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Policy Brief

Balancing Access to the State: How Lebanon's System of Sectarian Governance Became too Costly to Sustain

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Executive Summary

The Lebanese power sharing arrangement was widely discussed as a role model for peaceful coexistence in fractionalized and polarized societies. The mass-protests that started in fall 2019, however, exposed the limits of Lebanon's system of sectarian governance to meet the demands of its citizens and, eventually, to guarantee socio-economic stability. This policy brief analyzes how the Lebanese power sharing arrangement exhausted its ability to maintain stability and thereby contributed to the eruption of the present-day economic and financial crisis. Leveraging access order theory, the brief reviews how Lebanon's power sharing arrangements over time came to include elites from all major communities of socio-economic significance into the dominant coalition. The brief argues that the increased size of the coalition eventually became too costly to sustain as elites made excessive use of mechanisms that extract and allocate rents. These mechanisms function on the basis of limiting access to valuable political and economic functions of the state to individuals and organizations, such as by maintaining a restrictive civil code, electoral laws, or political connections into important economic sectors. Development policies should aim at opening access to state functions by prioritizing politial accountability as well as the independence of the judiciary to expose elites to formal state institutions and the preferences of citizens.

Introduction

The Lebanese power sharing arrangement was widely discussed as a potential role model by which highly fractionalized societies can end conflict and remain peaceful.[1] The nationwide protests that erupted in October 2019, however, exposed the widespread demand for improving governance and transitioning Lebanon's sectarian power sharing arrangement into a civil state. The current socio-economic order dominated by a coalition of communal elites has failed to establish a sustainable economic model that provides a decent level of services and opportunities to its citizens. To date, the quality of public goods and infrastructure ranks well below that of peer-countries while Lebanon became one of the most unequal societies worldwide.[2]

This policy brief analyzes how the Lebanese power sharing arrangement exhausted its ability to maintain socio-economic stability and thereby contributed to the eruption of the economic and financial crisis in fall 2019. It leverages the concept of *limited access,* anchored in access order theory,[3] to explain how powerful elites developed a set of interdependencies that reduced their incentives to improve the capacity of the state and that allowed them to over-appropriate rents from the economy. This theory places the necessity to constrain the violence potential of powerful elites and organizations at the center of the development process of societies. Following access order theory, this brief refers to power sharing arrangements as a social order in which a ruling elite of powerful individuals forms a *dominant coalition*. This coalition dominates political exchange with the aim to provide incentives for the peaceful resolution of distributional conflict. Although none of the members of the coalition can achieve a superiority of violence capacity, each member maintains a significant potential for violence in the form of controlling security agencies, militias, or armed supporters. The arrangement must therefore satisfy a central condition: Taking part in the coalition must benefit all members more than if they were to defect from the coalition and resort to violence to achieve their goals.

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This policy brief argues that, in order to meet this condition, the dominant coalition in Lebanon developed mechanisms that limit access to valuable political and economic functions of the state to individuals and organizations. These mechanisms came to fulfill two critical functions that determine the survival of the coalition. First, they organize the allocation of rents extracted from the economy among the members of the coalition, for instance by using the banking sector to allocate the profits accrued by earning high interests on government debt to politicians in their functions of shareholders. Second, they preserve their constituencies' dependency on them by, for example, limiting the access for citizens to public services in communities other than their community of origin, including access to healthcare and employment opportunities.

1
See for example: Rosiny, S. 2015. 'A Quarter Century of 'Transitory Power- Sharing': Lebanon's Unfulfilled Ta' if Agreement of 1989 Revisited.' Civil Wars, 17(4), pp. 485–502; and Nagle, J. and Clancy, M.-A. 2019 'Power-sharing After Civil War: Thirty Years since Lebanon's Taif Agreement.' Nationalism and Ethnic Politics, 25(1), pp. 1–8.

2
Alvaredo, F., L. Assouad, and T. Piketty. 2017. 'Measuring Inequality in the Middle East 1990-2016: The World's Most Unequal Region?' No. 12405.

3
North, D. C. et al. 2009. 'In the Shadow of Violence: Politics, Economics, and the Problems of Development.' In the Shadow of Violence: Politics, Economics, and the Problems of Development, (November 2016), pp. 1-350; and North, D. C., J. J. Wallis, S. B. Webb, and B. R. Weingast. 2013. 'In the Shadow of Violence: Politics, Economics, and the Problems of Development.' Cambridge: Cambridge University Press.

The discussion traces the development of social orders and show how Lebanon's power sharing arrangements over time came to include elites from all communities of socio-economic significance into the dominant coalition. From independence until today, the coalition evolved from a single-member domination by the Christian Maronite community after the declaration of the *National Pact* in 1943 to include members of all major communities today. Due to weak institutional capacities and a set of neoliberal policies that further constrained the effectiveness of the state,[4] a number of elites emerged within each of the main communities, ascended to the coalition and expanded its size.

The brief argues that the increased size of the coalition eventually became too costly to sustain.[5] Persistent over-appropriation of state resources eventually destabilized the socio-economic order as economic growth stagnated and resources to finance the coalition declined. As a result, the current period witnesses efforts to reduce the costs of the coalition via, for example, reducing the size of cabinets and lowering interest rates.

To arrive at these arguments, the brief first reviews the evolution of social orders in Lebanon after independence until today to describe the ascendancy of all major communities to the ruling coalition. It then reviews some of the most salient mechanisms by which elites created and sustained power and how they came to limit access of individuals and organizations to valuable functions of the state and the economy. Finally, we discuss the consequences of these policies and how they failed to address some of Lebanon's perennial developmental deficiencies, in particular income inequalities.

The increased size of the coalition eventually became too costly to sustain

To avoid the negative repercussions of power sharing, development policies should aim at opening access to state functions and resources to citizens and organizations. As elites continue to interact outside formal state institutions, such policies should not solely focus on capacity building of existing governmental institutions. Rather, they should promote the emergence of a set of organizations capable of supporting an alternative social order, with platforms based on ideological preference rather than sectarian identification. As the government formulates its policy response to the economic and financial crisis, domestic and international political pressure must ensure that policy priorities emanate from increasing politial accountability as well as the independence of the judiciary to expose elites to formal state institutions and to open access to all citizens and organizations.

