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THE HISTORICAL ROLE OF POLITICAL ECONOMY IN THE DEVELOPMENT OF MODERN LEBANON

Carolyn L. Gates *

I

Introduction

THE complexity of the events in post-1975 Lebanon and the tenacity and ferocity of the shifting alliances within the hostile Lebanese camps have shown that the current civil war is more than a sectarian struggle for political hegemony. Rather, its *intra*-sectarian socio-economic nature is becoming ever more evident with the continued fluctuation, factionalization and atomization of the combatant forces. While many scholarly tomes have analysed the role of confessionalism in Lebanese society, far fewer have been dedicated to ascertaining the impact of socio-economic dynamics on the development of modern Lebanon. Hence, this paper aims to examine two aspects of the historical forces of Lebanon's political economy which have contributed to the

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development (and breakdown) of modern Lebanese society: firstly, the structure of peripheral capitalism, whose foundation was laid in the nineteenth century and was greatly expanded in post-1945 Lebanon, and secondly, the issue of 'who benefits?' from Lebanon's mode of development (e.g., what I call here the 'Switzerland of the Middle East' development as defined by Lebanon's ersatz *laisser-faire* economy, fragile *laisser-aller* state, and the so-called National Pact-regulated political and civil society). This thesis does not diminish the important influence of confessionalism, culture, ideology, etc., nor of crude foreign intervention on the broad movement of Lebanese history, but rather it attempts to give proper weight to the various components of Lebanon's political economy, including class relations.

The methodological point of departure of this paper centres on the concept of peripheral capitalist development. In the current literature, peripheral capitalism has come to mean different things to different theoreticians; and of course the notion alters as it is applied to various 'Third World' political economies.[1] As this is not the place to enter a comprehensive theoretical debate on the nature of peripheral capitalist development, I will simply note that the concept here refers to a particular development of a 'non-Western' social formation historically defined by its relations with dominating Western imperialism. It is characterized by weak capitalist productive and social relations, the coexistence of pre-capitalist and capitalist modes of production, and a politico-economic structure that is oriented towards and driven by external rather than internal interests, dynamics and mechanisms. What peripheral capitalist development has meant to Lebanon will be

[1] For more on peripheral capitalism, see Samir Amin, *Unequal Development*, New York, 1976; Claude Dubar and Salim Nasr, *Les Classes sociales au Liban*, Paris, 1976; Huri Islamoğlu-Inan ed., *The Ottoman Empire and the World Economy*, Cambridge, England and Paris, 1987; Morten Ougaard, 'Some Remarks Concerning Peripheral Capitalism and the Peripheral State', *Science & Society*, XLVI/iv (Winter 1982–3), 385–404; Şevket Pamuk, *The Ottoman Empire and European Capitalism, 1820–1913: Trade, Investment and Production*, Cambridge, 1987.

discussed in detail below, but in general terms, it brought about in economic terms vastly uneven development in agriculture (joining stagnation with expansion in different branches of agriculture), a debilitated industrialization process, and an overly developed and dependent tertiary sector, and hence, imbalances in sectoral development and internal/external linkages. The social and political repercussions of this form of development have included long-term unemployment or underemployment of the growing labour force, increasing socio-economic, regional and sectarian inequalities, large-scale emigration, dependence on volatile foreign conditions, discord and upheaval, *inter alia.*

The second issue focuses on 'who benefits?' The rise of the 'Lebanese system' in the nineteenth and twentieth centuries, characterized by Western penetration, peripheral capitalist development and weak state authority, primarily benefited the mercantile-financial bourgeoisie along with a small political-bureaucratic elite, both allied with the West. At the same time, those who suffered from this mode of development were the agrarian workers and small rural landowners (at least half of the population until the 1960s), craftsmen, urban workers and small industrialists, and other increasingly marginalized elements, i.e., the majority of the population. In addition, the Lebanese power-bloc's establishment of a politico-economic orientation towards (and quasi-alliances with) the West increasingly isolated Lebanon from its Arab neighbours. Moreover, this evolving structure and system determined by Western interests and the dominant internal power and social relations in Lebanon since at least the mid-nineteenth century greatly expanded a consciousness of sectarian inequality among the general population. This consciousness, formed by the growing association of class and sect and the increasingly contradictory conditions within Lebanese society, has resulted in intermittent social upheaval for more than a century. While Beirut's merchants, bankers and some Christian intellectuals and technocrats idealized Lebanon's path to the 'Switzerland of the Middle East', the state and system were in fact built on a very fragile foundation, a reality made manifest by the post-1975 events.

II

Nineteenth-Century European Penetration of the Levant

Lebanon was integrated into the world capitalist market from the nineteenth century through commercial exchange by which European-manufactured wares were traded for Lebanese cocoons, silk, olive oil and other primary or low value-added products and through European capital investment in the region.[2] During this era of European industrial and commercial expansionism, export trade was clearly the most important aspect of European economic interests in the Levant primarily because the amount of surplus available for extraction from the area was quite small compared to other regions of the Ottoman Empire.[3]

Throughout the nineteenth century, the changing balance of power between the Ottomans and the European powers allowed the Europeans to take advantage of the growing opportunities in the Arab markets. An early but key turning point in declining Ottoman state power that resulted in increased European penetration of the Levant was the Egyptian occupation of Syria from 1832 until 1840.[4] During and following the occupation, the area became more attractive to European imperialism as a result of the impact of the ruling Ibrahim Pasha's economic and pacification policies which emphasized the expansion of

[2] For more on the impact of European expansionism on Lebanon, see Dominique Chevallier, *La Société du Mont Liban à l'époque de la révolution industrielle en Europe*, Paris, 1971; Jean Ducruet, *Les Capitaux européens au Proche-Orient*, Paris, 1964; Jacques Thobie, *Intérêts et impérialisme français dans l'empire ottoman (1895–1914)*, Paris, 1977.

[3] Roger Owen, 'The Economic History of Lebanon, 1943–1974: its Salient Features', ed., Halim Barakat, *Toward a Viable Lebanon*, London and Washington, 1988, p. 27.

[4] See William Polk, *The Opening of South Lebanon, 1788–1840: a Study in the Impact of the West on the Middle East*, Cambridge, MA, 1963.

industrial export crops, the external orientation of the local economies, the establishment of law and order measures, and the shifting local power and social relations. Secondly, during the same period, the Porte established commercial treaties with Great Britain in 1838, and similar trade conventions with other European governments in the following years, which restricted Ottoman internal monopolies and favoured European imports over local production. Hence, the region was transformed into a net exporter of raw materials and importer of finished industrial products.

A third component that greatly tightened European–Levantine economic bonds was the integration of Mount Lebanon's nascent sericulture into the French silk industry, a subject so important that it will be discussed in greater detail below. Finally, during the last quarter of the nineteenth century, European—particularly French—capitalists invested relatively large sums in concesssionary companies in the Levant. Excluding European investment in public loans, the largest share of this foreign capital investment flowed into utilities and public works—mainly communications-transport infrastructure—which facilitated the circulation of goods and capital in a pattern of unequal exchange.[5]

III

The Development of Peripheral Capitalism in Lebanon

Under the pressure of European expansion and an attendant rise of a Lebanese bourgeoisie closely associated with European interests, the Levantine political economy was unevenly incorporated into Europe's

[5] For more on the issue of unequal exchange, see Arghiri Emmanuel, *Unequal Exchange,* New York, 1972; Charles Bettelheim, 'Présentation et remarques théoriques dans l'ouvrage d'Emmanuel', *Le Monde*, 11 November, 1969; Samir Amin, *Accumulation on a World Scale*, New York, 1974, pp. 53–136; Samir Amin, *Unequal Development*, New York, 1976.

politico-strategic arena, and more importantly, into the international capitalist market by which capitalist relations expanded.[6] The form that this development assumed was not that of internally directed Western capitalism; rather, it was closely tied to the needs of European imperialism. As a result, a structure of 'peripheral capitalist development' emerged in Lebanon, which was characterized by extraversion (external orientation), dependence and underdevelopment.

