

Deepening Crisis - After the Beirut Explosion, Disaster Capitalism Has Lebanon in Its Sights

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The explosion that devastated Beirut was an indictment of the parties that have misruled Lebanon for decades. Now, however, those parties are using the disaster as a pretext to deepen neoliberal policies, with French leader Emmanuel Macron and the IMF egging them on.

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On August 4, 2020, an explosion of unprecedented magnitude in Lebanon's history occurred in the port of Beirut. It left more than 180 people dead, including Lebanese, Syrians, and other nationalities; more than 6,500 injured and 300,000 homeless. Dozens of people also remain missing, and entire districts of the Lebanese capital have been devastated.

The explosion devastated large parts of the port of Beirut, which received more than 70 percent of the value of the country's imported goods in 2019. It also destroyed Lebanon's strategic grain reserve. The material damage amounts to billions of dollars: the Lebanese authorities have put forward an estimate of \$15 billion.

A Deepening Crisis

The explosion has made an already dire socio-economic situation unimaginably worse, after the economic crisis which developed in October 2019 and the effects of the pandemic. The pandemic drove the poverty rate to around 55 percent and increased unemployment to over 35 percent.

At the same time, the value of the Lebanese currency has been in free fall for several months, leading to inflation of over 400 percent. The purchasing power of the popular working classes has diminished massively.

The depreciation of the currency hit especially hard in a country that imports much of what it consumes from abroad: in 2019, Lebanon's trade deficit was in excess of \$16 billion, with imports more than five times greater than exports. Prices have been soaring and goods disappearing.

Many international and regional heads of state announced their support for the Lebanese people following the August 4 criminal accident. However, as we know from previous crises, states and international financial institutions (IFIs) see these moments as an opportunity to promote and deepen neoliberalism, including the extension of the market economy to various economic sectors hitherto dominated by the state.

Macron's Shock Doctrine

A videoconference on Lebanon was held a few days after the explosion at the initiative of French president Emmanuel Macron. It brought together representatives of around thirty countries, Western and Arab, and officials of the International Monetary Fund (IMF), the World Bank, the International Committee of the Red Cross, and the European Investment Bank.

They agreed to provide emergency assistance to Lebanon for a total of €252.7 million. The same actors also promised billions of dollars of financial support, but on the condition that Lebanon implement “institutional reforms.”

Macron, who made a high-profile visit to Lebanon a few hours after the tragedy, has insisted on the formation of a government capable of carrying out “reforms.” The managing director of the IMF, Kristalina Georgieva, declared that it was “essential” to “break the deadlock” over discussions between Lebanon and the IMF, which began several months ago, through the implementation of “reforms.”

The IMF made implementation of these “reforms” a prerequisite for any release of financial aid. So did the participants in the Paris conference held in April 2018 — “Conférence économique pour le développement, par les réformes et avec les entreprises,” known as the CEDRE — which pledged more than \$11 billion in loans and grants for Lebanon. In return for these funds, the Lebanese government must commit to developing public-private partnerships, reducing debt levels, and imposing austerity measures.

The dominant sectarian and bourgeois political parties agree with these measures, despite their rivalries. The Lebanese national unity government was composed of all these parties and led by former prime minister Saad Hariri, before his resignation following the outbreak of the protest movement in October 2019.

Its 2020 budget plan included the merging or abolition of several public institutions and the privatization of the state-run power sector, all of which met the requirements of the World Bank, the IMF, and the CEDRE agreement. Such policies will merely exacerbate the neoliberal disaster into which Lebanon has been plunged since the 1990s and the end of the country's civil war.

Neoliberalism and the Middle East

After the Lebanese civil war, the country embarked on the path of economic liberalization that had been pursued elsewhere in the Middle East since the 1980s, with an emphasis on deeper integration into the global economy and private-sector growth. These neoliberal policies strengthened the long-established characteristics of the Lebanese economy: a development model oriented to finance and services, in which social inequalities and regional disparities were very pronounced.

Lebanon has one of the most unequal wealth distributions in the region and the world, and one of the highest concentrations of billionaires per capita. In 2019, the top 10 percent of adults owned

70.6 percent of the country's wealth.

In the MENA (Middle East and North Africa) region, the privatization of public goods began with the neoliberal policies of the early 1990s — mainly in the industrial, real estate and financial sectors. In recent years, the IFIs have promoted public-private partnerships (PPPs) around the world as a new tool for privatization and the management of public goods by private entities. The MENA region is no exception.

A clear example is the activity of the European Bank for Reconstruction and Development (EBRD) after the beginning of the Arab popular uprisings in 2011. One of the EBRD's main objectives has been the promotion of infrastructure PPPs. PPP models aim in particular to foster private management of public infrastructure (especially in the fields of telecommunications, electricity, and health). IFIs such as the EBRD have very often insisted on the necessity of privatizing such infrastructure as a condition for the provision of loans.

“Saudi Thatcherism”

At the same time, several Middle Eastern countries have adopted PPP legislation in order to double down on privatizations of public services and state infrastructure. In Saudi Arabia, PPPs have become a fundamental element in the economic and political strategy of Vision 2030 promoted by Prince Mohammad Bin Salman. The 2020 National Transformation Program, presented after the 2030 Vision, details the economic policies of the new Saudi leadership team and places private capital at the center of the future Saudi economy.

