of this program on sectarianism and clientalism in postwar Lebanon? How did the nature of the political system affect the program? This chapter aims at providing analytical answers to the above-mentioned questions. It is an in-depth investigation and discussion of the postwar reconstruction program “Horizon 2000” that was launched in Lebanon in 1992. The first section of the chapter presents a detailed account of the origins and objectives of “Horizon 2000”. The second section discusses Hariri’s macroeconomic plan and the economic policy he adopted. The effects of the economic policy on sectarianism and clientalism will be given special attention. The third section is an in-depth analysis of the creation of the Council of Development and Reconstruction (CDR) as a result of the inefficiency of state institutions. The original goal of the council and the way it expanded its role during Hariri’s rule will be examined. The fourth section discusses the formation of two councils, the Council of the South and the Fund for the Displaced, analyzing the reasons and goals behind their establishment, as well as their impact on state institutions and clientalism in Lebanon. The last section is a detailed account of the constraints Hariri faced, and the impact of the nature of the political system on the fiscal policy and program he adopted. The impact of the political system on the implementation of the program will also be discussed.

4.2 “Horizon 2000”: A General Overview
The reconstruction plan of Lebanon was not born in 1992. In fact, a reconstruction plan was first devised in 1977, but was repeatedly delayed due to civil war. In 1990, the Lebanese government revived the reconstruction process. The CDR, which was first established in 1977 to rebuild the country, sanctioned International Bechtel Incorporated and Dar Al-Handasa consultants to prepare a study for a reconstruction program in Lebanon. The first phase lasted for four months, and a priority program was prepared based on a preliminary assessment of the available information. The program was divided into 15 stages, and included 126 projects to be completed over a period of three years, specifically between 1993 and 1995. The plan was presented to international donors at a convention in Paris and approved by the World Bank. Afterwards, the plan, which later became known as the National Emergency Reconstruction Program (NERP), was officially adopted by the Lebanese government in 1992, and was funded by the European Commission.

When he assumed the premiership in 1992, Hariri adopted the NERP, “a short-term physical and social infrastructure rehabilitation plan with a cost of $2.25 billion. As a result, the plan was revised and became a fully fledged long-term investment plan that included macroeconomic projections of GDP and GDP per capita growth, fiscal developments, and external financing needs” (Dibeh 2005, 3). In his book Al-Mal in Hakam, Henry Edde argues that the 1991 plan was supposed to be initiated with a study of the most essential needs, a list of developmental and reconstruction projects with a corresponding timetable, an estimate of costs, suggestions for possible sources of funding,
and a calendar for upcoming debt repayment (Edde 1998, 105). The supervisor of the study was Robert Solomon, an English economist who is a member of Dar Al-Handasah. Edde continues that Solomon presented to Hariri the results of his study, which consists of a 5-year plan. The costs of the first two years approximated $1.5 billion, and then $2.5 billion for the next three years. However, Hariri refused the plan, and asked that it be replaced with a ten-year plan with a minimum cost of $12 billion. Edde accused Hariri of refusing a comprehensive plan that took into consideration all the changes that occurred of the economic, social, and political levels after the war. Edde’s plan prioritized basic objectives that were essential for the country to undergo effective postwar reconstruction. “The prime minister hastened in answering these questions using his own way. And what should have been a balanced economic policy that allows for the implementation of easy projects, was replaced by a plan that no longer targeted national interests at the first place, but impressed public opinion by easy, but huge achievements” (Edde 1998, 106). Throughout his book, Edde accuses Hariri of starting the reconstruction plan by spending huge amounts of money on the reconstruction of Beirut Down Town area, while neglecting other more important sectors such as hospitals, schools, water, electricity, phones, etc. Edde argues that “although the project seemed very risky, it can only be possible to start with reconstructing the central district if the private sector took the full financial responsibility of reconstructing the area along with supervision from the state guaranteeing the preservation of all parties” (Edde 1998, 92).

The first plan for reconstructing the centre of Beirut was put forward in 1977 by a mission of the Atelier Parisian d’Urbanisme (APUR); however, according to Edde, this plan became invalid after a huge damage for buildings in the area, and after the failure to
reach an agreement with owners and tenants. This made the reliance on real estate companies inevitable in order not only to reconstruct some damaged streets but also to obtain a comprehensive and equal reconstruction process (Edde 1998, 93). This step brought about many political and economic problems. On the political level, the different political factions in Lebanon did not welcome the intervention of other Arab capitals in the real estate companies and the new role Hariri began to have at that time. On the economic level, questions were raised concerning the effects of the project (real estate companies) on economic development in Lebanon as well as the costs of these investments which approximated $200 billion per year over a period of 20 years. Indeed, the project was met with political opposition in parliament. However, Hariri was able to overcome this opposition and passed the law when he formed his second government in 1995 (Edde, 1998, 93).

4.2.1: The Content of the Plan

The reconstruction plan was divided into a reconstruction phase and a development phase. The reconstruction phase of the plan comprised the NERP project and the Parallel Program for Recovery and Development (PPRD) which was supposed to take place during the first three years. Since it was created to support and complement the NERP, the PPRD devoted one-third of the total expenditures to expanding a number of existing NERP projects, and two-thirds to new projects. According to the developers of Horizon 2000, the PPRD was designed to help alleviate social and economic imbalances, and support medium and long-term recovery and development. As for the development phase of the program, it was supposed to be achieved in the remaining seven years through medium-term and long-term activities (Najem 2000, 63).
Three types of expenditures were identified in the Horizon 2000 program: physical investment expenditures, non-physical investment expenditures, and grant and credit support expenditures. The physical investment expenditures were set for the rehabilitation of existing public facilities and the expansion and development of new facilities. On the other hand, strengthening and building the public sector and state institutions was part of the non-physical investment expenditures. According to the plan, the public sector should be able to implement and monitor the program, and carry recovery planning, in addition to preparing studies and providing assistance in various areas. In contrast, the private sector handled grant and credit support expenditures, including support for housing and resettlement, social institutions and artisans, as well as agricultural, industrial, touristic and private service activities (Najem 2000, 63).

The “Horizon 2000” public recovery program was organized on a sector-by-sector basis. It consisted of 19 sectors. The sectors were identified as follows: physical infrastructure sectors such as electricity, post and telecommunications, water supply, waste water, solid waste; transportation sectors such as roads, public transport and railways, airport, and ports; social and infrastructure sectors such as education (general education, youth and sports, vocational and technical education, culture and higher education); public health; social affairs; environment; housing and resettlement; productive sectors such as agriculture and irrigation, industry, oil and gas; private sector services; tourism; as well as other sectors such as information, government buildings, management and implementation (Najem 2000, 63; Saba 1993, 14).