Responding to the steep growth of European-exported finished goods and European capital investment in the region, the local political economy was initially restructured in three principal ways: the agricultural sector was reoriented from local production to that of agro-export production for the international market; local crafts were devastated and industry was placed on a path of weak development in the future; and an economic, commercial-financial, and communications-transport infrastructure was created by European-Lebanese capital to service the European economies rather than to promote auto-centred development in the Levant. Thus, the imperatives of expanding international capitalism articulated with the interests of the Lebanese mercantile-financial bourgeoisie produced an international division of labour and specialization in which Lebanon became a market for European manufactures, a producer of primary and semi-finished products and, in the twentieth century, a distributor of European goods and services in the Middle East.

The essential characteristics of Lebanon's disarticulated and dominated economy feature external orientation promoted by European capital in alliance with the Lebanese bourgeoisie through trade and

[6] The extremely complex process of the transformation of production and exchange relations is beyond the scope of this paper. Suffice it to note that this transformation in the Syrian region was very uneven in pace, depth and extent. For example, rural areas were far more dependent on subsistence production in later periods than coastal regions where market exchange and long-distance trade had been conducted for several centuries or even from very ancient times.

investment; overdevelopment of the foreign and tertiary sectors of the economy; weak productive sectors manifested firstly in agricultural stagnation and crisis in small agriculture coexisting with the expanding and profitable capitalist agro-export branch, and secondly in weak and primitive industrialization. This economic path produced sectoral disequilibrium, very uneven productivities and weak economic integration. Consequently, the share in national income shifted among the sectors, favouring externally oriented production and services over internally oriented agricultural and industrial production. In addition, it permitted the survival of pre-capitalist modes of production which coexisted with relatively advanced capitalist development. These structural transformations contributed to long-term socio-economic dislocations, which will be discussed below.

IV

Manifestations of Peripheral Capitalism in Lebanon

The impact of the silk monoculture

In many ways, the evolution of sericulture in Mount Lebanon exemplifies the means by which capitalist relations and transformations were expanded in the area in the nineteenth-century.[7] During the period of rapid growth of the nineteenth century French economy, French silk producers began to invest in sericulture in Mount Lebanon, an area with a cocoon-breeding industry and a large pool of cheap labour. With growing French direct investment in Mount Lebanon's sericulture, the silk industry became the most important economic activity in the Mountain from the mid-nineteenth century until the

[7] See I. M. Smilianskaya, 'The Disintegration of Feudal Relations in Syria and Lebanon in the Middle of the Nineteenth Century', Charles Issawi, ed., *The Economic History of the Middle East, 1800–1914*, Chicago, 1966, pp. 226–47; and I. M. Smilianskaya, *Al-harakat al-fallāhiyyah fi lubnān, al-nisf al-awwal min al-qarn al-tasi' 'ashar* [translated from the Russian], Beirut, 1972.

First World War. The importance of the silk industry to Mount Lebanon's economy is made very clear by the following data: on the eve of the First World War, silk-related products comprised over 70 per cent of Mount Lebanon's production; more than 60 per cent of the Mountain's exports consisted of silk goods; over 35 per cent of Mount Lebanon's total revenues originated from the silk industry; and about 50 per cent of the working population was employed in sericulture.[8]

The ascendancy of Mount Lebanon's silk industry multiplied the area's dependence on France, particularly Lyon.[9] Hence, the premier role of French capital in Mount Lebanon allowed it to monopolize the most profitable areas of production and to shape the structure of the Lebanese silk industry and increasingly the economy of the Mountain.[10] The multifaceted effects of this dependency produced a 'contradictory movement': a dynamic which initially stimulated the development of sericulture but later impeded its modernization and expansion, thereby promoting a structure of underdevelopment and external domination of Lebanon's silk industry.[11] Indeed, the subordination of Lebanese sericulture—which was badly organized, structurally weak and productively inefficient—to the needs of French capital combined with the weaknesses of the local economic situation ultimately blocked an essential reorganization process of all phases of production. Alongside the microeconomic constraints on the silk industry were the macroeconomic blockages of the expansion of capitalist relations in the area. Thus, the forces that generated conditions favouring capitalist

[8] Boutros Labaki, *Introduction à l'histoire économique du Liban: soie et commerce extérieur en fin de période ottomane (1840–1914)*, Beirut, 1984, pp. 153–6. See also Gaston Ducousso, *L'industrie de la soie en Syrie et au Liban*, Beirut and Paris, 1913, pp. 155–6.

[9] See Dominique Chevallier, 'Lyon et la Syrie en 1919, les bases d'une intervention', *Revue historique*, CCXXIV, 224, 1960, p. 289; Ducousso, p. 10.

[10] By 1870, the seven largest and most advanced silk spinning factories in Mount Lebanon—valued at about F2 million—were French. (Labaki, p. 90; see also pp. 77–93.)

[11] Paul Saba, 'The Development and Decline of the Lebanese Silk Industry', B.Litt. thesis, Oxford University, 1977, p. 1.

development in the Levant later subjected Mount Lebanon's political economy to a growing dependence on unequal commercial-economic relations resulting in an outflow of substantial revenues, a loss of potential income, diminished capital formation, and de-industrialization.[12] Sericulture was therefore an important and early modality by which conditions for peripheral capitalist development in the Levant were established.

Colonial exchange and trade deficits

Encouraged by a relatively weakened Ottoman Empire which offered advantages to European goods and capital, European producers in association with an increasingly influential Levantine bourgeoisie flooded the Levantine markets with manufactured goods that competed with local industry and handicraft production. One result of the rapid expansion of foreign commerce was the emergence of chronic trade deficits in the Syrian region, which Ottoman trade policy did little to discourage. In 1825–65, 65 per cent of imports were covered by exports, dropping to 60 per cent from 1870 until 1900, despite the expansion of silk exports.[13] And this share declined to about 50 per cent in the 1910–20 period.[14]

Foreign commercial domination accelerated during the mandatory period when French policy actively encouraged French imports.[15] While the Quai d'Orsay was primarily concerned with strategic interests in the Levant, the colonial authorities and French producers aimed to facilitate the domination of local markets by French companies.[16] As Jacques de Monicault has argued, the dominating role of

[12] Labaki, pp. 170–71.

[13] Claude Dubar and Salim Nasr, *Les classes sociales au Liban*, Paris, 1976, p. 54.

[14] *Ibid.*; Labaki, p. 208.

[15] France, Haut-Commissariat de la République Française en Syrie et au Liban, *La Syrie et le Liban en 1922*, Paris, 1923, p. 294.

[16] Massoud Dahir, *Tarikh lubnan al-ijtima'i: 1914–1926*, Beirut, 1974, p. 126.

French capital in the Levantine economy was a vital element in promoting a premier role for French commerce in the area.[17] Consequently, in 1925 France replaced Britain as the Levant's most important supplier, remaining in that position until the end of direct French control during the Second World War.