From a One-Member to a Multi-Member Coalition

Power sharing arrangements have a long tradition in Lebanon. The first communal based power sharing arrangement, the *Mutasarrifiya*, was established as early as 1861 after a civil war and series of conflicts granted Christian and Druze communities in Mount Lebanon a high degree of sovereignty within the Ottoman

4
Baumann, H. 2019. 'The Causes, Nature, and Effect of the Current Crisis of Lebanese Capitalism.' Nationalism and Ethnic Politics 25(1), pp.61-77.

5
Mahmalat, M. and Y. Chaitani. 2020 'Power Sharing Arrangements and the Evolution of Social Orders - The Limits of Limited Access Order in Lebanon.' Working Paper. Unpublished. Beirut.

Empire. Upon independence from France in 1943, the order of the *National Pact* was dominated by the Maronite Christian community while successive adjustments of the arrangement came to include other communities over time (table 1).

Table 1

Power sharing arrangements in Lebanon from 1943 until today

Period/Order	Dominant Coalition	Rent Extraction	Assessment
1943-early 1970s: National Pact	Maronite Christian community with merchant elites	Merchant republic facilitated by low taxes, macro stability, and trade monopolies	Introduction of redistributive policies during the Chehab era; strong foreign backing (France and the United States); brief descent into fragility during the 1958 crisis that fostered the rise of the Sunni community in socio-economic and political power.
Early 1970s-1991: War Order	Changing dominations; ascendancy and decline of PLO as major economic and political power; foreign intervention (Syria and Israel)	War economy, remittances	Quick decent into fragility due to establishment of para-military units; frequent strikes and coalition building along class lines; legitimacy of state institutions undermined.
1992-2005: Post-War/Ta'if Order	Sunni-Shi'a coalition, controlled by the Syrian government and the 'Troika', multiple elites in each confessional group (re)emerge	State-led rent extraction mainly through real estate and reconstruction, as well as bank-financed government debt	Sectarian governance institutionalized stronger than in pre-war governance predicated on regional peace; Syrian presence de facto dictates political discourse; Rise of Shi'a communities in socio-economic power being part of ruling 'Troika' and backed by the Syrian government.
2005-2019: Modern Order	Tripartite coalition between Christian, Sunni, and Shi'a communities with multiple elites in each group	As state rents decline, rent extraction mainly based on private sector privileges	Polarized political discourse induced by regional geo-politics; Christian communities reascend to the dominant coalition; violence capacity insufficiently consolidated but balanced in the hands of Lebanese security forces and Hezbollah seeking domestic stability.

As the Sunni community grew in socio-economic power due to, among others, rising literacy and higher fertility rates as well as increased support by other Arab states, it challenged the Maronite dominance during the 1950s. Amid a regional power struggle, the rising demands of the Sunni community for access to the state facilitated the 1958 crisis, during which a civil war posed a severe threat. After a quick resolution of the crisis, incoming President Fouad Chehab engaged in a large campaign to increase the share of Sunnis in valuable positions of public administration, security, and other public sectors.[6] With these measures, the Sunni community emerged as 'almost equal partners' with the ruling Christian communities and came to share the same interests in the country.[7] The Shi'a community, despite being one of the biggest in population size, remained largely marginalized and with lower economic and educational development, which even tended to prevent them from filling their allocated share of governmental positions with qualified staff.[8]

While the civil war-era (1975-1990) experienced changing dominations and significant external political influence, including military invasions, the post-war era became dominated by a Sunni-Shia coalition, led by Prime Minister Rafic Hariri. While the Christian communities lost much of their access to the dominant coalition as the movements of Samir Geagea and Michel Aoun have been outlawed or expelled by the Syrian government, the Shia community emerged strengthened from the war period. Having formed two strong political movements—Amal and Hezbollah—they took part in the negotiations on the Ta'if agreement and soon transformed into formal political parties. That way, the elites of the Shi'a community became part of the 'Troika', representing the three most powerful positions within the state: The President of the Republic, Prime Minister, and the Speaker of the Parliament, which required unanimity in important decisions.[9] With rising educational standards and economic as well as military influence, the Shi'a community increased the pressure on the allocation of political and economic resources. Trade liberalizations and other economic policies weakened sectors dominated by Christian communities, while reconstruction and real estate financed much of the rents to political elites. Government debt started to promise high returns to domestic banks, mostly connected to elites themselves.[10]

Reconstruction efforts and real estate financed much of the rents to political elites [...] while government debt started to promise high returns to domestic banks, mostly connected to elites themselves

The dominant coalition experienced an adjustment in course of the political crises of 2005 and 2008, which marked the withdrawal of Syrian troops from Lebanon after the Cedar Revolution and the Doha agreement. Several additional elites representing dedicated parties came to join the dominant coalition that were previously banned or suppressed, in particular the movement of Michel Aoun which today is known as the Free Patriotic Movement and the Lebanese Forces, while the Phalangist party (Kataeb) increased its activities. Driven by accelerated socio-economic growth and retained military power after the civil war, the Shi'a community too increased its political presence in formal governmental positions.