The Saudi government has stated its plans to organize PPPs for many government services, including sectors such as education, housing, and health. The Financial Times described the plans as “Saudi Thatcherism.”

The Saudi kingdom has also used the COVID-19 crisis to impose cuts in subsidies, with the elimination of the cost-of-living allowance, and a sharp increase in VAT from 5 to 15 percent. Meanwhile, the kingdom's sovereign wealth fund has invested more than \$8 billion since the start of the pandemic in behemoths of the global economy such as Boeing and Facebook.

In similar fashion, the Syrian regime accelerated its neoliberal policies following the 2011 uprising and the increasing militarization of the conflict from 2012 onwards. It passed a PPP law in January 2016, six years after the law had first been drafted. The legislation authorizes the private sector to manage and develop state assets in all sectors of the economy, with the exception of oil. The “new economic strategy” known as the National Partnership, launched a month later in February 2016, cited the PPP law as a reference point.

These regional dynamics have unfolded in times of economic crisis, war, and now during the current pandemic. They are not pragmatic or “technocratic” measures, as the regimes enacting them have often claimed. Rather, they should be seen as a way to transform the general conditions for capital accumulation and empower economic networks linked to these regimes.

—The Cost of the Crisis

The main Lebanese parties and different fractions of the bourgeoisie have exploited privatization schemes and their domination of ministries to strengthen networks of patronage, nepotism, and corruption, while the majority of Lebanon's population, both foreign and native-born, has suffered

poverty and indignity. Although the parties all agree on the IMF and CEDRE conference measures discussed above, there is a dispute between them arising from the economic crisis of October 2019.

That dispute concerns the scale of the losses that should be taken into account as a basis for restructuring the public debt, which amounted to \$93.1 billion at the end of May 2020 (more than 180 percent of Lebanese GDP). The Lebanese banks have been running a kind of Ponzi scheme since the early 1990s, offering high interest rates to attract US dollar deposits and then lending the money to the government — until the deposits ran out. However, the banks and the Central Bank of Lebanon (CBL) now do not want to take any responsibility for the losses assigned to them by the economic recovery plan of Hassan Diab's government.

They are supported in this position by parties like the Future Movement of Saad Hariri (who is also the owner of a bank), and Nabih Berri's Amal party. Under the government plan, the capital of Lebanon's banking sector would be written off, with a full bail in of shareholders. The plan calls for bank recapitalization; institutions that are unable to raise fresh capital could be forced out of business.

The banks also reject the proposal for a forensic audit of the CBL's accounts, which would trace the source of transactions recorded on its balance sheets, or the adoption of a law formalizing the de facto capital controls that have been imposed by banks on account holders for almost a year.

With support from some politicians, Lebanon's banking elite is resisting any such law. Wealthy Lebanese citizens have continued to shift their assets offshore, while the majority of the country's people face restrictions on how much they can withdraw from their bank accounts.

The banks and their political allies also refused to allow the previous government to default on its debt in Lebanese pounds, as recommended by the IMF. Lebanese banks hold 28.8 percent of total public debt, which is equivalent to \$16.3 billion in US treasury bills and \$10.5 billion in Eurobonds (debt securities denominated in foreign currencies).

Lebanon's bankers have rejected any responsibility for their major role in the country's economic crisis. In response, protesters have targeted financial institutions over the past few months, ransacking head offices and bank branches in different regions of the country. But the appointment of a new government of national unity in the near future, especially one which might be headed by Saad Hariri, would strengthen the position of the banks.

“All Means All!”

In this framework, Emmanuel Macron's call for a united national government bringing together all the dominant political forces can only help preserve the existing sectarian and neoliberal political system, and the social status of its elites. This solution has the support of many countries in the region and the wider world, and would allow for the deepening of neoliberal “reforms.”

This political formula is also the option of choice for the sectarian, bourgeois parties after the resignation of Hassan Diab's government on August 10 in response to massive popular protests. Some of these parties are also calling for legislative elections within the established sectarian political system.

In this context, the call for early elections within that framework is a trap for popular forces demanding radical change and for the protest movement more generally. The parties of the sectarian old guard are the best organized forces, and the ones most deeply entrenched within state

institutions and Lebanese society.

Some of these parties have also received massive support from foreign powers: Hezbollah from Iran, the Future Movement and (to a lesser extent) the Lebanese Forces from the Saudis. They are clearly in the best position to win new legislative elections if the protest movement does not become more structured, and if a left-wing, progressive force is not able to offer an alternative to the popular classes in Lebanon.

Along with these sectarian parties in Lebanon itself, the imperialist powers, regional states, and international financial institutions pose a major threat to the Lebanese people through their efforts to take advantage of the latest crisis. They are all enemies of the Lebanese protest movement: as the uprising's main slogan puts it, "all means all!"

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P.S.

- Jacobin. 08.24.2020:

- <https://www.jacobinmag.com/2020/08/beirut-lebanon-disaster-capitalism-neoliberalism>

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