French economic policy intensified its neo-mercantilist relationship with the Levant states, known as the *économie de traite* by which France exchanged its manufactured wares in return for agricultural goods, raw materials and semi-finished goods 'in a closed economic circuit designed to exclude foreign traders and shipping'.[18] Reflecting mandatory pro-trade policies which were welcomed by a fraction of Beirut's merchants who were closely associated with the French, the Syro-Lebanese trade deficit doubled in the first decade of the mandatory period; and from 1920 to 1933, Lebanon's exports covered only 25 per cent of its imports.[19] Even during the trade-restrictive depression years, the *volume* of Levantine imports declined a mere 4 per cent, although the *value* of commerce declined by about 50 per cent due mainly to the fall in world prices. The trade deficit declined in 1930–37 (when import coverage ranged between 30 and 65 per cent), but it quickly increased to pre-depression levels in 1938 when the worst effects of the crisis were over.[20]

Although war conditions temporarily altered this pattern of economic activity, it resumed quickly in an amplified form in the post-independence years. While the volume and the value of Lebanese

[17] Jacques de Monicault, *Le port de Beyrouth et l'économie des pays du Levant sous le mandat français*, Paris, 1936, pp. 99–100. See also Henri Gouraud, *La France en Syrie*, Paris, 1922, p. 30.

[18] Virginia Thompson and Richard Adloff, 'French Economic Policy in Tropical Africa', Peter Duignan and Lewis Gann, eds, *Colonialism in Africa, 1870–1960*, Cambridge, 1975, iv, 128. See also Samir Amin, *Unequal Development*, p. 329.

[19] France, Ministère des Affaires Etrangères, *Rapports à la Société des Nations sur la situation de la Syrie et du Liban*, 1924–1935.

[20] *Rapports à la Société des Nations, 1930–1939.*

exports remained low, import activity and triangular trade surged. The trade deficit escalated and import coverage plummeted from a high of 30 per cent in 1951 to 21 per cent in 1958 and finally to a low of 12 per cent in 1961.[21]

The over-development of Beirut: the intermediary between the West and the Arab East

Since the nineteenth century, Western powers have used Beirut's potential as an important sphere of penetration of the Arab territories. Foreign interests and economic activity in the area were concentrated in Beirut, and as European-Levantine commercial, economic and political relations expanded, Beirut grew to become a dominant Levantine city.[22] In particular, its rise was encouraged by the pattern of French direct investment,[23]—the single most important capital within the Syrian region, estimated at F200 million in the pre-First World War period[24]—which promoted extraverted commercial-financial activity

[21] Raymond Mallat, *Seventy Years of Money Muddling in Lebanon, 1900–1970*, Beirut, 1973, table 15, p. 39.

[22] Although the shift of trade from the interior to the Mediterranean was the major impetus for the growth and rising importance of Beirut, the transformations in regional and local power relationships made the Mountain and interior increasingly dependent upon Beirut, which also heightened its importance. For more on this issue, see Dominique Chevallier, 'Western Development and Eastern Crisis in the Mid-Nineteenth Century: Syria Confronted with the European Economy', William Polk and Richard Chambers eds, *Beginning of Modernization in the Middle East*, Chicago, 1968; Leila Fawaz, *Merchants and Migrants in Nineteenth Century Beirut*, Cambridge, MA., 1983, pp. 3–7; Marwan Buheiry, *Beirut's Role in the Political Economy of the French Mandate, 1919–1939*, Oxford: Centre for Lebanese Studies, *Papers on Lebanon*, 4, 1987.

[23] Ducruet, p. 240.

[24] Badr al-din al-Siba'i, *Adwa' 'ala al-Rasmal al-Ajnabi fi Suriyyah 1850–1958*, Damascus, 1968, pp. 35–6. On the eve of The First World War, French capital amounted to about 45 per cent of all foreign investment within the Ottoman Empire, and French financiers controlled about 60 per cent of the Ottoman Public Debt. See Thobie, pp. 306 and 481; and Charles Issawi, *An Economic History of the Middle East and North Africa*, New York, 1982, p. 69.

at the expense of local productive enterprises.[25] In this context, the seeds of Beirut's role as a leading commercial, financial and communications intermediary between Europe and the Middle East were planted. Activity associated with Mount Lebanon's silk industry was instrumental in developing Beirut's import/export sector and its related services of finance, insurance and shipping. Furthermore, the port of Beirut benefited from Europe's communications and transport revolution and its commercial-economic expansion to the detriment of the more ancient and formerly prosperous ports of Sidon, Tyre, Tripoli and Acre, which were relegated to secondary exchange points for the less important regional and export trade. Reflecting these changes is the fact that as the economic and political bonds between Europe and the Levant tightened, Beirut's regional position and commercial links diminished in relation to its international role and status.[26]

Correlating with French economic and political objectives, Beirut's intermediary service role was reinforced during the mandatory period. The influence of French capital in the local economy, the dominance of French political and military power in the Levant, and the challenge of British Palestine to French imperial imperatives prompted state economic policies and investment that emphasized the expansion of ports, roads, railways and general public works 'overhead' infrastructure, most of which were centred in Beirut.[27] The emphasis on the development of Beirut was heightened during the Second World War when Beirut became an important centre of Allied operations in the

[25] Al-Siba'i, pp. 34–6; Noel Verney and George Dambmann, *Les puissances étrangères dans le Levant*, Paris, 1900, p. 455.

[26] Labaki, pp. 362–4; Fawaz, pp. 62–3.

[27] For more on the development of Beirut Port, see de Monicault, pp. 41–100. On the development of communications and transportation, see the Union des Ingénieurs et Téchniciens de la France Combattante. Section du Levant, *Vingt-cinq ans d'efforts français au Levant*, Beirut, 1944, p. 27; Edward Nickoley, 'Transportation and Communications', Himadeh ed., *Economic Organization of Syria*, Beirut, 1936, p. 178; and Buheiry, p. 9.

Middle East: Beirut benefited greatly from Allied public works investment and technical assistance, an enlarged internal market, and massive Allied expenditures that generated an aggregate monetary accumulation of about LSL500 million in the Levant.[28]

However, it was only after Lebanon's political independence that Beirut was to realize its full intermediary potential as a centre of Middle East trade, banking, transport-communications, tourism and professional services. Its growth and expanded role, overshadowing other areas of Lebanon (and indeed, other regions of the Arab World), were spurred by strengthened links between the Lebanese mercantile-financial bourgeoisie and the elites in the underdeveloped oil-rich Arab countries such as Kuwait, Saudi Arabia and Iraq. The expansion of regional oil production and the rise of oil profits increased Beirut's commercial-economic importance as an intermediary between oil-producing regions and Western companies; and more directly, Beirut (and to a lesser extent Tripoli and Sidon) benefited from the expansion of IPC and TAPLINE operations in Lebanon. Political instability in the region attracted wealthy Arab immigrants and an inflow of capital, augmenting Beirut's reputation as a financial safe haven. As a result of Beirut's growing intermediary role, the financial sector almost doubled its share in Lebanon's NNP between 1948 and 1957, from 3.8 per cent to 7 per cent.[29] Moreover, in the early 1950s, it was estimated that Beirut conducted about LL1 billion of foreign-exchange operations per year[30] and, by 1951, over 30 per cent of all private international gold trade went through Beirut.[31] The destruction of Arab Palestine also fostered

[28] Félix Rosenfeld, 'Variations des prix et de la circulation monétaire en Syrie et au Liban au cours de la deuxième guerre mondiale', *Journal de la société de statistique de Paris*, Paris, 1946, p. 6.

[29] George Medawar, 'Monetary Policy in Lebanon', Ph.D. dissertation, Cornell University, 1963, table 3, p. 12.

[30] UN, *L'Evolution économique au Moyen- Orient*, 1945–1954, New York, 1955, p. 182.