Social and public infrastructure expenditures of the plan were estimated to reach $18 billion during a period of 13 years, particularly from 1995 till 2007. The sectoral
composition of reconstruction investment was distributed as follows: 37% on physical infrastructure (electricity, telecoms, roads, highways); 25% on social infrastructure (education, health, social affairs); 22% on public services (water, wastewater, public transport); 8% on productive sectors (irrigation, oil, airport, ports); and 8% on the state apparatus (buildings, administration, information) (Dibeh 2005, 4; Saba 1993, 14).

4.3 Hariri’s Economic Philosophy

When discussing postwar reconstruction, it is essential to refer to the international and regional circumstances that influenced the era of postwar reconstruction in Lebanon. Before the war, Lebanon used to play a central economic role in the Middle East. It was considered a haven for business operations due to the fact that it was the only country in the region that enjoyed a free economy. In contrast, the economy in most Arab countries in the region was under state control, and passing through nationalization operations. Thus, Lebanon served as the principal commercial and banking center for Arab countries in the Gulf. It enjoyed an adequate physical infrastructure, as well as an efficient and skilled human capital personified in its immigrant committees (Deneoux and Springborg 1998, 158). As a result, and as discussed in the previous chapter, the financial-commercial oligarchy monopolized half of Lebanon’s resources (Traboulsi 2008, 196). Rafik Hariri wanted to “turn back time” to the civil war period, restoring Lebanon’s previous status as a major financial and commercial center in the region.

It was obvious that Hariri was influenced by the trend global economy was witnessing at the time, namely neo-liberalism. Neo –liberalism was established after World War II to end state control over the economy, ensure free movement of goods, resources
and enterprises, and maximize profits and efficiency through the abolition of regulations (Qorom 1996, 18). Mohammad Zbib suggests that “it is at this time when syndicates, insurance, and aging started to exist”. He also argues that “proponents of neo-liberalism, especially former British prime minister Marguerite Thatcher, believed that state measures are not necessary anymore”. Proponents of this philosophy adopted the example of privatization that combines personal and public interests, primarily because neo-liberalism was a market-driven approach to economic and social policy based on neoclassical theories that stress the efficiency of private enterprise. “The equation became simple: the state provides projects for a company, and in turn, the company makes money”, Zbib argues. Rafik Hariri adopted this philosophy.

4.4 Hariri’s Macroeconomic Policy

4.4.1 Undermining State Institutions:

Launching the reconstruction project was accompanied by an organized media campaign that focused on the inefficiency of state institutions. Hence, media campaigns focused on the government’s inability to commit to the reconstruction of Beirut according to the traditional and standard procedures of the Urban Planning Law. This paralysis, the logic went, resulted from the lack of financial means and the government’s inability to borrow money, as well as corruption and bribery (Dib 2004, 544; Qorom 1996, 172).

In fact, weakening state institutions was part of a plan to exercise full control over the reconstruction program. Hariri did not only work on weakening state institutions; he

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4 Interview with Mohammad Zbib, journalist at al-Akhbar newspaper, Beirut, 1 November 2010.
also worked on creating rentier foundations and new independent parallel institutions that actually lacked accountability and supervision. These actions can be attributed to two factors. First, Hariri was acting as a businessman rather than a statesman; and thus, according to his economic ideology, the state constitutes an obstacle for implementing his reconstruction project. Second, Hariri was aware of the political constraints he faced due to the nature of the Lebanese political system. He believed deeply in the impossibility of the reform of state institutions. Hence, he chose to implement his reconstruction program by mobilizing his own team which comprised his business companies across the world (Edde 1998, 161).

In addition, postwar governments worked on incorporating militias in the state institutions. The government appointed members based on political orientation and conviction rather than competency and skill. Thus, the new government led by Hariri claimed that the public sector suffered from excessive employment, inflation and inefficiency. Zbib points out that “the normal result of appointing unqualified people is to have inefficient performance and work that costs more than it produces. Hence, the government used these arguments to appeal to public opinion and create other similar sectors independent from any accountability; in contrast, people who belong to the Hariri group were appointed with very high wages”\(^5\). However, economist Ghassan Dibeh argues that “the issue here is not about Hariri himself, but a system”\(^6\). He contends that “it is the result of the Taef accord. Militias were not outside the issue”. However, he does not deny

\(^5\) Interview with Zbib, Beirut, 1 November 2010.
\(^6\) Interview with Ghassan Dibeh, Chair of the Economics Department at LAU-Byblos, Beirut, 15 November 2010.
that Hariri refused to introduce any change in state institutions, “Hariri had a big opportunity to build institutions since he was not connected to the militias but he did not; and this was not only because they did not let him do so, but also because he had not the vision of building state institutions since he was affected by neo-liberal free market approach”.

Hariri’s approach thus hardened clientalism rather than ameliorate it. State institutions lacked any possibility or motivation to operate properly and effectively, especially because wages are not high and do not meet basic needs. “It is meant to be like this, state employees accepted bribery on every document especially when the employee is aware of the existence of other institution such as UNDP, where the state pays high wages for its employees”, suggests Zbib. In fact, “given the number of signatures required for any activity, and considering the very low remuneration of public officials, it is hardly surprising that those requesting services from government typically must pay bribes to obtain them. “This in turn, contributes to the alienation from, and contempt to, the government while at the same time making large-scale corruption and evasion of laws commonplace” (Denoeux and Springborg 1998, 168).

4.4.2: How Hariri’s Plan Contributed to Clientalism and Sectarianism

Hariri’s macroeconomic project was based on controlling inflation and stabilizing the currency after it went through a series of crises toward the end of the civil war. Hence, to motivate investors and to attract foreign capital for the reconstruction program, Hariri placed great importance on financial and exchange rate stability (Dibeh 2005; Deneoux and Springborg, 1998; Kubrusi 1999; Hamdan 1997). The years 1992 till 1998 are considered the period of the growth cycle in the Hariri project. During this phase, Hariri followed the
IMF model which is based on Exchange Rate Based Stabilization (ERBS), and succeeded in stabilizing the currency and in renewing the confidence in this stability through increasing and attracting investments. However, soon the boom turned to a recession. However, this thesis does not delve into the economic policy Hariri adopted (fiscal and monetary components); rather, it seeks to use the results of such policies and study their effects on sectarianism and clientalism.