The number of cabinet members reflects the increasing number of members in the dominant coalition, which rose steadily over time (figure 1). While the governments formed during the era of the National Pact included only three to 10 ministers for 10 to 15 ministerial portfolios, this number rose to more than 30 in the post-war era. The modern era after the Cedar Revolution

6 Traboulsi, F. 2007. 'A History of Modern Lebanon.' London: Pluto Press.

7 Choueiri, Y. 2007. 'Breaking the Cycle: Civil Wars in Lebanon.' London: Stacey International.

8 Salibi, K. 1976. 'Cross Roads to Civil War: Lebanon 1958-1976.' New York: Caravan Books.

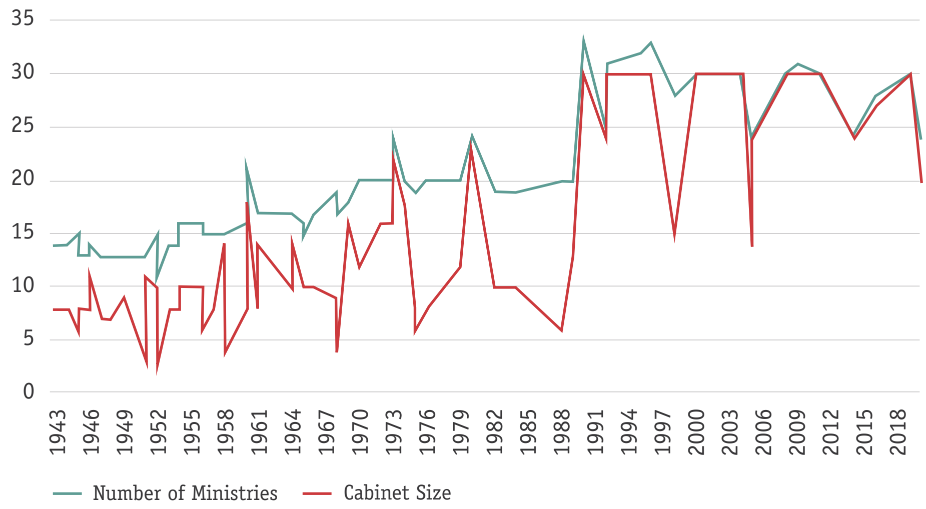
9 Makdisi, S. 2004. 'The Lessons of Lebanon - The Economics of War.' London: I.B. Tauris.

10 Moore, C. H. 1987. 'Prisoner's Financial Dilemmas: A Consociational Future for Lebanon.' The American Political Science Review, 81(1), pp. 201-218.

then came to include all major political factions, often represented in so-called 'National Unity Governments'. Of the nine governments formed after 2005, one government was considered technocratic while five were unity governments that included all political factions.

Figure 1

Number of ministries and ministers by government, since 1943[11]



Source **Office of the prime minister.**

While the dominant coalition included all communities with major political significance and violence capacity, its stability came to rely increasingly on rents extracted from the private sector, as rents from the public sector started to decline under continuous economic distress.[12,13] This development, facilitated by a set of neoliberal policies that further constrained the capacities of state institutions,[14] allowed several economically powerful intra-communal elites with connections into the private sector to rise in influence and take part in the dominant coalition too.[15]

The popular mass-protests that erupted in October 2019 heralded the end of the current social order of power sharing based on a tripartite dominant coalition. In the absence of sustained economic growth and amid declining rents from international patrons and other sources, the many additional members to the coalition came to over-appropriate rents which eventually facilitated a severe crisis. The coalition simply became too costly to sustain.

Sustaining Power: How Limited Access to Resources Facilitates Rent Allocation and Causes Dependency

The stability of the dominant coalition rests on a power sharing arrangement that limits the access of individuals and organizations to valuable political and economic functions of the state. To maintain this arrangement, several mechanisms emerged by which the dominant coalition allocates rents among themselves and maintains the dependency of their constituents.

11
Note that the governments of Nazem Akkari (1952), Saeb Salam (1952), Fouad Chehab (1952), and Michel Aoun (1988) had not received a vote of confidence.

12
Diwan, I. and J. I. Haidar. 2019. 'Do Political Connections Reduce Job Creation? Evidence from Lebanon', in Diwan, I., Malik, A., and Atiyas, I. (eds) Crony Capitalism in the Middle East - Business and Politics from Liberalization to the Arab Spring. Oxford: Oxford University Press, pp. 119–145.

13
Mahmalat, M. and S. Atallah. 2019. 'Recession Without Impact: Why Lebanese Elites Delay Reform.' Economic Research Forum. Available at: https://theforum.erf.org.eg/2019/10/07/recession-without-impact-lebanese-elites-delay-reform/.

14
Baumann, H. (2019) 'The causes, nature, and effect of the current crisis of Lebanese capitalism' Nationalism and Ethnic Politics 25(1), pp. 61-77.

15
Parreira, C. 2019. 'The Art of Not Governing - How Lebanon's Rulers Got away with Doing So Little For So Long.' Synaps Network.

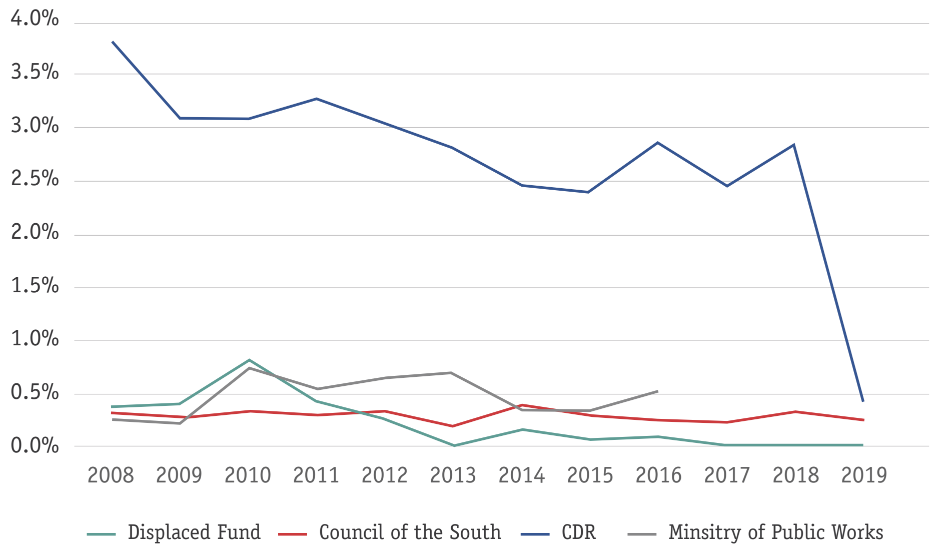
How Elites Allocate Rents

The dominant coalition established a range of formal and informal mechanisms to balance the access to rents via the political control over valuable state institutions, such as for public works and investments that allocate state-funded development projects to politically connected firms and individuals. The Council of Development and Reconstruction (CDR), for example, manages infrastructure projects on behalf of the government. Under direct supervision of the prime minister's office since 1992, the multi-billion dollar budget of the CDR is largely controlled by the heads of the Sunni community.[16] The Shi'a and Druze communities came to administer the Council of the South (CoS) and the Fund for the Displaced, which serve similar functions in the southern regions of Lebanon.[17]