[31] *Le Commerce du Levant*, 9 February 1952; US National Archives (USNA), 883A.2531/3-653, Beirut as a Gold Market.

the installation in Beirut of an international apparatus to service the needs of Palestinian refugees, which brought foreign exchange, jobs and international influence. Furthermore, as a result of improvements in Lebanon's air, sea and land transport, tourism—concentrated in Beirut and Mount Lebanon—became a major industry: the number of tourists grew from less than 30,000 in 1937 to about 216,000 in 1952 and a little over 544,000 in 1957.[32] The influx of foreigners stimulated the growth of the whole service sector, and direct receipts from tourism increased almost fivefold from 1951 to 1957.[33] As a result of Beirut's evolving role as a vital link between the West and the Middle East, by the late 1950s Beirut had become a dominating city-state in terms of economic-financial activity, income, demographics, political society and infrastructure.

The establishment of Lebanon as the Switzerland of the Middle East

(a) Externalization and tertiarization

The roots of externalization and tertiarization of Lebanon's political economy were laid in the nineteenth century. But this process was greatly expanded with the institution of the French mandatory in 1920 and was further accelerated with the establishment of the 'merchant republic' after 1945.

The mandatory established economic policies and conditions that favoured French capital, facilitating the expansion of Lebanon's externally oriented service economy, a pattern of economic activity which Lebanon's bourgeoisie was quick to embrace. Moreover, political and financial power-brokers, such as the French adviser and president of the Banque de Syrie et du Liban René Busson, and the

[32] Britain, Board of Trade, G. T. Havard and F. C. Ogden, *Report on Economic and Commercial Conditions in Syria and Lebanon, 1936–1938*, London, p. 3; *Le Commerce du Levant*, 3 July 1954; Lebanon, Ministry of Planning and IRFED Mission, *Besoins et possibilités de développement du Liban*, I, table 112, 308.

[33] Mallat, table 18, p. 45; IRFED, *Besoins et possibilités*, I, table 115, 311.

Lebanese Michel Chiha, Henri Pharaon, Emile Eddé and Bishara al-Khuri, among others, posited Greater Lebanon's viability on its development as an international commercial-financial-service centre which would attract large amounts of foreign capital. Even though the conditions of the inter-war years were not particularly auspicious for the development of Lebanon's intermediary economy, the structure of peripheral capitalism was reinforced. For example, Beirut's role as a regional entrepôt was strengthened (even with the 'balkanization' of the Middle East and the growing competition of ports such as Haifa) by the mandatory's policy of reserving the large Syrian market for Beirut merchants in exchange for higher tariff protection for agriculture and industry which was more important to the Syrian economy.[34] In addition, international finance expanded during the inter-war years when European capital flowed into Lebanon as interest rates tended to be higher in Beirut than in European markets, and because of the greater investment opportunities for French capital in the Levant, and the general international financial crisis in the 1930s.[35] Finally, new services, notably tourism, were encouraged. Franco-Lebanese economic policies encouraged the development of the tourist industry by public works investment, subventions to hotels, loans to municipalities for estivage centres, the establishment of a private tourist commission, and the authorization of the state-backed Société Libanaise de Crédit Agricole et Industriel du Liban

[34] Gabriel Menassa, *Plan de reconstruction de l'économie libanaise et de réforme de l'état*, Beirut, 1948, pp. 347–8. Informal mechanisms and formal state regulations made it impossible in the mandatory-controlled Levant for competing import houses to develop outside Beirut, which was dominated by old mercantile-financial families.

[35] Sa'id Himadeh, *Monetary and Banking System of Syria and Lebanon*, Beirut, 1935, p. 188. During the mandatory, four of the five largest foreign banks were French, one of which was the powerful commercial entity and bank of issue, the Banque de Syrie et du Liban. (Sa'id Himadeh, 'Monetary and Banking System', Himadeh ed., *Economic Organization of Syria*, p. 287.)

to extend credits to facilitate the building of hotels and estivage villas.[36]

The vast opportunities and the resulting effects of externalization and tertiarization unfolded, however, only after the end of the Second World War and the end of direct French control. The early post-war period witnessed the rapid deregulation and the liberalization of Lebanon's war economy. Over a period of about eight years, the foundation of an expanded extraverted *laisser-faire* economy was laid. The 'New Phoenicians', a powerful circle drawn mainly from Beirut's mercantile/financial bourgeoisie, were the motor-force of Lebanon's early post-independent development.[37] Consequently, the Lebanese power-bloc which came to govern Lebanon after 1945 instituted policies, passed laws, and created a milieu conducive to expanding Lebanon's traditional role in the international political economy. In order to sustain a 'healthy' international service economy, which required a strong currency, and on a more fundamental level to gain access to blocked franc balances, the Chamber of Deputies ratified the Franco-Lebanese Monetary Accord of 1948. By doing this, the Lebanese government also agreed to maintain very costly financial ties with France and to guarantee private French concessions, ultimately ensuring a continuation of French influence in Lebanon. Confirming its intention to establish a stable and independent currency, the

[36] *Bulletin annuel de la Banque de Syrie et du Liban*, 1939, Paris, p. 56.

[37] Included in this group, which was institutionalized as the Société Libanaise d'Economie Politique, were such influentials as Michel Chiha, Henri Pharaon, Alfred Kettaneh and Gabriel Menassa. The group's objective was to promote *laisser-faire* economic policies that encouraged externally oriented capitalist development and limited state intervention. Its interests clearly had little to do with the pursuit of competitive internal production based on classical capitalism; some of the most ardent liberals were the leading perpetrators of price-fixing and various forms of market manipulation made possible by their commercial monopolies. As Shehabist Charles Rizk has correctly observed, this brand of liberalism was fraudulent: it was a cue word for a particular type of economic development based on Lebanon's intermediary role, the domination of mercantile-financial interests and the quasi-city-state of Beirut.

government promulgated the 1949 Monetary Law and initiated an official gold-buying policy, thereby furthering the ultimate goal of establishing Beirut as the major financial and trade centre in the Middle East.[38] To encourage trade and finance and to attract foreign capital, the government also liberalized the country's exchange system. On 17 November 1948, the Lebanese government legalized the black exchange market and allowed Lebanese capital to move freely throughout the world. It also lifted a few remaining exchange restrictions between 1949 and 1952. Finally, the government promoted the dissolution of the Syro-Lebanese customs union in March 1950 in large part to distance Lebanon from Syrian economic nationalism that favoured internal production over trade and finance.

The movement towards the consolidation of the 'merchant republic' and the extension of power of Lebanon's mercantile-financial bourgeoisie continued under Camille Chamoun's administration which attempted to weaken the political influence of the old quasi-feudal landowning elite and to strengthen the base of the international service economy.[39] During this period, important economic policies were established to consolidate the intermediary bourgeoisie's objective to make Lebanon the 'Switzerland of the Middle East'. For example, the Banking Secrecy Law of 1956 was passed to attract foreign capital, and real estate rental codes were abolished to encourage construction.[40]

The great rise in all forms of commercial operations, the introduction of sophisticated financial activities, the expansion of international and regional service activities in Beirut, and the growth of Arab oil wealth only increased the propensity of the Lebanese bourgeoisie and

[38] Britain, Public Record Office (PRO), FO371, E5681/1102/88, Conversation between British Commercial Secretary and president of the BSL, René Busson, Boswall/Beirut, 2 May 1949, no.51e.

[39] Michael Johnson, *Class and Client in Beirut*, London, 1986, p. 123.

[40] Wade Goria, *Sovereignty and Leadership in Lebanon, 1943–1976*, London, 1985, p. 38.

foreign interests to invest in these highly profitable activities. Commerce—particularly triangular (transit and re-export) and to a lesser extent import trade—grew to unprecedented heights from the early 1950s. Re-export trade increased over 25 times in value from 1938 to 1952; the value of transit trade increased about 34 times during the same period.[41] By contrast, the value of imports in that period, already exceedingly high, increased less than five times and exports less than twice.[42] Moreover, profits on triangular trade, which were substantial, helped finance Lebanon's trade deficit. Even as imports soared and trade deficits climbed, Lebanon was generally able to balance its payments with the growth of revenues from transit and re-export trade, banking and other services and invisibles.

