

## Experts Policy Recommendations for the Improvement of Economic and Social welfare

The Lebanese Center for Policy Studies (LCPS) convened a roundtable discussion with independent economists and experts in late May 2011 to identify the socio-economic priorities of the new government. The meeting was attended by (in alphabetical order): Fares Abi Saab, independent researcher, Ghaleb Abou Mosleh, independent economist and formerly with the Central Bank, Sami Atallah, LCPS' Executive Director, Ghassan Dibeh, Chair of the Economics Department at the Lebanese American University in Byblos, Kamal Hamdan, Executive Director of Consultation and Research Institute, and Nizar Saghie, Saghie Law firm and activist.

Despite the postwar reconstruction programs, the economic challenges remain serious. The achieved average yearly real economic growth rate of 4.4% over the past 17 years is low for a country that endured a 15 year civil war. Furthermore the overall growth rate overlaps with huge discrepancies in various economic sectors. In fact, the rate of growth in the banking, trading and tourism sector grew in comparison to declining growth rates in the industrial and agricultural sectors.

As a result, the job creation record of the postwar economy has been less than satisfactory. This has forced more Lebanese graduates and new entrants into the workforce to seek jobs overseas. In addition, poverty rate of 30% left mostly the poor exposed and vulnerable to economic and external shocks. Furthermore, despite the postwar investment in infrastructure, the current state of infrastructure and social services is dismal especially in the electricity, roads and water sectors which are negatively affecting economic performance.

Although the labor-export has led to higher remittances into the country which contributed to the incomes of the residents and helped in financing the trade deficit, it has fueled consumption much more than investment. This has pushed non-tradable prices up resulting in higher cost of living and cost of production. In addition, the remittances have partly contributed to the recent real estate price boom, in the absence of adequate fiscal and housing policies that has made housing out of reach for the middle and lower classes.

Against this background, the LCPS' meeting with experts identified the following seven urgent policy areas that must be tackled by the government to improve people's economic and social welfare:

1. Changing fiscal policies in order to reduce the gap between various income groups which requires:
  - a. Reform the tax system so it is fair and equitable. To correct the tax imbalance, which falls disproportionately on middle and low income groups, the tax system should be

- made more progressive through the imposition of new and higher taxes on wealth and high incomes. These can include: reform the real estate tax to become a progressive tax on real estate improvement, increase the tax rates on corporate profits and on income from interest rates. These taxes will create a fairer tax system and will generate much needed additional public revenues especially since the bank secrecy in Lebanon constitutes a major venue for income tax evasion. Furthermore, the government should reduce indirect taxes, widen the exemption basket of the VAT system, and lower the gasoline and telecommunications taxes.
- b. Reform the spending policy by reducing current spending that is often inefficient and wasteful, reduce the cost of public debt management, and increase investment spending.
  2. Dismantle the monopolistic structures and practices to make the economy more competitive. The economy is highly oligopolistic and few firms have disproportionate control of many important sectors in the import and distribution markets. The anti-competitive practice hurts consumers and firms by pushing prices of final and intermediate goods higher and makes products less competitive both at home and abroad. The major steps to be taken should be the enactment of antitrust laws that reduce the market oligarchy, the abolishment of the “exclusivity of the agency”, and the widening and the reinforcement of the consumer protection administration.
  3. Provide a comprehensive health plan policy. Currently the public health sector is mired with inefficiency, duality of functions, incompetence, discrepancies in the quality of services, unequal access to health services and waste due to the amalgam of public, semi public and private provisions of insurance schemes, all of which try to evade state regulation over quality and price to beneficiaries. One of the government’s priorities should be to provide a comprehensive health scheme which provides security to citizens and enhances human capital development.
  4. Launch a public investment program for rebuilding and upgrading public infrastructure in electricity, water, dams, sewage systems, roads and telecommunications. This will provide an investment climate and the necessary material basis for economic growth as well as improves the conditions for better service delivery for all citizens and especially for low income groups.
  5. Enact an industrial policy that complements the industrial and agricultural sectors, improves their competitiveness, and encourages the export of high valued goods. The government should use subsidies, taxes, tariff barriers, credit and competition policies, as well as support for technology transfer. The government must adjust its monetary policy targeted at stabilizing exchange rates in order to improve the competitiveness of these sectors, enhance the trade balance, protect the Lebanese markets from predatory pricing and dumping, and ensure that industrial and agricultural inputs are price competitive and of good quality. In addition, the government must develop industrial zones according to a national master plan, and improve vocational education that serves the productive sectors’ needs.

6. Establish a National Poverty Eradication Program that goes beyond the currently adopted National Poverty Targeting Program which is very modest and confined to being merely a relief program or a limited social assistance program. The more comprehensive program must have the funds needed to close the poverty gap, enhance balanced development, and achieve the MDGs all the while benefiting from the recent successful experiences of Latin America in fighting poverty especially in Brazil and Venezuela.
7. Rebuild the capacities of the public (or semipublic) institutions directed towards economic planning by transforming the Council of Development and Reconstruction (CDR) into an economic planning council, reforming and implementing the basic laws that govern the Economic and Social Council, and strengthening the Central Administration of Statistics (CAS) and similar departments at the Ministries of Finance, Economy, Agriculture and Industry to build the data and information capacity that is needed by both the public and private sectors.