The start historical record suggests that any country recovering from a war should undergo a postwar reconstruction boom after conflicts had led to the destruction of capital stock and physical assets (Dibeh 2005, 5). Hence, the boom Lebanon experienced for few years after the war was a natural process and a transitory stage, but it cannot be considered as a decisive element of the success or failure of Hariri’s reconstruction project. More accurately, the criterion for success or failure depends on the economic policy and structural reform procedures adopted after postwar booms, which will lead either to economic growth or collapse. In fact, postwar economic growth is usually driven by bridging the gap with prewar levels of GDP and GDP per capita (Dibeh 2005, 4). An example of this is the economic growth and boom in Germany and Japan. In Germany, the postwar period did not only experience a reconstruction boom but it also witnessed sustainable growth. The growth Germany underwent was internationally referred to as the “economic miracle”. This growth can be attributed to two factors: rapid investment which happened due to the disproportion between physical and human capital stock, and/or the role institutional reform played in providing the suitable environment and conditions for sustainable growth (Reichel 2002, 433). In fact, institutional reforms were implemented through the Marshall Plan and currency reforms in 1948.
Implementing his project, Hariri needed huge expenditures on physical infrastructure and other sectors such as military and administrative apparatus, as well as industries such as agriculture. However, as will be discussed in the next section, Hariri’s “Horizon 2000” gave great importance to fiscal and monetary policy and infrastructure at the expense of other productive sectors.

As mentioned above, to achieve economic growth, the gap between GDP and the GDP per capita should be bridged. GDP is composed of the following: GDP = C (private consumption) + I (Investment) + G (government spending) + [X-M] (exports-imports). In Lebanon, Hariri overemphasized investment. He did so in order to encourage foreign capital; however, this policy led to inflation. In order to attract foreign capital, Hariri insisted on increasing interest rates (up to 40%) on treasury bills for liquidity concerns, to stabilize the Lebanese pound, and accordingly local commercial banks made huge profits from giving loans to the government. As a result, deposits in banks increased. In fact, these deposits were not invested in reconstruction or developmental projects, but were rather used for personal benefits. It is thus assumed that commercial banks and the Central Bank were turned into tools of the reconstruction project (Dibeh 2005, 14). The Central Bank played an essential role in ensuring the interest of the state and that of commercial banks. “The role of the central bank of Lebanon in the postwar reconstruction period becomes an important element of the institutional nexus and the political economy of that period” (Dibeh 2005, 13). Thus, a network of interest was created between the Lebanese government through Rafik Hariri and between the local banks which made huge profits from deposits in their treasury between the years 1993 and 1997.
Nasser Saidi argues that “monetary policy should aim to control inflation through control of money growth. The Central Bank should not become a reconstruction or development bank” (Dibeh 2005, 14). However, Ghassan Dibeh makes a significant point about the convergence of the interests that existed between the government and the banks. “Many banks after the war needed recapitalization, so the government set a high interest rate policy to encourage domestic and foreigners to deposit money in the banks. This increase in money in banks should prime to a reduction in the interest rate and upsurge in investment since people will be able to take loans. But this weren’t the case where there were high profits and high interest rate and people suffered from it. Overlaps increased between the government and banks to an extent that banks started to influence government policies especially that the government had no authority over the banks. He further explains that, “in some countries, the government allows the banks to make high profits and high interest rates, but at the same time they impose high taxes on banks and distribute the taxes in productive sectors and for services”. “This is exactly what the welfare state is”, Dibeh adds, “to keep the capitalist system where the government takes huge chunks from profits and redistributes it in social service, health expenditures, education, etc”.

This “biased monetary policy” caused a major shock in the economy, and the network of interest between the government and commercial banks exceeded its limits. The deterioration in 1998 allowed commercial banks to invest their huge deposit growth into safe investment in T-bills. After that, and to ensure a continuous benefit, commercial banks

7 Nasser Saidi is former minister of economy and industry and former first vice-president of the Lebanese Central Bank.
8 Interview with Dibeh, Beirut, 15 November 2010.
pressed the Lebanese government to issue bonds in foreign currencies, mainly Eurobonds. The outcome was the modification of balance sheets after becoming too defenseless to currency depreciation that would have threatened a twin currency-banking crisis (a derivative instrument which combines a money market deposit with a currency option to provide a higher yield than that available for a standard deposit).

Furthermore, the increase of Eurobond issuances coincides with a new political-economic-structural crisis, opening the door to a new recession in Lebanon; but the process of financing the state continued, this time with foreign denominations. These network procedures between commercial banks and the state mediated by the Central Bank were instrumental in the prevention of state default or a currency crisis (Gaspard 2004; Dibeh 2005). As a result, private sector investments were not allocated to productive sectors such as industry, agriculture, and services. Instead, due to the high benefits, they were employed in the real estate sector and in treasury bonds at very high interest rates (Dib 2004, 539).

This thesis suggests that Hariri’s project was not based on a vision. It was rather a series of economic projects that were invalid for a country recovering from war (Dibeh 2005; Denoeux and Springborg 1998; Stewart 1996; Adwan 2004; Qorom 1996; Edde 1998; Dib 2004; Kubursi 1999; Gaspard 2004). Since restoring the role of Beirut was a priority for Hariri, the bulk of his reconstruction program was based on the need to reconstruct Beirut’s central district and its physical infrastructure, in addition to creating a modern transportation network to link Lebanon to its regional and international surroundings. Moreover, as mentioned before, Hariri had launched huge media campaigns, making it clear that state institutions were inefficient, and highlighting the necessity of parallel bodies and companies.
4.4.3: The Council for Development and Reconstruction (CDR)

The CDR, which was directly associated to the Presidency of the Council of Ministers, was considered as the cornerstone for the country’s reconstruction project.

A. Origins and Structure:

In 1977, at the end of the civil war, the CDR was established by the Prime Minister Salim Hoss to implement a recovery program due to the inability and the inefficiency of state institutions. As a result, on 31 January 1977, President Elias Sarkis and Prime Minister Hoss issued Law no. 5, which created the CDR, an organization that had to act “as an apolitical technical advisory unit reporting to and answerable only to, the council of ministers” (Najem 2000, 86). Twelve members headed the executive board, four of them full- timers. These four were appointed by the council of ministers for a term of five years, and consisted of the president of the CDR, two vice-presidents and a secretary-general. The CDR was composed of four departments: Programmes, Project Management, Finance, and Administration. In 1983, 158 persons were working as full timers: 74 professional staff, 84 administration staff and 22 consultants and advisors who worked within the organization.

When first created, the council’s main mission was to set and lead a general framework for the reconstruction of the country in war time, and to coordinate external funds and loans for the reconstruction process. Also, it took the task of financing any project, and in some cases, it could implement individual projects in case government institutions, such as ministries, were unable to fulfill a specific task. In fact, this mission was supposed to be a temporary one. The role of the CDR in implementation was supposed to gradually decline as the public sector would grow efficient enough and manage new projects (Najem 2000, 87). However, over the years, especially during Hariri’s rule and
throughout the implementation phase, the CDR expanded its scope. This expansion reached a point that undermined and marginalized the role of state institutions, and the CDR grew into an independent institution, operating without any supervision or interference from ministries. Hence, instead of assisting the ministries, it took over their roles through financing individual projects in the reconstruction program, as well as handling day to day projects for the ministries including public sector investments.