While the Lebanese mercantile-financial bourgeoisie was instrumental in the expansion of commerce, finance and services, the influence of foreign interests was considerable: foreign capital played a prominent role in most large Lebanese enterprises. In addition, as a result of the flow of foreign and domestic capital into the tertiary sector, it further eclipsed the primary and secondary sectors. In the early years of independence, the share of the tertiary sector in the 1950 GDP was 62 per cent, and this share continued to increase until it reached 72 per cent in 1970.[43]

(b) Domination of the productive sectors

The same forces that promoted external-orientation and tertiarization of the Lebanese economy impeded the development of its productive sectors. The structure of Franco-Lebanese capital investment and the implementation of various economic policies that favoured the narrow interests of the tiny power-bloc were principal obstructions to

[41] C. L. Gates, 'The Formation of the Political Economy of Modern Lebanon: the State and the Economy from Colonialism to Independence, 1939–1952', D.Phil. thesis, Oxford University, 1985, table 30, p. 361.

[42] *Ibid.*

[43] Salim Nasr, *The Crisis of Lebanese Capitalism*, *MERIP REPORTS*, no. 73, p. 3.

industrial and agrarian development. Although investment capital was generally available to the local economy, some sectors had far greater access to credit than others—an important modality in the shaping of the national economy. Lebanon's largest capital markets were controlled by French and other foreign interests, and this international sector existed to finance the most profitable activities, namely international trade and related services. Consequently, Beirut's domestic banks, discounting houses, money-lenders and commercial houses, by and large determined the nature, quantity and conditions of credit in the internal economy. Furthermore, Lebanon's intermediary bourgeoisie set limits on potentially competitive local productive enterprises (e.g. local industry competing with import trade) through its monopolization of the economy (i.e. through its control of credit, marketing, imported capital and intermediary goods) and its influence on the state apparatus (i.e. through state economic policies, laws, political environment, etc.).

(c) Agriculture

Agricultural sufficiency and security of food production were cited as vital factors in the decision to annex neighbouring territories to Mount Lebanon by Lebanese and French advocates of a Greater Lebanon.[44] However, agricultural self-sufficiency was never a serious goal of the French colonialists or the Lebanese power-bloc. In fact, the agrarian sector was unable to cover Greater Lebanon's foodstuff and raw material requirements or to provide adequate incomes for the one-half to two-thirds of all Lebanese dependent upon this sector. By the end of the Second World War, Lebanon was only self-sufficient in fruit and vegetables. At the same time, neighbouring Palestine produced five times more than the estimated 70,000 tons of Lebanese-grown citrus

[44] 64 per cent of Greater Lebanon's cultivable land consisted of territories that France annexed to Mount Lebanon to form Greater Lebanon. (Dahir, p. 54.)

fruit.[45] Moreover, Lebanon produced only 30 per cent of its grain requirements and had to buy over 100,000 tons of wheat and barley per year from Syria. These grains cost more than the combined total of Lebanon's production of olive oil, citrus fruit and silk.[46]

In the post-mandatory years, agriculture continued to decline in sectoral share of national production and income, becoming the weakest sector in the economy.[47] In 1948, the agrarian sector—from which at least 50 per cent of the population derived its main source of income—contributed only about 18 per cent of the NNP.[48]

Apart from the overarching factor of unequal exchange of Lebanese primary goods for Western manufactures, the most serious impediments to agricultural development involved other aspects of commercial and foreign domination: the inability of the largest section of the sector—small agriculture—to attract adequate and affordable capital investment in order to bring about modernization, consolidation and expansion; economic policies that were politically motivated and favoured large landowners; and the weak internal inter-sectoral linkages and the limited integration of internal production, such as the inadequate internal links between agriculture and industry as against the existing links between agriculture, commerce-finance and the foreign sector.[49]

[45] USNA, RG319, 'P' file, Lebanon, box 2180, Wadsworth/Beirut to DS, July 3, 1946 no. 1258, Transmitting a *Survey of the Economic Problems of Lebanon* by the Assistant Director of the Ministry of National Economy, Na'im Amiouni, pp. 7–8.

[46] *Ibid.*

[47] Albert Badre, 'Economic Development of Lebanon', Charles Cooper and Sidney Alexander eds, *Economic Development and Population Growth in the Middle East*, New York, 1972, pp. 163–4.

[48] Mallat, p. 13. Agriculture provided a very much lower per capita income than did the troubled industrial sector, which, in 1948, produced LSL134 million of the NNP (*Ibid.*), and which supported not more than 10 per cent of the population. (Albert Badre and Asad Nasr, *National Income of Lebanon, Income Arising in the Industrial Sector*, monograph 3, Beirut, 1953, p. 23.

[49] See Ougaard, 'Some Remarks Concerning Peripheral Capitalism', pp. 385–404.

Firstly, dynamic and profitable tertiary activities attracted a large share of available foreign and domestic capital, depriving agriculture (particularly small agriculture, which composed a significant part of the sector) of needed investment. Due to the limited flow of private capital into agriculture, the mandatory was forced to establish state-backed lending institutions to assist the agrarian population. However, state-guaranteed credit did not solve any fundamental socio-economic problems because the financial institutions were undercapitalized; their lending practices were frequently corrupt; a significant portion of loans were granted for non-productive uses; and credit was often granted to landlords who re-lent the capital at far higher rates to the peasantry.[50] Thus, the bulk of the agrarian population continued to depend on usurious money-lenders, the providers of most rural credit which was so costly that the peasants were perennially in debt.

The encouragement of agricultural production during the war did not alter the fundamental structure of agriculture or ameliorate the growing dislocations within the sector. In fact, the greatly increased demand for and high profit rates on internal production of foodstuff and raw materials during the war, which stimulated agricultural production for the local market,[51] primarily benefited the large landowners. Small farmers lacked access to credit to finance the war-inflated costs of inputs and depended on exploitative middlemen and commission agents to market their produce (also depriving them of the larger commercial-financial profits).[52] As a result, many small

[50] League of Nations, Permanent Mandates Commission, *Minutes*, 27th Session, June 1935, p. 100. Stephen Longrigg *Syria and Lebanon under French Mandate*, London, 1958, p. 281, in fact, claims that the state-backed lending institutions only lent to the peasantry as a last resort to prevent famine.

[51] See PRO, FO922, Memo by Major Howard Jones, Spears Economic Mission to MESC/Cairo, 12 November 1943; and WO178, XX, March 1943.

[52] Whereas the large landowners not only had better access to investment capital and Allied contracts, they also were involved in the distribution networks, which were the basis of the larger commercial and speculative profits. In contrast, the goods of small

farmers were forced to sell their land and to migrate to the cities to obtain war-related employment, and this trend further concentrated the holdings of rural lands in the hands of the urban bourgeoisie.

After the war, advancement in the *export branch of agriculture* was assisted by a surge of capital infusion. The *Report on Agricultural Credit in Lebanon* stated that agricultural credit in the early 1950s may have amounted to one-third of the sector's annual domestic product, although this capital represented only a very small portion of the total banking credit.[53] A disproportionate amount of both private investment and public credit was in the hands of large landowners who monopolized and promoted the growing large-scale capitalist agro-export sector of agriculture.[54] There was an increased disparity between large owners and small producers in obtaining credit under reasonable conditions. Responding to the expansion of the bourgeoisie's investment in capitalist agrarian enterprises, Beirut's large financial-commercial interests discouraged state-financed agrarian credit: Dr Albert Badre and other participants at the AUB Agricultural Credit Conference in 1953 stressed that Lebanon's banks would fight the establishment of public agrarian loan programmes because they wanted to retain control over the highly profitable field of credit for *large commercial agriculture*.[55] As research presented at this conference

producers were purchased by middlemen, who would frequently sell them in Beirut and other towns for three times or more than what they paid to the farmers. (PRO, FO922 file 979/07 Parts 1 and 2, 1943–44 Agricultural Development in Syria, report by Najib Alamuddin, 23 January 1943.)