As persisting financial pressures crowded out public investments over time,[18] rents extracted by public institutions declined significantly. For example, the share of funds allocated to infrastructure investments via the large development institutions to total government expenditures fell from 4.73% in 2008 to approximately 0.9% in 2019 (figure 2). For the Fund for the Displaced, this share fell from 0.37% to 0.05%, while it fell from 3.82% to 0.44% for CDR. Only the Ministry of Public Works and the CoS could maintain their share of expenditures of each about 0.3% of total government expenditures.

Figure 2

Share of development funds to total government expenditures[19]



Source **Ministry of Finance.**

16
Leenders, R. 2012. 'Spoils of Truce: Corruption and State-Building in Postwar Lebanon.' Ithaca: Cornell University Press, p. 140-141; and Vloeberghs, W. 2015. 'Architecture, Power and Religion in Lebanon: Rafiq Hariri and the Politics of Sacred Space in Beirut.' Leiden, Netherlands: Brill, p. 51-55.

17
Ibid.

18
Mahmalat, M. and S. Atallah. 2018. 'Why Does Lebanon Need CEDRE? How Fiscal Mismanagement and Low Taxation on Wealth Necessitate International Assistance.' Lebanese Center for Policy Studies.

19
The data available to the authors for the Ministry of Public Works is not comparable in time series after 2015.

As the rents extracted via public institutions and international sources declined, mechanisms of rent allocation based on the private sector became more important. Oligopolies or monopolies on the import and export of goods, for example, prevail since independence in most sectors of the economy and constitute an important mechanism of rent extraction and distribution in the form of elevated consumer prices to connected individuals and companies.[20] More generally, of firms with more than 50 employees, more than 44% are politically connected and have a board member who is a relative or close friend of a politician.[21] These high degrees of political connectedness reduce competition especially within connected sectors, impede job creation, and eventually economic growth. As these connected firms disproportionately concentrate in sectors that have a low exposure to the overall well-being of the economy, they are relatively isolated from economic downturn and leave the coalition with few incentives to reform.[22]

Of the most connected sectors, the banking sector provides one of the most important functions of rent extraction and allocation. With 18 of the 20 largest banks politically connected,[23] banks became Lebanon's *invisible hands*.

While the accumulation of capital is a crucial prerequisite for economic development, financial markets in Lebanon focus on banks at the expense of a stock market that remains underdeveloped. However, the banking system failed to meet the financing demands of the private sector. The roots of this development lie in the limited access of citizens to financial institutions, whose well-being is closely interlinked with the survival of the dominant coalition.

In the 1950s and 1960s, Lebanon's banking sector developed into what became the leading trade and financial hub in the Middle East. The sector became a means to distribute rents as it was largely unregulated and allowed bankers to grant large loans to shareholders, families, and friends with little prospect of repayment. Their entanglement with political elites came to serve as a tool of elite integration and led them to cooperate across sectarian lines even during the civil war.[24] Banks preserved these entrenchments with political elites after the war ended. In 2014, individuals closely linked to political elites controlled almost half of the assets of the 20 biggest commercial banks, 18 of which had major shareholders either from within or closely connected to political elites.[25]

Legislation pertaining to public finance and financial institutions appears to be the only major policy area in which political polarization and gridlock does not significantly impact political collaboration

The deep entrenchment of the financial sector with elites interlinks the well-being of banks with the economic and political survival of the dominant coalition (figure 3). Legislation pertaining to public finance and financial institutions appears to be the only major policy area in which political polarization and gridlock does not significantly impact political collaboration.

20
Traboulsi. 2007. 'A History of Modern Lebanon.'

21
Diwan and Haidar. 2019. 'Do Political Connections Reduce Job Creation? Evidence from Lebanon.'

22
Mahmalat and Atallah. 2019. 'Recession Without Impact: Why Lebanese Elites Delay Reform.'

23
Chaaban, J. 2019. 'I've Got the Power: Mapping Connections Between Lebanon's Banking Sector and the Ruling Class.' In Diwan, I., Malik, A., and Atiyas, I. (eds) Crony Capitalism in the Middle East - Business and Politics from Liberalization to the Arab Spring. Oxford: Oxford University Press.

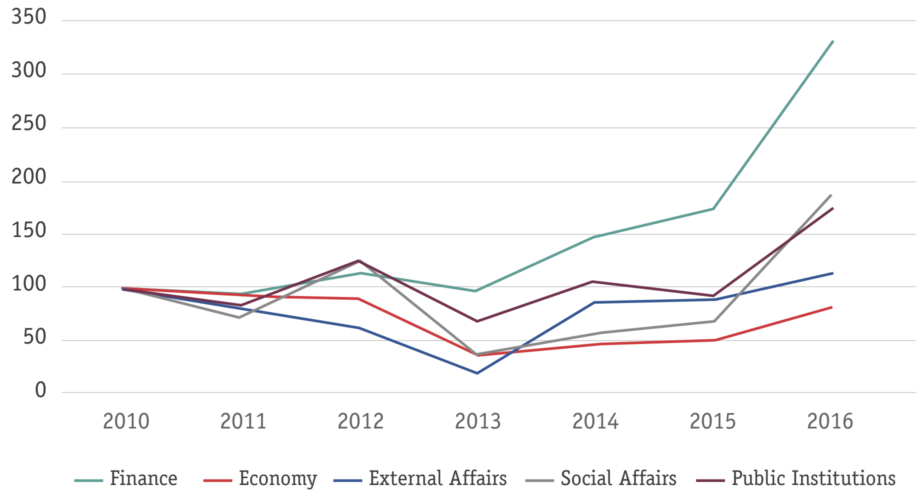
24
Moore. 1987. 'Prisoner's Financial Dilemmas: A Consociational Future for Lebanon.'

