Hariri wins two and loses two EU standards

by Chibli Mallat

November 24, 1998: the new Lebanese president will not start, economically, from scratch. The country has a history which is distinct, and some of the benefits are worth keeping and enlarging, as was argued in the article on the assessment of Rafik Hariri's economic leadership (Daily Star, August 3). We need to conserve his drive and sense of achievement, and his command of international interests, especially in investors' circles. On the other hand, some of the Hariri style must be abandoned or fought, either because it is simply wrong, as in the use of money to smooth out problems which are political or institutional, or because it makes us fall behind countries which are positioning themselves in a more forward manner.

Let us start, in the economy, with basics. For a non-economist like the present writer, there is a convincing model to emulate in the European Union. This appears reachable if only because of a lifestyle that we share with all the meridional member-states of Europe unlike for instance the emulation of Japan, whose economic habits are fundamentally alien. Considering Asia's recent failures, and the ups-and-downs in America's economic fortunes since the collapse of the Bretton Woods standards, Europe is a useful model.

But there is a most pressing argument to consider the European example, obtaining from the debate on the Euro-Med agreement which has been taking place in our country over the past four years. This treaty is fundamental for our economy because of the introduction, as its major framework of reference, of Europe's so-called acquis communautaire.

Since most of this acquis is economic-legal, a tidal wave will be reaching our institutions in central economic matters: tax, tariff and trade.

More specifically, one of the remarkable achievements of Europe, which is the direct projection of its common-market might world-wide, vests in the new currency. The euro will be on, with a huge European central bank to regulate its flow, on January 1, 1999. This is less than six months away. Nothing will be the same after that date, for the European states themselves, of course, but also for those who trade heavily with the EU, as is the case of Lebanon, which imports more than 50 per cent of its goods from EU countries, such share to increase to over 75 per cent within the next decade.

Under which economic criteria is the euro to be established ? The answer lies in Article 109 j of the 1992 Maastricht Treaty, which premised the euro's creation on "the achievement of a high degree of sustainable convergence by reference to the fulfilment by each member state of four criteria: (i) a high degree of "price stability", which will be apparent from “a low rate of inflation”; (ii) “a government budgetary position without a deficit that is excessive”; (iii) “the stability of the currency”, specifically “the absence of devaluation”, and (iv)“long-term interest levels underpinning the durability of convergence achieved by member states”.

How does Lebanon fare on these four economic fundaments, chosen by the European Union as the most significant criteria for its economic growth ? On (i) and (iii), much has been achieved under the government of Rafik Hariri. The Lebanese pound has been consistently stable against world currencies, and a relatively low inflation has ensued. Figures vary on inflation but, in contrast to the hyperinflation of the war years, Lebanon has known an average, over the years 1992-1998, in single digit figures. Current estimates put it at around seven per cent in 1996-97, and at around four per cent in 1997-98. Well done.

In contrast, the failure is patent on the other two criteria. The long-term interest rates constitute one basic problem, as we simply do not have long-term credit. Lending is mostly short-term, and banks thrive on unproductive treasury bills. To compound the crisis, t-bills are massively used to finance the deficit, and the financial structuring of the credit offered by our banking system has been geared towards rapid profit eating up, in times of crisis, on the central bank’s reserves. It is now commonly admitted by Lebanese economists that the budget deficit, including the servicing of the debt, has reached alarming levels. Whereas it stands, in the eleven European states poised to join the Euro, at an average of three per cent of GDP, it is estimated in Lebanon to be over the 20 per cent mark. Total debt stands at some £24bn, as against less than $5bn in 1992. This has been accompanied, even more dramatically, by a collapse in growth, bringing it to an estimated low three per cent this year, as against seven to eight per cent when the first Hariri government took over. Shame. For a non-economist, it would be presumptuous to offer solutions. Nor are there easy ones but I would venture three avenues to consider exploring for a healthy economy.

First, we have no dearth of good Lebanese economists and no want of friendly foreign advice from the Europeans if we ask. There is much to gain by opening up the debate as widely as possible. The Lebanese, who are asked to make inevitable sacrifices to level the deficit, would be the more willing if they had been properly advised, and if they were asked to participate in an informed and well-structured national consultation on the matter. The country needs a white paper on the economy.

Secondly, we can venture the following principle on the basis of the odd consensus between Thatcherite capitalism and Marxist socialism: the need for a state minus. In other words, the less the state eats up from the economy, the better for the country. A lean and effective bureaucracy, and the intelligent spread of state disengagement by a mixture of participation and denationalisation, will in itself offer a tremendous boost away from the monstrous deficit, as well as build on a worthy international trend.

Thirdly, and beyond the four criteria of the euro model, there is a specificity of Lebanon, which could be enhanced by relying on some of the most sophisticated new global economic thinking today. I am referring to what the great French economist Robert Fossaert, the individual author of an eight-volume summa on La Société, indicated to his audience in a lecture given in Beirut a few weeks ago let us position ourselves at the centre of the 21st century middle east, by turning into a world centre for petroleum accounts, and by designing a new concept of the habitat for the construction industry.

The world is eager for new lifestyle values, which Fossaert calls in his booksValeur de Développement (VD, or as I prefer to rename it, VC valeur de civilisation, since development is inevitable, while civilised development responds to an idea of common weal which must be actively pursued by society). VD/VC includes a new concept of labour. We should endeavour to compute new economic categories to fit into values of civilisation, in as scientific and as precise a way as the great economists of the 1930s have achieved with regard to the GDP and GNP. We would then discover, as a priority of the new economic age, a value for time ranging from active production to the one which determines the quality of leisure and of old-age retirement. VD/VC allows the national economy to take into account time which has been so far considered fallow, such as the one contributed by women working at home, the time spent by retired and unemployed individuals, and more generally, the time accumulating economically in education and specialisation.

It would be good if the implementation of such forward civilisation values were to start in Lebanon on November 24.

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