[53] American University of Beirut, Conference on Agricultural Credit, 12–14 October 1953, *Report on Agricultural Credit*, pp. 9–13.

[54] USNA, RG 319, 'P' file, Lebanon, box 2180, Annual Economic and Financial Review (Syria and Lebanon), 1946; *Report on Agricultural Credit in Lebanon*. Not only was this inequitable, but the extensive loans to this stratum resulted in an overall contraction of state-backed credit because the Lebanese government did not force the powerful landlords to repay their loans. (AUB, Agricultural Credit Conference, 12–14 October 1953, *Agenda, Working Materials and Proceedings*, p. 22.)

[55] *Agenda, Working Materials and Agenda*, p. 8.

showed, the heart of the agricultural credit problem—and therefore an important component of agrarian dislocation—was the small owner (with less than 10 hectares) who remained dependent on money-lenders, merchants and large landowners for working capital, provided at very high rates of interest and on a short- to medium-term basis.[56]

Secondly, ill-planned state agrarian economic policies failed as they attempted to satisfy elite interests, while ignoring the majority of cultivators. Thus, the French established a programme of land reform in the 1930s which was supposed to rationalize and redistribute land ownership but which actually had the opposite effect of further entrenching large property and impoverishing the peasantry.[57] The inegalitarian approach of government to agrarian assistance and land tenure persisted throughout the war years and early independence. Large landlords received the bulk of the Ministry of Agriculture's assistance (of better seeds, plant and disease control, spraying, etc.), while most small farmers obtained little.[58] Moreover, the Lebanese government frequently treated the vital element of irrigation and water services as a pork-barrel project: it favoured the large landlords and the politically influential by placing the publicly-financed water and drainage projects near their lands. On the most basic economic level, this approach to funding was unsound: the greatest value added resulting from irrigation would be realized in the regions of fragmented small property with a high population density rather than those of large estates which had a low population density. In a report on irrigation of the South Bekaa Plain for the US Point IV mission, technical advisers

[56] *Report on Agricultural Credit in Lebanon*, pp. 6, 13. An estimated 80–90 per cent of all-loans were extended by private sources, which charged between 18 per cent and 30 per cent (and upwards); in contrast state-backed loans charged 5–9 per cent interest. (*Agenda, Working Materials and Proceedings*, p. 6.)

[57] Dahir, p. 201; Michael Gilsenan, 'A Modern Feudality? Land and Labour in North Lebanon, 1858–1950', in Tarif Khalidi ed., *Land Tenure and Social Transformation in the Middle East*, Beirut, 1984, p. 459.

[58] USNA 883A.20/5-2451 Crawford/Beirut to DS, May 24, 1951.

stated that one major problem in the Lebanese-backed scheme was that the land ownership units were too large to serve a significant and justifiable number of people.[59]

Thirdly, the external orientation of agriculture and subjugation to foreign and commercial-financial interests contributed to weak internal sectoral linkages and grossly uneven economic development that threw thousands of small producers out of work. The movement towards strong external economic linkages, initiated under the impact of European expansionism, continued throughout the nineteenth century with the foreign-dominated silk and trade sectors, in the French mandatory period through a quasi-colonial economic relationship, and after independence by Lebanon's international intermediary role. This trend was accelerated from the early 1950s when some large landowners and particularly the Lebanese-Palestinian urban bourgeoisie invested considerable capital in what became a modernizing capitalist export-oriented branch of agriculture. Despite this movement towards capitalist agriculture, pre-capitalist forms of production continued to survive—albeit in a declining and marginal state—coexisting with advanced capitalist production on the large farms in 'Akkar, the Bekaa and southern coastal plain where agro-exports of mainly potatoes, sugar beets and citrus were grown.[60] The agro-export bourgeoisie (composed of urban merchants and some of the old large landowning elite) used its commercial-financial nexus and controls, traditional economic ties with the West and growing links with the Arab elites in the oil-rich countries to expand this branch of agriculture. With the most dynamic branch of agriculture oriented towards the needs of Middle Eastern and Western markets, the linkages between local agriculture and industry were not strengthened, typical of peripheral capitalist development. Hence, even though a large portion of Lebanese industrial production was dependent upon local primary goods, Lebanon's

[59] USNA 883A.00TA/6-1451 Clifford/Beirut to DS, June 14, 1951.

[60] Nasr, 'The Crisis in Lebanese Capitalism', p. 6.

agriculture was unable to support the needs of light industry. Lebanese agriculture simply did not produce the quantity nor the quality of goods needed for the expansion of local industry.

(d) Industry

In addition to the impact of peripheral capitalist development on agriculture, there were major repercussions on Lebanon's industry. As a consequence of the domination of international trade and finance (and the structural and instrumental implications of this domination), industrialization in Lebanon can only be characterized as primitive, weak and inadequate for society's needs.

As Boutros Labaki has argued in *Introduction à l'histoire économique du Liban*, foreign domination produced a de-industrializing effect and concomittant losses to the national income in late nineteenth-century and early twentieth-century Lebanon.[61] As with agriculture, the obstacles to auto-centred industrial development included economic-commercial policies that favoured foreign and domestic commercial-financial interests, the structure of capital allocation that promoted tertiarization and externalization, and various forms of politico-economic pressures.

During the mandatory period, French economic and trade policies did not favour indigenous economic development, particularly industrialization.[62] The mandatory attempted to justify its patently anti-industrialization policies on economic grounds: for instance, the High Commission's 1929 *Report* to the League of Nations, stated that local conditions would not permit the development of modern industry.[63] However, industrial progress during the depression and war years contradicted this assessment. Rather, it was the mandatory's pro-import measures, which in some aspects only perpetuated Ottoman commercial policies, and Franco-Lebanese

[61] See Labaki, chapter 3, pp. 129–71.

[62] Raja Himadeh, *The Fiscal System of Lebanon*, Beirut, 1961, p. 8.

[63] *Rapport à la Société des Nations*, 1929, p. 16.

commercial-financial domination that provided an effective deterrent to modern industrialization.

In the 1930s, however, industry began to attract capital investment primarily because of depressed world commercial conditions—decreasing import activities and profits and increasing the availability of domestic industrial capital—and the return of well-to-do *émigrés* with experience in industry. *Emigré* capital was particularly instrumental in the development of industries such as textiles, construction materials and food processing. The best known example of the *émigré* industrialist is George Arida who invested capital made in Mexico into a cotton spinning mill in Tripoli which in the 1930s and 1940s produced the equivalent of about 12 per cent of Syro-Lebanese imports.[64] The expansion of industrial capital in the 1930s and the stimulus to industrialization became evident with the significant increase in the establishment of new industrial enterprises.[65] Indeed, Lebanese industry was consolidated until 1937 when it began to over-produce for its limited internal and regional markets which were again being inundated with foreign imports. The situation was worsened by the fact that merchants stockpiled goods, helping to perpetuate the low prices for manufactured wares until 1940. Thus, many local industries were threatened with closure when the war broke out in late 1939.[66]

The Second World War encouraged the development of industry and the revival of the dying traditional crafts due to a vastly enlarged internal market protected by a wide range of restrictions on trade, exchange and transportation; the temporary break in the structure of commercial-financial domination; the enormous profits in industry; and Allied investment in infrastructure and assistance in technical development. Accompanying this movement, however, was the

[64] Jacques Couland, *Le mouvement syndicale au Liban (1919–1946)*, Paris, 1970, p. 133.