25
Chaaban. 2019. 'I've Got the Power: Mapping Connections Between Lebanon's Banking Sector and the Ruling Class.'

In all other policy areas, political gridlock led to decreases in legislative activity of about 30 to 70%.

Figure 3

Growth of legislative activity in times of political paralysis



Source **Mahmalat and Chaitani, 2020.**[26]

Banks, however, changed their business and financing model after the civil war. Due to the exodus of industrial activity during the war and increases in interest rates to attract foreign currency thereafter, lending activity started to concentrate on financing real estate, reconstruction, and government debt. Fiscal policies based on high interest rates led to disproportionate profit accumulation in the banking sector and came to detach the sector from the overall performance of the economy.[27] High interest rates exacerbated socio-economic inequality as debt servicing by the government, projected to consume more than a third of public expenditures in 2019,[28] crowded out fiscal space for investments into infrastructure and other public goods, and limited financing options for productive sectors of the economy.[29]

While the treasury's burden to service interest rose, so did the exposure of domestic banks to finance its debt and roll over existing bonds. Over time, the central bank increased interest rates on deposits in Lebanese pounds to 5 to 6.5% above the United States' Federal Reserve reference rate on dollar deposits (figure 4), offering high returns on capital for depositors and limiting the incentives to reinvest into the economy. In the absence of strong economic growth—which slowed down due to, among other factors, the negative spillover effects of the Syrian crisis—and a productive economy that could generate a sustainable inflow of foreign currency based on exports, the central bank became the main lender for government debt using deposits from private banks. That way, commercial banks and private deposits based mostly on remittances became exposed to the treasury. In 2019, almost 80 cents of

26
Mahmalat, M. and Chaitani, Y. 2020. 'Power Sharing Arrangements and the Evolution of Social Orders - The Limits of Limited Access Order in Lebanon.'

27
Mahmalat and Atallah. 2019. 'Recession Without Impact: Why Lebanese Elites Delay Reform.'

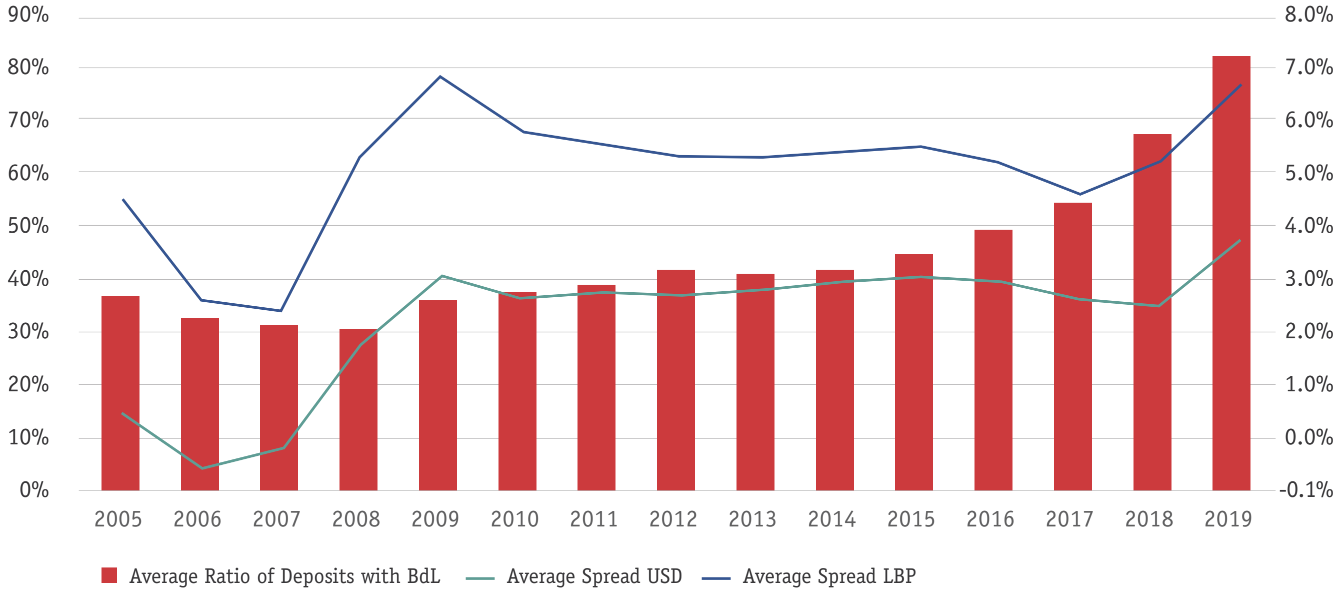
28
Lebanon Ministry of Finance, Citizen Budget 2019, http://www.finance.gov.lb/en-us/Finance/BI/ABDP/Annual%20Budget%20Documents%20and%20Process/Citizen%20Budget%202019en.pdf

29
Mahmalat and Atallah. 2018. 'Why Does Lebanon Need CEDRE? How Fiscal Mismanagement and Low Taxation on Wealth Necessitate International Assistance'; and Salti, N. 2019. 'No Country for Poor Men: How Lebanon's Debt Has Exacerbated Inequality.' Carnegie.

every dollar that private customers and organizations placed as deposits with commercial banks were held by the central bank.[30]

30
See also: International Monetary Fund. 2019. 'Article IV Consultation.' Available at: https://www.imf.org/~/media/Files/Publications/CR/2019/1LBNEA2019001.ashx

Figure 4
Evolution of the exposure of private customers to the Banque du Liban



Source **Banque du Liban and FRED Economic Data.**

Note **Left scale: Share of total deposits of commercial banks (resident, non-resident, and public sector) to total deposits of commercial banks in the Central Bank.**
Right scale: Average yearly interest rate on USD and LBP deposits vis-à-vis the reference rate of the Federal Reserve (FED).