B. CDR under Hariri:

Before Hariri came to power, the CDR experienced several organizational conflicts in the decision-making process due to political interference and to the lack of a skilled professional staff. As a result, in 1991, the consultancy team of Bechtel-Dar al-Handasah put forward a set of recommendations to improve the council’s capacity. Accordingly, a Technical Coordination committee was created, and it included representatives from CDR, a Program Management Unit (PMU), and a Sector Implementation Unit (SIU); its main task was to assist and improve CDR and the ministries in implementing their projects. However, the committee did not have any significant role.

Hariri worked to control CDR through giving the top posts in the council to loyal persons. For example, between the years 1991 and 1995, Hariri loyalists such as Fadil Chalak and Nabil Jisr, headed the CDR. In addition, Hariri’s own company, Oger International, played a crucial role in assisting CDR in the implementation of several projects in the reconstruction program. One senior consultant claimed that, “we think of Oger as part of the CDR” (Najem 2000, 95). It should be noted that under Hariri’s rule, CDR was given full authority in implementing the projects of the Horizon 2000 recovery
program independent of the ministries; this allowed the council to escape accountability, which made it hard for the council of ministers to exercise any role.

CDR’s independence was reinforced by the unclear and complicated division of power between it and the ministries. In fact, this led to competition between them, with Hariri always supporting the CDR and marginalizing the role of ministries. In fact, the way the CDR was functioning reflects the monopolistic mentality that existed during that era. Dibeh believes that expanding the role of the council was good and necessary; however, “the council had to be transformed into an economic and social center that includes a number of economists to lead studies and projects such as the Korean Development Institute for example. However, the council was transformed to a project manager for the state, in which it was functioning in the same way as the private sector”\(^9\). Thus, this fear or resistance to organize and institutionalize the council affected its credibility and transformed it from a public institution to a private company that profited from public projects and served the interests of its own patrons, who happened to belong to a certain group. In 1991, the council was given the task of putting forward “the plan of the year 2000”, and in 1994, the government adopted this plan (Dib 2004, 1).

As above mentioned, Hariri’s government focused only on reconstructing physical infrastructure especially the downtown district of Beirut. To do so, in December 1991, the government passed the law 117 that led to the establishment of a new private company, Solidere, which was given the task of rebuilding the central district of Beirut.

4.4.4 Solidere:

\(^9\) Interview with Dibeh, Beirut, 15 November 2010.
The French State Consultant Fougere supervised an Urban Organization Act that calls for the establishment of real estate companies to reclaim some destroyed regions and alleys. The council of the Urban Organization adopted this act. Henry Edde was behind the idea of creating real estate companies. He believed that the state was unable to endure the huge financial burdens associated with the project and the imposed appropriations. Also, the original idea suggested that the state may decide to establish a real estate company based on a directive planning, on the condition that it includes all owners of the region, takes public authority as partner, and bears the funding of infrastructural works. The municipality also receives a share for free in an ordinary appropriation, which is equal to one quarter of the area of each lot (Edde 1998, 176). Edde explains the idea behind the participation of the private sector in real estate companies. He argues that “When the state was unable to act by itself, we advised a new legal version that systematizes, under the supervision of the State, the interference of the private sector that replaces the public sector in funding and administering this project, in which this system opens various future horizons.” Consequently, “this solves the complexity of the obligatory condominium which is not tolerable anymore, grants all the owners freedom of action on the basis of a just distribution of their shares, and resolves the matters among all the right owners, whether landlords or tenants. This legal proposal enabled the protection of all the buildings and compounds of historical and architectural value and their rehabilitation. In addition it prevented the refugee to embrace values much higher than the abilities of the official means for compensations, and it facilitates the organization of the road networks, the green areas and the public parking” (Edde 1998, 92).
When it established the Real Estate Company and passed the law for reconstructing the Central District, the Hariri government neglected the directive plan for reconstruction that the CDR adopted in 1977. The plan was presented by the Parisian Atelier for Urban Organization and was reviewed by a committee of Lebanese civil engineers; hence, it called for establishing two or three real estate companies modeled after the companies referred to in the urban organizational law in the two regions that needed rezoning of real estates.

The first article of the law issued in 1991 refers to the real estate companies described in article 13 of the urban organization law. According to the law, these companies are responsible for facilitating the fine and regular joining and partitioning operations; they only associate landlords and titulants (tenants and investors) with the public department involved in reorganizing the region, and any other party that participates in the ownership of the partitioned plots is not allowed to partake in the company. However, this concept of a Real Estate Company dictated by the urban organization law was not adopted by legislation 117 (Qorom 1996, 173). Moreover, paragraph 1 of the third article of the law for the single real estate company allows the company to dredge a devastated area happens to lie directly by the coast side, and to share the area of these new plots with the state according to an agreement written by the CDR and approved by the cabinet. This paragraph also describes the broader powers of the single Real Estate Company: development and reconstruction, selling the rehabilitated lands, constructing buildings on these lands and selling, renting or investing in them. Moreover, according to the second article of the law, “the Cabinet should approve the entirety of the regulations of the Real Estate Company”, but the Company can be “founded before setting the disputes concerning the right of the property owners and the
“tenants”. The fourth paragraph of the same article obliges landlords and holders to offer the plots and properties to the Real Estate Company in return for monetary shares to be added to the company’s capital, as well as to become subscribers through in-kind contributions as long as their shares do not exceed those of the owners and holders.

The law also stipulates that the company’s capital should be in foreign currency, and that the subscription of in-kind advances should be done under the following priorities: earlier landlords, titulars, citizens, pure Lebanese companies, the Lebanese state, public institutions, municipality of Beirut, people of Lebanese origins, citizens of Arab countries, official and quasi official, Arabic institutions (article 3-5-1-B) in which the Real Estate Company has the right to buy up to 10% of its own shares without necessarily having reserves, as long as these shares are resold within not more than 18 months from the date of purchase (articles 3 and 6). The company is exempted from the strict limitations enforced by the first article of the private legislative decree (January 1969) relating to the ownership of properties in Lebanon by non-Lebanese (articles 3-7-1). Also, it sets a 10% limit for direct and indirect share ownership for every person, including only direct kin of the family, but it did not refer to original shareholders, including any possible blood ties or kinship between them (articles 37-1-B). Another privilege the company enjoyed is the fact that it was completely exempted from stamp and registration fees, and excluded from paying profit taxes for a period of 10 years and from excess share value taxes (7-3-2), and may become the owner of constructed and non-constructed public properties.

However, the most critical point among all the conditions which is unfamiliar in the public law and Lebanese public system is the one that renders the state in debt to the
company in everything related to “financing and executing infrastructure works like water networks of water, electricity, sewers, roads, pavements, lighting posts, garages, wired and wireless communications and the rest of the equipment and public constructions in the concerned area (3-7-4), and funding and executing roads, squares, and public garden works (3-7-3) as well as the infrastructure connected to the areas resulting from the landfilling of the sea (3-7-5)”.