[65] IRFED, *Besoins et possibilités*, I, 198.

[66] Mohamed Amine El-Hafez, *La structure et la politique economique en Syrie et au Liban*, Beirut, 1953, p. 56.

negative impact of war conditions which brought about shortages of machinery, raw materials, spare parts and other producers' goods and significant limitations on technology transfer. Hence, the productive base of industry was not substantially improved: non-competitive conditions and exceedingly large profit rates on goods in high demand encouraged industrialists to produce at maximum capacity, whatever the quality and cost, with little regard for reorganization and future requirements.

In these years, the industrialization of Lebanon, which was concentrated in Beirut and Tripoli, encompassed import substitution of consumer goods, production for Allied consumption and a small amount of export production destined for neighbouring countries. Accelerated internal demand and protected markets fostered the consolidation of a few relatively modernized branches of industry, notably cement, textiles, tobacco, food and beverages.[67]

However, a significant amount of industrial demand was temporary: the branches of industry that tended to expand production the greatest were those satisfying military demand (e.g., beer, cigarettes, khaki). In addition, the wartime revival of traditional Lebanese crafts, which had been slowly strangled by industrial reorganization in the 1930s, impeded future industrial advancement. With the return of foreign competition, many of the traditional industries failed in the early post-war years but others survived, impeding industrial advancement by their long-term coexistence with a small but growing sector of larger modernized industry.

In the post-independence period, industry was beset with a constellation of problems, most of which emanated directly from commercial-financial domination. After the war, industrialists were eager to reinvest in industry as they expected that some form of protectionism would continue, allowing industry to expand and profit. Even though machinery and other capital goods were expensive and

[67] See PRO, FO921/175, Industry in Syria and Lebanon, Part 4 (1944–1945).

absorbed scarce hard currency from areas such as the US and Britain, Lebanese industrialists undertook an unprecedented renovation and expansion of plant and facilities between 1945 and 1948, before competitive Western goods (particularly textiles, matches, glassware, processed foods and beverages) began to flood the local markets.[68] Thus, the re-establishment of foreign domination and the concomitant commercial-financial constraints on internal producers directly restricted an essential process of industrial modernization, expansion and reorganization.

The growing contradiction between mercantile-financial interests and industry became evident after the end of the war when industrialists battled for state policies which were now seen as an obstruction to commercial activity. The industrialists, led by the influential textile owners the Arida and Asseily families, fought hard to win tariff protection and favourable economic policies for their manufactures. Meanwhile, the merchants launched a campaign in which the industrialists were painted as war-profiteering criminals who could not operate profitably with competition. The government, which clearly represented the interests of the mercantile-financial bourgeoisie, was forced to deal with the industrialists who staged lock-outs and threatened to lay off thousands of workers, while simultaneously promoting the long-term interests of the merchants and bankers who also warned of strikes and economic chaos if the government did not proceed with the liberalization process.[69] Consequently, throughout the period of 1947–52, the government vacillated between supporting long-term policies that favoured commerce, finance and the services and temporary expedients that assisted industry.[70] Viewed in their totality, however, the policies, legislation and state expenditures of this period represented a clear victory for the merchants and bankers. In

[68] El-Hafez, p. 72.
[69] USNA, 783A.00(w) 2-1050, Military Attaché/Beirut to DS, February 10, 1950.
[70] See *Al-Hayat*, 9 August 1951.

addition to the extensive liberalization measures mentioned above, the Lebanese government rejected state interventionism and the notion of a national industrial policy for which the Association of Lebanese Industrialists lobbied[71] and distanced Lebanon from the political and economic movements of neighbouring Arab countries by means of policies which, for example, dissolved the Syro-Lebanese Customs Union.

Lebanese industrial survival and growth was sustained, however, through the capture of growing Middle East markets. Before the dissolution of the customs union, approximately 60 per cent of Lebanon's manufactured wares was marketed in Syria.[72] At the same time, about 85 per cent of Lebanese cotton yarn was sold to Syria.[73] The importance of the Syrian market is highlighted by the fact that, after the customs separation, many Lebanese industries were forced to lower production by 35–75 per cent due to the closure of the Syrian market, coming so soon after the loss of the important Palestinian market.[74] Deprived of neighbouring markets, Lebanon's industry searched for new regional export outlets which it was able to capture due to its advantage of early industrialization in the Middle East.[75] In many ways, this export-led industrialization,[76] combined with Lebanon's international service role, appeared to be tranforming the Lebanese economy from that of peripheral capitalism to a semi-peripheral capitalist economy by which it sold its manufactured and

[71] The Association of Lebanese Industrialists, *Guide to Lebanese Industries, 1949–1950*, Beirut, 1950.

[72] *Foreign Commerce Weekly*, 4 September 1950.

[73] Menassa, p. 356.

[74] El-Hafez, p. 209.

[75] See Badre, 'Economic Development of Lebanon', p. 165.

[76] In 1951, while Lebanon purchased about 32 per cent of its imports from the Middle East—a large proportion of which was oil and primary goods—it sold one-half of its exports to the Middle East region, including most of its manufactured exports as well as processed foods, fruits and vegetables.

processed goods to Arab markets in return for their raw materials, while maintaining its function intermediary between the West and the Arab World. However, although export-led growth solved some of industry's problems in the 1950s and 1960s, it also clashed with the interests of the large international merchants who sought to expand their triangular trade with the Arab World. Consequently, export-oriented industrialization remained only a palliative that did not facilitate the expansion and improvement of Lebanon's productive forces.

V

Who Benefits?

Implicit in the above analysis of Lebanon's modern development is a definitive answer to this question. Throughout the period under discussion, the beneficiaries and instigators of Lebanon's path of 'modernization' have been the small Lebanese power-bloc[77] tied to Western economic and strategic interests. The power-bloc in the Lebanese state during the period under discussion consisted of representatives of an estimated 100 great families from the dominant mercantile-financial bourgeoisie and the 'quasi-feudal' or urban-based political-bureaucratic elites.[78] The ability of this oligarchy to

[77] Ougaard defines 'power-bloc' as a political structure composed of the dominating classes and fractions in society 'Whose interests are secured by the intervention of the state' (p. 397, n. 30). Ougaard argues that power-blocs within peripheral capitalist societies are extemely complex compared to those in central social formations because of the numerous modes of production found in peripheral societies (pp. 397–403).

[78] Between 1920 and 1972, deputies in the Chamber represented some 245 of Lebanon's most prominent families. Five families dominated the political scene during this time: Chiha, Pharaon, Bishara al-Khuri, Isa al-Khouri and Habib Basa al-Sa'd. (Antoine Messarra, *La Structure sociale du parlement libanais (1920–1976)*, Beirut, 1977, p. 184.) Yusef Baydas, head of the failed Bank Intra, claimed in 1967 that 100 families 'owned' Lebanon. (*Life* reprinted in *Le Jour*, 26 and 27 January 1967.)

monopolize the state resources and power reinforced its members' privileged socio-economic position within Lebanese society. Although the interests of the power-bloc increasingly centred on commercial-financial activities, they also encompassed the most profitable activities in Lebanon's small political economy.