How Elites Preserve Dependency

The dominant coalition developed and maintained a set of mechanisms that limit access to state functions and thereby maintain their constituencies' dependency. Various legal barriers, for example, prevent citizens from accessing public services in areas other than the geographical influence of their respective elites. Among others, electoral laws require that eligible voters must vote in their respective place of origin, rather than in the city they live in. Personal status legislation grants religious courts a high influence to regulate the personal status of citizens, which prevents individuals to move between communities by, for example, prohibiting civil marriage.

Public Goods and the Limited Access to Social Welfare

Public goods and services constitute an important tool to maintain dependency as members of the dominant coalition restrict the access to public goods to their own constituencies. Individuals are tied to their respective oligarchs and their regions of influence as the same set of services would not be provided to the same extent in other communities, in particular healthcare services and employment opportunities.[31]

The civil war led to a significant decline in the state's ability to provide services and severely undermined the bureaucratic quality of state institutions. The Ta'if agreement strengthened the authority of communities and local governmental institutions over decisions in the fields of culture, religion, education, and others and sought to introduce further administrative and fiscal decentralization. While these provisions remain unfulfilled to this date, the dominant coalition in their functions of community heads appropriated the provision of many public goods during the civil war and never released it thereafter.[32] As a result, public infrastructure and services in virtually all areas became subject to distributional contestation among elites. The lack of state-led provision of essential services was made up by private providers, effectively creating parallel markets that reinforce both economic as well as political inequalities and render social services to vulnerable populations dependent on political support of elites. Exposing regional development to political bargain at the national level subsequently undermined Lebanon's quality of infrastructure, which came to rank among the worst worldwide (table 2)[33] with severe spatial inequalities that increased over time.[34]

Table 2

Quality of Lebanon's Infrastructure Indicator[35]

	Rank (out of 141)
Quality of Overall Infrastructure	89
Quality of Road Infrastructure	127
Reliability of Water Supply	132
Efficiency of Seaport Services	90
Efficiency of Air Transport Services	91
Quality of Electricity Supply	66

Source **World Economic Forum 2019.**

Legislative activity in developmental policy areas reflects the declining influence of the central state in aspects of public service delivery and fails to reflect the increasing trend most other policy areas exhibit (figure 5). The average number of governmental and presidential decrees in healthcare, education, environment, water, electricity, and transport remained almost constant after the civil war, while governmental activity overall rose significantly (from 62 decrees in 1990 to 912 important legislative texts in 2016).[36]

31
Cammett, M. 2014. 'Compassionate Communalism - Welfare and Sectarianism in Lebanon.' Ithaca and London: Cornell University Press; and Corstange, D. 2016. 'The Price of a Vote in the Middle East: Clientelism and Communal Politics in Lebanon and Yemen.' Cambridge: Cambridge University Press.

32
Parreira. 2019. 'The Art of Not Governing — How Lebanon's Rulers Got Away With Doing So Little For So Long.'

33
Garrote Sanchez, D. 2018. 'Combatting Corruption, a Necessary Step Toward Improving Infrastructure.' Lebanese Center for Policy Studies.

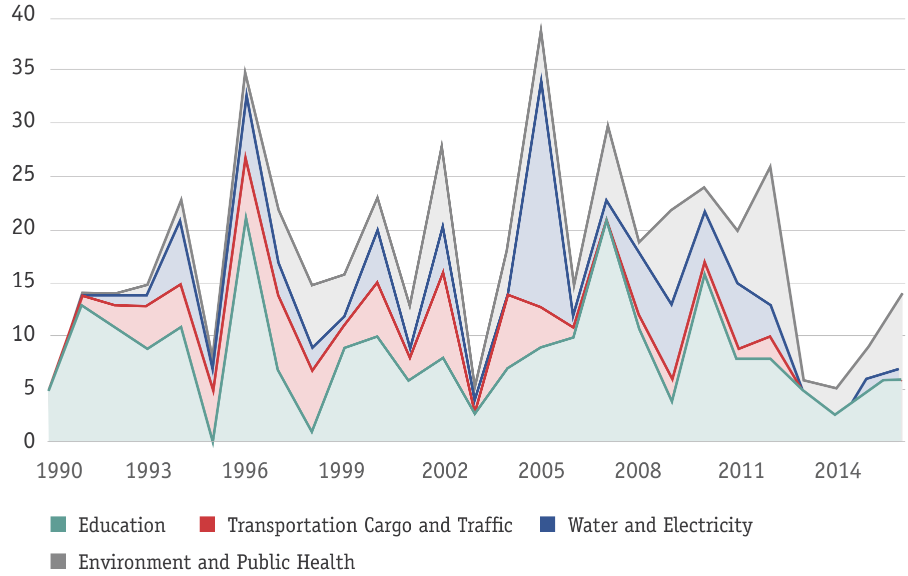
34
Salti and Chaaban. 2010. 'The Role of Sectarianism in the Allocation of Public Expenditure in Postwar Lebanon.'

35
World Economic Forum. 2019. 'Competitiveness Rankings.' http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

36
Mahmalat, M. 2020 'Assessing Policymaking in Data Poor Polities - Introduction of a New Data Set for Lebanon.' International Development Planning Review, (forthcoming).