As a result, the state would become indebted to the real Estate company with an unspecified sum; in fact, neither any set of conditions nor any expense account can specify the costs of the work the company will carry out; moreover, the law decreed by Parliament did not contain a clear scheme for the execution of the work of the company. As discussed earlier, the state can repay its debts through many means. It could do so either by relinquishing its rights in the newly established land areas that resulted from the land filling of the seas for cash, or by giving a part of the land resulting from filling some offshore sea parts or the state-owned lands in the mentioned arena. It should be noted that the real estate company and CDR were both responsible for creating the laws and mechanisms in the scope of which these measures should be implemented (Qorom 1996, 177).

**CDR and Solidere**: The relationship between CDR and Solidere captures the link Hariri established between the private and public sectors. As mentioned before, CDR was manipulated, and it was transformed into a tool of nepotism through abolishing the interference of state institutions and appointing loyal people in high posts for further control of decision making in the council to serve the interest of the private company. However, Hariri went too far in the transfer of authority and resources from the state to other quasi-public bodies created and controlled by himself (Denoeux and Springborg
Hence, he turned it into a means for serving his private investments and companies; this was done through facilitating the operations of Solidere (Denoeux and Sringborg, 1998; Stewart, 1996; Dib, 2004; Adwan, 2004). CDR facilitated the work of Solidere through providing the latter with roads, water pipes, telephone lines and other services. Also, CDR granted Solidere a contract for reconstructing the infrastructure at $475 million “in return for an extra piece of land which has been designated as a landfill, and which would generate over US $1billion dollars estimated revenues, according to Solidere’s own data and calculations” (Adwan 2004, 9). In fact, through compromises and corruption, the establishment and work practices of Solidere were a vivid example of a postwar ‘deal’ in action.

Solidere was a private company subject only to commercial laws, yet it assumed public privileges and responsibilities. It is worth mentioning that, being a publicly listed private company, Solidere did not impose any strict standards on transparency, disclosure, and protection of minority shareholders or stakeholders’ rights. Solidere manages its jurisdiction, while escaping the control and accountability of any monitoring public agencies and mechanisms. As a result, Solidere’s grey status nurtured the confusion between public and private sectors which already existed in Lebanon; unfortunately, this led to a flagrant case of conflict of interest along with a destructive abuse of public offices. Hence, public spending was only focused on building the central district, and this resulted in neglecting the issue of balanced development that the Taef agreement recognized. In fact, only parts of the downtown reconstruction project and the coastal cities project were completed when expenditures reached billions of dollars in loans (Dib 2004, 538).
Former minister Mohamed Chatah agrees that the money invested did not improve the economy. “There was growth, money coming in, and investment, but that did not produce the kind of prosperity or the job creation that is needed. i.e. you build blocks and therefore you hire workers, but this is not the kind of sector that employs professionals, such as universities graduates in large numbers”. “Therefore,” Chateh adds, “not a enough good jobs were created; a majority of university graduates and professionals with qualifications did not stay here. They ended up in the gulf and some of them abroad. This is an important part of the economic picture at Hariri’s time”.  

Zbib, on the other hand, holds Hariri responsible for the brain drain as part of his plan to make Lebanon dependent on remittances. He suggests that “despite all the problems, Hariri did not want to change his policy since he was enjoying personal benefits. At that time, the problem of the national debt became to be known, and he had to search for other sources, since during the first six years he did not do any development project that could develop the economy, and since he destroyed what was left in state institutions”. Hence, and according to Zbib, Hariri chose immigration as the new source of funding. Zbib argues that “he started to encourage people to immigrate since there were no good wages, no vacancies, no efficient public sector, and banks at that time were not playing a supportive role for people; i.e. they refused to lend money since they were benefitting from the reconstruction projects. In contrast, that era witnessed an economic boom in the Gulf”. Zbib contends that “families in Lebanon did not care anymore about issues such as the accountability or corruption of the state, since they are receiving money that fits their needs from their children or families outside; so in

10 Interview with Chatah, Beirut, 20 August 2010.
reality, even political parties and syndicates did not face any pressure to improve the state. This contributed even more to corruption”.11

Perhaps one of the clearest forms of clientalism is the deliberate undermining of state institutions in favor of other bodies. For example, the roles of the Central Inspectorate and the Civil Service Board were undermined, and each minister appointed people from his group without any accountability under the absence of any interference from the council of ministers. As a result, in 1994, the Civil Board was completely cancelled; in fact, this facilitated the spending of billions of dollars without any accountability or supervision from state institutions (Dib 2004; Koubaysi, 1995). Perhaps the statement that best describes the picture is what general manager of Solidere, Nasser Chamaa, stated when Solidere was created: “no one can do anything against Solidere, because it is now a party of 120,000 members” (Edde 1998, 109), i.e 120,000 investor.

Hariri’s reconstruction program was characterized by a regional redistribution reflected through the Council of the South and the Displaced Fund. In fact, this regional distribution was part of the Taef accord that called for the redistribution of political power in a way where no one group holds the same executive power as before. As a result of the political distribution, the economy was redistributed in a way which played a crucial role in maintaining the system. These bodies were also examples of how postwar reconstruction served sectarianism and nepotism.

4.4.5 Council of the South

11 Interview with Zbib, Beirut, 1 November 2010.
The Council of the South was first created in 1970; however, during Hariri’s rule, the council was expanded and its budget was increased. It became in charge of implementing several services and projects to the extent that it exceeded the limits of presenting compensation for people on damages caused by Israel (Shamseddin 2000, 1). In fact, it started to undertake projects of infrastructure which should have been carried out by the ministries, such as establishing electric and water networks, drilling artesian wells, constructing roads, and building schools, hospitals, and health centers. In addition, the council was accused of distributing funds based on political calculations, and some groups were deprived from compensations because of their political orientation (Shamseddin 2000, 1).

One form of nepotism that characterized the Council of the South was reported in an article published in al-Nahar newspaper in 2002 (Sfeir, 2002). According to the article, during election times, a political authority tended to send, based on confessional favoritism, one of his aides to the inspection authority in the council, asking it to pass a protocol that was pending. As a result, the document passed; the interesting point is that the content of the formality, as recalled by a follower of the South affairs, comprises the following: “Pursuant to the law of its establishment, and pursuant to the decree regulating financial inspection, it is resolved as follows: Article one: the South Council President is granted a financial advance of 600 million Lebanese Pounds for ensuring the support of the inhabitants” (Sfeir 2002, 2), referring to the bypasses and acts of personal benefits. Another example of nepotism in the council was the story of a gala dinner bill that reached the inspection authority for its approval. However, the bill was shockingly high and was stopped. At that time, the decision to withhold the formality reached the South Council
President who sent one of his employees the following day to justify that the increase in expenses of the gala dinner was because it was held in the honor of a group of UNIFIL forces. After an audit of the bills, the inspection authority sent a reply note to the South Council stating the following: “Mr. President, it never crossed our minds that UNIFIL forces are good at smoking *narghile* [water pipes]” (Sfeir 2002, 2).