As had been argued, the dominant class within Lebanese society was the externally oriented mercantile-financial bourgeoisie. While this class had gained influence since the late nineteenth century,[79] its power was vastly expanded after the end of the Second World War. With the ousting of the French from Lebanon and the shifting of regional and international conditions, the politico-economic horizons for Lebanon's dominant bourgeoisie were expanded. Consequently, the mercantile-financial bourgeoisie broadened its influence as a result of its growing power within the state and its central position in the economy in which the dynamic activity was based on import/export trade, international finance and a growing host of services. Although the nascent industrial bourgeoisie challenged the merchants and bankers for a substantive role in Lebanon's political economy after the upsurge of industrial activity during the Second World War, the powerful intermediary bourgeoisie moved quickly to re-establish policies and conditions that favoured the expansion of tertiary activities at the expense of industry. An agrarian bourgeoisie that emerged from the 1950s fared better than the industrialists because, firstly, a significant amount of modern agrarian development was financed by urban merchants and bankers and large landowners (i.e. the power-bloc), and secondly, because agricultural exports (the basis of Lebanon's agrarian modernization) in general did not compete with the intermediary bourgeoisie's entrenched commercial and financial interests.

The oligarchy of merchants, bankers and powerful political brokers controlled the government and determined the direction of Lebanon's political economy. Typically, it also refused to pay for a modicum of

[79] See Fawaz, *Merchants and Migrants*.

essential reforms, even when they were clearly in its own interest. Bishara al-Khuri criticized his fellow notables when he asserted that there was no hope of obtaining funds for development and socio-economic programmes from this 'class' which he characterized as 'entirely selfish, demanded enormous returns and have never demonstrated a high sense of social responsibility.'[80]

CONCLUSION

Socio-Economic Dislocations and Crisis

The structure and features of Lebanon's dominated and disarticulated political economy produced regional and socio-economic inequalities and macro-economic and sectoral dislocations, and ultimately an unstable and crisis-prone society.

The pattern of Lebanese economic development that favoured tertiarization and externalization promoted the over-development of Beirut's commercial-financial-service sectors at the expense of internal production and the development of the rest of Lebanon, thereby increasing regional inequalities. For example, although Beirut benefited greatly from industrial expansion, Tripoli was far more dependent on the industrial sector for jobs and income. A decline in or stagnation of industry, which could be partially offset by a boom in commerce and services in Beirut, was a much larger threat to the welfare of Tripoli's population. Furthermore, the inhabitants of Beirut and Mount Lebanon, who controlled a disproportionate amount of national wealth, were by far the largest beneficiaries of the expansion of economic opportunities and health, education and welfare services. By 1954, the average annual income of a farm *family* in 1954 was about LL975; in contrast, the average annual *per capita* income in Beirut at that time was about LL1,065.[81] While an estimated 35 per cent of Beirut houses had an annual income of LL5,000 or more (considered

[80] 783A.00/6-1752 Minor/Beirut to DS, June 17,1952.

[81] USNA, 883A.001/7-2254 Hare/Beirut, Consumption Patterns in Lebanon.

the minimum for a decent standard of living in 1954), only 10 per cent of those in rural areas reached that minimum.[82] Hence, the Lebanese employed in agriculture in South Lebanon, for example, lived under conditions similar to very poor Third World countries, while the middle class of Beirut enjoyed a standard of living not so different from that in the less-developed European countries.

Disparities in the sectoral composition of the national income and of the socio-economic distribution of income were great. In 1948, agriculture contributed about 18 per cent of the NNP and supported a little less than one-half of the population; industry contributed almost 15 per cent and supported 10–15 per cent of Lebanese; the remaining tertiary sector contributed over two-thirds of NNP and supported about 40 per cent of the population. In the same year, the agrarian population generated an income of a little over LL250 per capita per year; but the actual distribution of annual agricultural income was ten times as great for the landlords and their families as for the families of agricultural workers.[83] In 1949, workers in commerce earned on average twice that of farm workers and about one-third more than industrial workers; at the same time, the average income of industrialists was almost 23 times that of the average industrial labourer; and merchants (the majority being small shopkeepers and internal traders) earned on average about seven times that of workers engaged in commerce.[84] Moreover, the IRFED mission estimated in the early 1960s that the richest 4 per cent of Lebanese received 33 per cent of national income, while half of the population which was characterized as poor secured only 18 per cent of national income.[85] This mode of development contributed to the

[82] *Ibid.*

[83] Donato, pp. 66, 71. These data do not reflect the much greater disparity of income between the few large landowners (in contrast to the numerous small landowners) and the farm workers.

[84] Extrapolated from Gates, table 5, p. 343.

[85] IRFED, *Besoins et possibilités*, I, 44–5. IRFED's data are probably biased, given

popular perception of communal inequalities and to the polarization of the confessional communities. For example, one aspect of the perception of communal inequalities was the Beirut Christian domination of the most profitable mercantile-financial sector, while a greater amount of entrepreneurial opportunities for Muslims resided in the weak and dominated industrial sector.[86] Moreover, popular sentiment held—in fact, an inaccurate observation—that Muslims were mainly working class and Christians primarily middle or upper class.[87]

Peripheral capitalist development, which entailed weakened internal sectoral linkages and conversely strengthened external links, contributed to long-term stagnation and uneven development in agriculture and to a debilitated industrialization process. With industry's inability to absorb the growing pool of rural labour caused by agrarian decomposition and the concomitant impoverishment and migration of the peasantry, high unemployment and emigration became standard features of Lebanon's modern political economy. As a result of the limited economic opportunities for the poorer classes, an unemployment rate of an estimated 6–14 per cent and a much higher rate of underemployment,[88] many Lebanese followed a historical path of

its political motives. Nevertheless, they indicate the magnitude of the serious and very real problem of maldistribution of income and wealth in Lebanon.

[86] Yusef Sayegh, *Entrepreneurs of Lebanon, the Role of the Business Leader in a Developing Country*, Cambridge, MA, 1962, pp. 70–71.

[87] Dunbar and Nasr, *Les Classes sociales*, p. 90.

[88] In the early post-war years, out of a population of an estimated 1.2 million, the economy employed a workforce of approximately 522,000 people. (USNA, 883A.06/3-3050, 1949 Annual Labor Report.) This report estimates that of this workforce, 66% were farmers and 26% workers. At the same time, unemployment—which excluded women, adult children living at home and part-time workers— was estimated at 30,000–75,000 persons or 6–14% of the workforce. *L'évolution économique, 1945–1954*, p. 164. According to George Medawar's manpower estimates based on Lebanon's 1959 population of a little over 1.6 million, the distribution of the labour force and the unemployment rate (6.5% or 30,000 people) does not appear significantly changed. (Medawar, pp. 33–35.)

emigration. In 1951, over 4,000 Lebanese officially emigrated.[89] In addition to its demographic impact, emigration had another effect: *émigré* remittances continued to play a very important role in the national economy. In fact, in 1948 Lebanese *émigrés* (estimated at 1.2 million people, which equalled Lebanon's population at that time) remitted almost 10 per cent of the NNP.[90]

The movement towards foreign and commercial-financial domination of Lebanon's political economy since the nineteenth century has linked foreign interests with an expanding indigenous bourgeoisie that determined its basic shape of extraversion, dependence and underdevelopment. Consequently, it was not equipped to meet the needs of the local population; instead it served foreign interests and an allied Lebanese elite. These features have increasingly placed Lebanon in a most vulnerable position, making it susceptible to many forms of local, regional and international challenges and recusancy. Hence, the convergence of Lebanon's weak peripheral social formation and the challenging forces of foreign intervention, volatile sectarianism, divided internal loyalties, and a weak state apparatus have produced instability and intermitent socio-political crises which have never been fully addressed. The post-1975 debacle has become only the most recent and devastating of these crises in which Lebanon's dependent and dominated political economy has been unable to meet an ever-growing array of challenges to the prevailing social order and to those who formulated the idea, system, structure and very *raison d'être* of Lebanon.

[89] USNA, 883A.18/3-1152 Minor/Beirut to DS, March 11, 1952.
[90] Extrapolated from USNA, 883A.18/3-1152 Minor/Beirut to DS, March 11, 1952.