Figure 5

Evolution of governmental and presidential decrees after 1990 in developmental policy areas



Source **Mahmalat and Chaitani, 2020.**

The Public Sector – Elites' Long Arm to Maintain Allegiance

The public sector became a stabilizing factor in the struggle of the dominant coalition over economic and political power. While the distribution of public sector appointments across communities was highly contested in the pre-war era, the public sector became a strategic tool of clientelist redistribution and political contestation in the post-war period.[37] Although Article 95 of the Ta'if agreement only stipulates a confessional quota system for top positions without earmarking any for specific communities, in practice, the entire public administration became subject to sectarian quotas.[38] Key institutions came under durable patronage of political elites and transformed into 'bastions of privilege'[39] to cater to supporters of elites.[40] A significant proportion of hiring decisions are taken based on communal affiliation and personal connections, rather than meritocratic principles.[41] Even two official hiring freezes in 1996 and 2017 could not prevent elites from using public sector employment as a patronage tool.[42] That way, the public sector became highly inefficient in the delivery of services while drawing heavily on the public budget. The governments' personnel costs became the fastest rising expenditure item in the decade after 2008[43] and consumed more than a third of total expenditures in 2019.[44]

The public sector became a stabilizing factor in the struggle of the dominant coalition over economic and political power

37
Leenders, R. 2012. 'Spoils of Truce: Corruption and State-Building in Postwar Lebanon.'

38
Salloukh, B. F. 2019. 'Taif and the Lebanese State: The Political Economy of a Very Sectarian Public Sector.' Nationalism and Ethnic Politics. Routledge, 25(1), pp. 43–60.

39
Leenders, R. 2012. 'Spoils of Truce: Corruption and State-Building in Postwar Lebanon,' p. 225.

40
Salloukh. 2019. 'Taif and the Lebanese State: The Political Economy of a Very Sectarian Public Sector,' p.47.

41
Le Borgne, E., Jacobs, T. and Barbour, P. 2015. 'Lebanon: A Systematic Country Diagnosis.' World Bank.

42
Salloukh. 2019. 'Taif and the Lebanese State: The Political Economy of a Very Sectarian Public Sector.'

43
Mahmalat and Atallah. 2018. 'Why Does Lebanon Need CEDRE? How Fiscal Mismanagement and Low Taxation on Wealth Necessitate International Assistance.'

44
Ministry of Finance. 2019. 'Citizens Budget 2019' Available at: http://www.finance.gov.lb/en-us/Finance/BI/ABDP/Annual%20Budget%20Documents%20and%20Process/Citizen%20Budget%202019en.pdf

Within the public sector, the security apparatus emerged as an important mechanism to preserve both dependency and the balance of violence capacity among communities. Wages and benefits of the security apparatus consumed about 68.7% of the total wage bill as of January 2018,[45] while the various secret services and military groups are under political patronage of political groups.[46] As for the Lebanese Armed Forces (LAF), after having been transformed from a conscription-based into a professional army in the 2000s,[47] elites leveraged positions in the LAF as a tool to redistribute resources among constituents by means of employment opportunities and social security.[48] About 16% of total government expenditures were allocated to the LAF in 2017, 93% of which were expenditures for personnel, salaries, and benefits.[49]

Within the public sector, the security apparatus emerged as an important mechanism to preserve both dependency and the balance of violence capacity among communities

Although salaries of civil servants proved to be rigid and slowly rising due to budgetary constraints, salaries and benefits for military personnel nevertheless rose at a disproportionately higher pace. While other state personnel costs reflected in the state budget rose by a cumulative 61% from 2005 to 2017 (from $832 to $1,336 million), the accumulated costs for military personnel more than doubled, rising by 237% over the same period (from $677 to $2,282 million).[50] At the same time, the communal composition of the military came to reflect the country's demographic distribution.[51] That way, the socio-economic function of the security apparatus became almost as important as its security function for all members of the dominant coalition.

The Consequences of Limiting Access

As all major communities rose in socio-economic power over time, they gained access to valuable economic and political functions of the state. These communities became represented by elites who leverage political movements and parties to control and limit access to these state functions as members of the dominant coalition. The members of the coalition balanced their access to rents according to the socio-economic power of the constituencies supporting them. Maintaining this balance became the central mechanism to bind powerful elites to the coalition and reduce the threat of violence to achieve their goals.

To balance their access to rents, elites interact outside formal state institutions. While Lebanon's economic model always followed the principle of 'laissez-faire' in which state institutions exerted only minimal influence on the workings of the economy,[52] the civil war era and the subsequent neoliberal policy ideals that guided reconstruction further undermined the capacity of the state to govern socio-economic affairs and to devise constraints on elites. These conditions allowed new elites within communities to emerge and join the dominant coalition. But while these new elites increased the

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Ministry of Finance Lebanon (2018). Personnel Cost, Monthly Bulletin, Directorate General of Finance Lebanon. Accessible: http://finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR/Personnel%20Cost/Personnel%20Cost%20January%202018%20-%20final%20version.pdf

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Nerguizian, A. 2018. 'The Lebanese Armed Forces and Hezbollah: Military Dualism in Post-War Lebanon.' Carnegie Middle East Center.

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Moussa, N. 2016. 'Loyalties and Group Formation in the Lebanese Officer Corps.' Carnegie Regional Insight.

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Berthier, R. and G. Haddad. 2018. 'The Lebanese Warfare State.' Synapsis Network.

49
Stockholm International Peace Research Institute, Military Expenditure database 2018, available at: https://www.sipri.org/database/milex. This share is almost twice as much as those of the United States and China.

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Source: Lebanese Ministry of Finance

51
Barak, O. 2006. 'Towards a Representative Military? The Transformation of the Lebanese Officer Corps since 1945.' Middle East Journal, 60(1), pp. 75–93; and Moussa. 2016. 'Loyalties and Group Formation in the Lebanese Officer Corps.'

52
Gaspard, T. K. 2004. 'A Political Economy of Lebanon, 1948-2002 - The Limits of Laissez-faire.' Leiden, Netherlands: Brill.