While the original mission of the councils was to implement developmental projects in deprived regions and compensate to citizens of those regions for wars and difficult living conditions, the councils were transformed into tools of political patronage and conflict between the competing sects. Hence, sectarian politicians used their positions and benefited from their monopoly on the councils to attack each other at the expense of the needs of Lebanese citizens. For example, Hariri used his private TV (FTV) to attack Nabih Berri through screening a documentary showing a citizen in the south who was injured, and who declared that he was not provided compensation for his injuries by the council during the Israeli aggression; he indicated that other persons collected the money on his behalf. Consequently, the council responded in a detailed statement that accused MP Bahia Hariri of embezzling the sum of $5 million approved by the Higher Relief Council in summer 1996 for indemnity to the martyrs and injured of Qana massacre (Shehoud 1999, 1).

Councils were also transformed into tools of political influence as they were manipulated to becoming sources of conflict between the competing sects during Hariri’s rule. The next section examines how the Fund for the Displaced was placed at the service of sectarian clientalistic ends.

*B. The Fund for the Displaced*
When the war ended, the Ministry of the Displaced (MOD) was established, and it was responsible for the reconciliation, reconstruction, and the return of the displaced. The Druze leader Walid Jumblatt was named minister. The ministry set a plan to finance this process of reconciliation and return, and thus, the Central Fund for the Displaced (CFD) was established with a budget of US $543 million.

Jumblatt exercised full control over the MOD. According to Kamal Feghali, former official at the Central Fund for the Displaced, while the plan was supposed to be accomplished within three years, it took 10 years without achieving much (Salameh 1994, 1). Also, MOD and CFD were accused from deviating from their main missions. For example, they were accused of spending from funds allocated for displaced residents, and giving them to those who had occupied the property of the displaced in order to evacuate them. Moreover, in an interview for AL-Bina’a magazine in 1999, former president of the CFD Shadi Masaad reported the mismanagement of the resources during his predecessor’s mandate. He presented reports of how only 15% of the displaced have returned (AL-Bina’a 1999). According to economist Ghassan Dibeh, it was at this point that the council stopped accomplishing its main mission and started to operate in a clientalist and sectarian way. “What was the council paying for? Reconciliation? In fact, the government used to solve the economic, social and political problems through spending money, and when money stopped, we went again into crisis”.  

As a result, although they did achieve some of their goals, the councils were transformed to sectarian channels of patronage, since every fund was mainly controlled by

12 Interview with Dibeh, Beirut, 15 November 2010.
a certain sect in a certain region. Since these councils, did not accomplish their developmental projects, Dibeh notes “we began to see how the system started to face economic crisis by the year 2000-2001, when the postwar reconstruction boom ended and the Hariri project ended and the crisis moved from being an economic crisis to a political crisis”. He further argues that “without these distributional channels, we did not have a political consensus anymore; hence, one can say that money, government and public expenditures were one of the main pillars sustaining the Taef accord”. As a result of the patronage systems of these councils, and given the inefficiency of state institutions, Lebanese citizens lost their trust in state institutions and became dependent on their sects, family as well as religious and political parties for economic and political services (Denoeux and Springborg 1998, 168).

4.5 Defending Hariri

In discussing the postwar reconstruction program, the political situation of the country as well as the nature and the influence of the political system cannot be ignored. Proponents of Hariri’s program argue that the failure of postwar reconstruction program was not due to a problem of the project itself, but to a number of political factors that hampered any possibility for a proper implementation of the program. These are:

*The Bureaucracy of the State:* Bureaucracy characterizes cultural and political traditions the Lebanese state to a large extent. The National Pact of 1943 established the Lebanese bureaucracy on the principle of sectarianism, whereby government, parliamentary, political and military positions were distributed on the basis of religious identity. Hence, the Lebanese bureaucratic system highly suffers from corruption as well as subservience to
political influence; all these factors paralyzed the efficiency and effectiveness of the daily operations of various government departments and sectors (Kisirwani, ddc.aub.edu.lb). This resulted in a number of serious problems that started around the civil war period and continue to the present day. One of these problems is the paralysis of central control agencies, such as the Civil Service Board, the Central Inspection Board, the Disciplinary Council and the Bureau of Accounts. Another problem is the institutionalization of bribery and extortion, whereby in certain administrative units, civil servants receive a commission on public transactions and would not process any transaction unless the price- a personal tax- was paid. The third problem is the lack of qualified employees in top administrative positions. Moreover, the system suffers from overstaffing in lower positions, in which ministers appointed thousands of unqualified daily workers in complete disregard for their qualifications compared to job requirements. All these problems led to the collapse of hierarchical authority and the loss of bureaucratic credibility (Kisirwani, ddc.aub.edu.lb). Hence, with the lack of any political, national, and even religious censuses, it was extremely difficult to implement a reconstruction program. These facts make any reconstruction program difficult to implement without any political (and religious) and national consensus.

Chatah points to an additional fact that hinders the successful implementation of a reconstruction program and also prevents significant investments. This fact is rooted in a Lebanese law that still persists since Ottoman rule, and that prohibits foreigners from working in Lebanon. Chatah believes that this law discourages firms from doing business and/or establishing branches in Lebanon. Chatah continues that it is the very nature of the Lebanese that led to the failure of postwar reconstruction: “we have a political structure that
is split and dysfunctional. Public goods in a society are produced in two types of systems: authoritarian and democratic. In the democratic system, people are faced with choices in which there is competition and voting. This is the basis of success; it is the same concept of the market in which each party presents what it wants to produce for the public, and people in turn vote based on their delivery. If these parties succeeded and delivered according to their promises, then people vote again. However, this connection is missing in Lebanon. Since the end of the war, we do not have a connection between the actual performance and the people”. Chatah believes that this is due to the nature of the political system in which governments are based on coalitions, and decisions are taken by consensus, “in principle, if the government failed to manage problems, people have to punish it by not voting for its representatives. Here, based on the nature of the governments, people could not say who is responsible for the failure of governments”. “In our system”, Chatah continues, “there is something called capital and labor, but also there is something called institutions; it is the structure of the institutions that gathers all these things, and this variable is one of the weakest in Lebanon”. 13

Political Rivalries and Constraints: Former Lebanese president Emile Lahoud was the main rival of Hariri, especially between the years 2000 and 2004. Syria acted “ostensibly as a peace-maker whenever the differences between the two main figures threatened to escalate out of control, but in reality, Damascus often prompted Lahoud and his supporters to undermine Hariri” (Nizameddin 2006, 97). Hence, these four years witnessed a perpetual

13 Interview with Chatah, Beirut, 20 August 2010.
conflict between Hariri and Lahoud, which paralyzed the possibility of adopting effective economic and social policies or undertaking reforms.