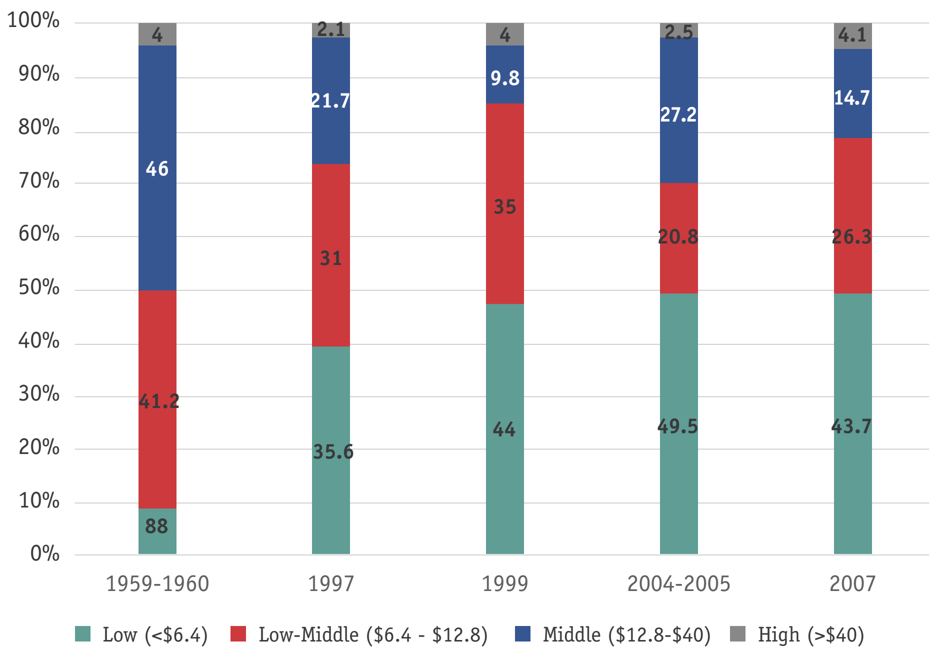
stability of the coalition, their incentives to constrain the capacities of the state rose too. In the absence of a strong judiciary and executive that could credibly enforce political agreements in the form of independent judicial rulings,[53] members of the coalition that move first to abide by formal rules would risk being disadvantaged in their access to rents.

This balance of power created a political stalemate that impeded adjustments in the form of any reform with significant redistributional impact, in particular after additional elites joined the coalition in the late 2000s.[54] By over-exhausting the set of mechanisms discussed in this brief, elites could over-appropriate resources, which led to the deterioration of infrastructure, aid dependency,[55] and a significant increase of inequality.[56] The share of households living below $6,400 a year has never significantly decreased since the end of the civil war, despite periods of strong economic growth and international assistance, and remained at above 43% in 2007 (figure 6). Instead, wealth came to be concentrated within the hands of a small elite that benefited from the prevailing social order. The top 0.1% of the adult population (about 3,000 individuals) received in 2014 approximately the same amount of national income as the bottom 50% (1,5 million individuals).[57]

The share of households living below $6,400 a year has never significantly decreased since the end of the civil war

Figure 6

Evolution of household income over time (in thousand USD per capital and year, 1997 constant prices)



Note **based on CAS statistics, where the remainder of respondents reported 'no answer.'**

Source **Fadlallah, A. H. 2017. 'The Trap of Inequality' [Arabic in original]. Beirut, Lebanon: Dar al Farabi, p.259.**

53 Acemoglu, D. 2003. 'Why Not a Political Coase Theorem? Social Conflict, Commitment, and Politics.' Journal of Comparative Economics, 31(4), pp. 620–652.

54 Mahmalat, M. and Curran, D. 2020. 'Fractionalization and Reform: A Framework of Political Collaboration on Reform with Application to Lebanon.' Economics of Governance, forthcoming.

55 Mahmalat and Atallah. 2018. 'Why Does Lebanon Need CEDRE? How Fiscal Mismanagement and Low Taxation on Wealth Necessitate International Assistance.'

56 Assouad, L., L. Chancel, and M. Morgan. 2018. 'Extreme Inequality: Evidence from Brazil, India, the Middle East, and South Africa.' AEA Papers and Proceedings, 108, pp. 119-123; and Salti. 2019. 'No Country for Poor Men: How Lebanon's Debt Has Exacerbated Inequality.'

57 Assouad, L. (2017) 'Rethinking the Lebanese economic miracle: The extreme concentration of income and wealth in Lebanon 2005-2014' World Wealth and Income Database, Working Paper Series No 2017/13.

Eventually, the inflated number of elites that came to take part in the dominant coalition made it too costly to sustain. The economic and financial crisis that broke out in fall 2019 results from a multitude of factors, many of them linked to the excessive use of mechanisms that ensure rent allocation and dependency preservation. The crisis challenges the stability of the coalition in various ways. Decreased purchasing power and declining capacities of governmental institutions to offer services increases the reliance of constituencies on communal elites. However, economic decline similarly restricts the distribution of rents among elites and thereby diminishes the marginal utility of the coalition for each of its members.

Economic decline [...] restricts the distribution of rents among elites and thereby diminishes the marginal utility of the coalition for each of its members

As a result, the political response of elites has comprised attempts to reduce the costs of the coalition by decreasing, for example, the size of cabinets, the allocation of funds to development institutions such as CDR and CoS, as well as interest rates on deposits. In an effort to sustain the prevailing social order, incoming governments will therefore try to satisfy two main conditions. First, the costs of the dominant coalition need to be made sustainable in a new economic model that constrains the collective ability of elites to over-appropriate rents. Second, this new model needs to be valuable enough to bind a critical number of the members to the coalition in order to contain elites' latent threat of leveraging violence to achieve their goals.

As the above described mechanisms to limit the access to resources depend on the elites' ability to interact outside formal state institutions, a sustainable change toward opening access must emanate from formalizing political exchange. The present-day financial and economic crisis opens up historic opportunities to that end as it requires fundamental changes in the way the dominant coalition structures interactions among themselves as well as with their constitu-encies to make the country's economic model sustainable. Leveraging popular pressure and international assistance, elites must start using state institutions for political collaboration in order to expose them to the demands of their constituencies. For economics to improve, politics must change. Efforts to reform the economic model and to alleviate the negative repercussions of the economic and financial crisis must therefore emanate from measures to

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strengthen political accountability, the independence of the judiciary, increase electoral incentives, and foster the emergence of political platforms based on ideological, rather than sectarian identity.

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