The Taef accord also reinforced the sectarian system in Lebanon. The troika phenomenon, the allocation of shares in the state and the appointments in the public sector, are different facets of this sectarianism. For example, the Sunni primes minister appointed his loyal group in many ministries and departments such as electricity, the Central Bank, urban planning, railway institute (maslahat sikkat al-hadid), the board of directors of Beirut City’s Major Project Council (majlis idarat al-mashari’ al-koubra li-madinat Beirut), board of directors of the National Foundation Investments (majlis idarat al-mou’assasat al-wataniya lil-istismarat), the CDR, Ogero, etc. Similarly, the Shiite speaker of the parliament appointed his loyal group in institutions such as Director of General Security (moudir al-amn al-’am), General Director of Immigrants (moudir a’am al moughtaribin), and chairman of the Council of the South. As for the Christian president of the republic, he assigned his people in the provinces of the North and Bekaa as well as the director general of ministry of oil (moudir ‘am wizarat a- nafet). All these practices further entrenched the sectarian system in government institution and influenced their performance.

The Syrian Factor: Proponents of the reconstruction program argue that Syrian interference in Lebanese affairs affected the implementation of the reconstruction program and contributed to a large extent to its failure. Syria’s authority in Lebanon was not restricted to ensuring security (as agreed on in the Taef accord). Rather, it exerted control over every single aspect of Lebanese politics, such as appointing ministers and employees in the government and public sectors as well as controlling political decisions and policies adopted by the state. This affected the economic performance of the government
significantly. To consolidate its presence in the Lebanese sphere, Syria signed a number of bilateral treaties, namely the Treaty of Brotherhood, Cooperation and Coordination with Lebanon, and Defense and Security agreements in 1991 (Nizameddine 2006, 99; Thompson 2002, 82).

Through its allies in Lebanon, Syria constituted the main barrier for Hariri to implement his economic vision. In his book *Rafik Hariri and the Fate of Lebanon*, Marwan Iskandar describes in detail how Syria forced Hariri to appoint specific people as ministers in the government. He discussed the influence of this on the overall performance of Hariri’s government. For example, he shows how in the parliamentary elections of the year 2000, Syria imposed Nasser Kandil as one of the Shiite nominees, a Syrian sponsored figure who had been nominated as head of the Audio Visual Commission in 1996. In fact, Syria used to “design” electoral laws, as well as control and form alliances between opposing groups in order to strengthen its involvement and ensure the presence of its allies in parliament. The 1992, 1996, and 2000 parliamentary elections witnessed clear examples of this interference (Iskandar 2005; Salloukh 2006). According to Iskandar, Syria used its allies to attack Hariri. For example, he recalled instances when Kandil used to attack Hariri publicly on television while praising Syria and former Lebanese president Emile Lahoud, “this was the kind of tax on viewers’ nerves particularly enjoyed by General Jamil Al-Sayyed, who often imposed interviews on major talk shows and, in particular, invited incoming calls for comments by supporters” (Iskandar 2006, 106). Iskandar claims that after the death of the Syrian president Hafez Asad, Hariri assumed that the new Syrian leadership would support his efforts towards administrative reform as well as his economic plan; however, the Syrian regime was hostile to Hariri and shifted its alliances. According to the author, “the new
Syrian president did not like Hariri and did not feel indebted to him. In fact, Bashar Al-Assad resented the fact that Hariri helped arrange for him his first visit to a Western power, France. For the young Syrian president, pride came ahead of prudence” (Iskandar 2006, 106).

*Israeli Wars:* Hariri’s proponents present another justification for the failure of his reconstruction project, and that is the continuous Israeli war- especially the 1996 war “Grapes of Wrath” in south Lebanon. The 1996 war had a devastating impact on both the Lebanese economy and the reconstruction program. Most economic sectors suffered greatly in 1997. Public sector finance did not achieve its objectives, and the projected budget deficit of 37 percent turned into a deficit of 59.3 percent. The president of the World Bank, who visited Lebanon in June 1997, pledged further facilities by the bank and the International Finance Cooperation of $1.6 billion over four years, but warned that fiscal responsibility should be better manifested and exemplified continuously in order to decrease budgetary deficit figures from a ceiling of 37 percent projected for 1998 (Iskandar 2006, 82).

### 4.6 Conclusion

This chapter analyzed Hariri’s economic and reconstruction plan “Horizon 2000”. It used a number of case studies to show how clientalism in state institutions was entrenched, and how the government was transformed into a network of interests between the prime minister, the private sector and the financial sector at the expense of the developmental needs of the society.
The chapter also provided a detailed account of how Hariri’s program was based on regional distribution according to implications of the Taef accord. Hence, the chapter showed how state councils reflected sectarianism and clientalism reinforcing these values in the Lebanese society. As a result, Lebanese citizens found in sectarian councils and sectarian leaders who controlled them their legitimate authority, and decided to rely on these councils and leaders rather than other state institutions. The chapter also considered a number of factors that deviated the reconstruction plan. Hariri cannot be solely and personally blamed for the failure of the program; several intertwining circumstances played significant roles. The most influential of these were Lebanese bureaucracy, political rivalries and constraints, the Syrian presence, and the continuous war with Israel. The next chapter will present the impacts and results of the program and of the system that existed during Hariri’s ruling on the Lebanese society.
Conclusion

This thesis explored the late Prime Minister Rafik Hariri’s reconstruction project implemented after the civil war. The thesis provided an overview of theories and definitions of postwar reconstruction. Political scientists have explored various interpretations of postwar reconstruction. Some suggest that the economy should be the essence of any postwar reconstruction program. Others contend that political reconstruction is the primary catalyst for effective postwar reconstruction. Proponents of this school argue that there is a necessity to build state institutions first. Another essential component for effective political postwar reconstruction is the disarmament, demobilization, and reintegration of former combatants to achieve a successful transition from war to peace. This thesis suggests that achieving postwar reconstruction in Lebanon requires reform on both economic and political levels. In fact, a strong government should be responsible for planning, implementing, and maintaining a strong and effective postwar economic recovery. But what policies should be implemented?

5.1 Lebanon: Between Practice and Theory

Theories of postwar reconstruction suggest that any reconstruction effort should first tackle or meet people’s needs, and improve their social standards. This is exactly what the reconstruction project in Lebanon lacked. Economic theories of postwar reconstruction argue that a good fiscal policy constitutes one of the essential steps for effective post-war reconstruction. As discussed in this thesis, Hariri focused on rebuilding the physical
infrastructure, especially the central district of Beirut, at the expense of other productive sectors such as agriculture and industry. His governments placed a premium on stabilizing the currency and prices through fiscal and monetary policies. However, Hariri’s policy was biased toward a finance-dominated economy. In fact, a form of personal network rather than public interest existed between the government, commercial banks and the central bank. Consequently, the government served primarily the interests of the banks, neglecting the country’s social and economic structural crises.

Theories of postwar reconstruction also call for reforming the public administration. However, as this thesis demonstrated, by appointing former militia combatants in the public sector, public institutions were undermined, and they remained underdeveloped due to the inefficiency and nepotism of those appointed to the public sector. Moreover, in the case of Lebanon, the government intentionally weakened state institutions through the media campaigns it launched, mainly to promote the project of the private company Solidere as the only postwar option for the country.

5.2 Implications of Horizon 2000

The political instability and problems that Lebanon witnessed after the assassination of the late Prime Minister Rafik Hariri were a natural result of the failure of the reconstruction program to build strong state institutions. Sectarian tensions increased after Hariri’s assassination, mainly between the Sunnis and the Shiites, and Lebanese were divided between two competing ideologies: 14 and 8 March. While the first camp accused Syria and its allies in Lebanon of being responsible of the assassination, the other camp
believed that the assassination indicated the start of an American (and behind it Israeli) push to change Lebanon’s domestic politics and foreign policy choices, particularly ending the resistance against Israel. Demonstrations by each camp created a sense of animosity and distrust between people, largely manipulated by sectarian leaders. As a result, several sectarian incidents took place. Moreover, tensions spread in the streets of the capital Beirut between the two camps, killing a number of people.

Another example of the instability Lebanon went through at the time was the continuous bombs that hit the mainly Christian regions in the country, in an attempt to increase the sectarian tensions. Furthermore, a number of assassinations took place, targeting prominent figures in the 14 March camp. Political and sectarian tensions did not end here. At the institutional level, the opposition 8 March camp resigned from cabinet due to their refusal of what they considered to be unclear and suspicious provisions embedded in the Special Tribunal for Lebanon. The resignation increased political tensions, and clashes continued between the two camps. These tensions culminated in the violent confrontations of May 2008, triggered in part by the government’s demand that Hizbullah dismantle its telecommunication network.

5.3 An Inside Look

Choosing to delve into the details of postwar reconstruction program in Lebanon was a challenge on many levels. On the personal level, objectively tracing and evaluating the actions and the path of an exceptional person with whom I share kinship was met with sensitivity and resentment from members of my family, relatives and environment. My goal was not attack or offend Hairi but rather criticize a postwar project and an economic
philosophy that changed the structure of Lebanese society. Because of its sensitivity as it involves intertwining economic, political and sectarian factors, the topic of postwar reconstruction in Lebanon is sometimes considered a “taboo” topic in the Lebanese society. Hence, some of the people I interviewed were cautious, and were very guarded with their answers. However, all these limitations did not hinder my research. In fact, my research was the start point not only of a writing process but also a learning process. In the research questions, I asked whether Hariri’s economic choices were the reason for corruption in the state. In fact, it would be a short-sighted judgment to say that Hariri’s program was the only factor responsible for corruption in postwar Lebanon. Lebanon’s history shows that corruption existed even before the country became independent in 1943. In fact, corruption and clientalism serve sectarian interests, and contributed to the outbreak and perpetuation of the civil war in Lebanon.

Before the war, corruption spread in the public sector and state institutions, and people were appointed according to their political and religious affiliations. Moreover, social divisions increased substantially. During the war, militias created their own states within the state and each group controlled its region. Although the Lebanese fiscal situation was stable during the war, the economy started to suffer as the war came to an end because of the destruction in the physical infrastructure and the decline in many sectors such as tourism, health, and education.

Hariri’s postwar program did not create corruption in Lebanon; corruption had already existed for a long time in Lebanon. In fact, Hariri’s economic vision or project was very ambitious and it had a lot of potential for success. However, it could not be applied in a country like Lebanon lacking strong institutional foundations, to say nothing of
independence and self-rule. Postwar reconstruction needs a strong government, and efficient, strong state institutions. Economic theories point out to the impossibility for any economic reconstruction project to succeed without the presence of a powerful government with effective institutions. However, as mentioned before, Hariri did not initially work on building state institutions; he rather immediately started to implement his economic project. Instead of building new, more efficient state institutions, Hariri undermined the existing ones and created parallel institutions that lacked any accountability. Consequently, corruption and clientalism were reinforced and became embedded within the postwar reconstruction process.

At the outset, the postwar reconstruction program introduced some important changes into the Lebanese system, and it improved the status of Lebanese in the region. This was done through the economic policy the government adopted after 1992, which had a major impact on the social and political spheres. On the social level, the economic policies adopted led to major changes in the social structure in the Lebanese society. The Lebanese population enjoyed the services of the productive sectors such as agriculture, which served the needs of the lower classes. However, the postwar reconstruction program in Lebanon widened the gap between classes and eliminated the middle classes. As a result, similar social and economic circumstances to those that led to the outbreak of the civil war were recreated; hence, as divisions between social classes were widened, poverty and unemployment increased, and so did migration of the youth, debt, and economic instability. Therefore, instead of serving to revive the economy and end sectarian divisions and hostilities among people, the post-war reconstruction program created a difficult economic
situation, and opposition against the inefficiency of state institutions. This reinforced the sectarianism of Lebanese society. The postwar program thus failed to meet its objectives.

Although the original plan allotted a budget to non-physical investments, Hariri required huge expenditures for the physical infrastructure. Thus, money allocated for public services was cut in favor of reconstructing the central district. As a result, a large number of citizens did not enjoy improving the social standards that any postwar reconstruction program should ensure. In addition, economic policies increased the difficult economic and social conditions of the population, making the overall situation even worse. As a result, social divisions between classes increased and people lost confidence in state institutions and tightened their loyalty to their sects and tribes. Hence, the postwar reconstruction project contributed indirectly to the hardening of sectarianism and clientalism.

In fact, in order for Hariri to implement his economic project successfully, he should have worked first on securing the basic needs of the population, such as agriculture, health, and education are met and satisfied. Some people argue that the postwar reconstruction program succeeded in achieving its objective in the first few years, and that it failed later on due to Syrian interferences. Although political circumstances played a major role in imposing some restrictions on the political reconstruction of the state, it was not the main reason for the failure of the project. Instead, the success of the project in its first stages was a natural process. In fact, data suggests that all postwar reconstruction programs experience some success immediately after the war. In contrast, it was proven that the program implemented in Lebanon was not based on a vision, but rather on a series of individual projects that did not take into consideration the social and economic structural changes and needs that occurred and emerged after the war. As a result, any single
reconstruction project, no matter how progressive, cannot be successful without the establishment of sustainable democratic institutions that introduce and realize effective administrative and legal systems.
References


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