

# **Cleansing the Lebanese monetary system in a collapsing state: the role of revolutionary civil society**

## **A policy paper**

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My fellow Lebanese, as the deadlock deepens politically, the economic collapse of our national currency will get worse, in a 1923 Weimar-like spiral. For the generation that doesn't know about the crisis, it was the worst one ever in the financial history of Germany. To lessen the crisis on our daily life, I strongly suggest that the private sector deals to the extent possible **ONLY** in strong foreign currencies, mainly USD and Euros.

When you take a cab, pay in USD not in LBP, when you pay your restaurant bill, pay in USD not in LBP, when you pay your employees pay in USD not in LBP, when you pay your doctor, pay in USD not in LBP. This will slowly contribute to the cleansing of our monetary system.

Now that the governmental crisis will get worse, this is what we can do to protect ourselves.

I will work with leading financial and legal experts to provide a position paper in the coming days to support this proposal, but I do not want to delay a conclusion I have reached after thorough reflection.

God help us against the irresponsible rulers of Lebanon.

The call above was published on 15 July 2021.<sup>1</sup> I follow it up in this brief policy paper with a selection of themes articulated on the concept behind the proposal,

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<sup>1</sup>My Facebook page, at <https://www.facebook.com/chibli.mallat/posts/4174857842593132>. As announced in the FB entry, this is a policy paper for the unique situation of Lebanon in the coming together of various crises. Since then, I had the benefit of comments by thoughtful friends across the globe, too many to mention here, with some pointed criticism. Within Lebanon, the paper was discussed in particular with TMT (Rally for the Revolution) colleagues, but this paper represents my personal views. Considering the continued economic and financial collapse of the country, it is also meant to provoke a healthy and informed public debate on what to do in the light of a failed government and the lasting paralysis of institutions.

cleansing the depressed monetary system by using “good money to drive out bad money.”<sup>2</sup> The question has two main components, (a) whether the policy argued can be defended, and (b) whether and how it is feasible in Lebanon. The proposal is for Revolutionary Civil Society (“RCS”, as opposed to the State) driving Lebanese society at large to use only USD<sup>3</sup> in its daily transactions.<sup>4</sup>

### a) Arguing the policy

Readers who studied economic history may recognize the expression as the reverse of the so-called Gresham law.<sup>5</sup>, Thomas Gresham is said to have coined it in the

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<sup>2</sup> The traditional concept is formulated in reverse, “bad money drives out good money”, and is known as ‘Gresham’s law.’ The Wikipedia entry on Gresham’s law is sufficient to understand that a) Gresham’s law was never expressed by Gresham but that it was projected backwards to him in 1860, and b) that “Gresham’s law” now works in reverse in the dominant view of economists.

<sup>3</sup> The reference to USD facilitates the discussion. There are other solid currencies, including the Euro or the Pound sterling, or even the yen or the Saudi rial, which could be adopted. If the proposal has traction, one could organize a simple enough basket of solid currencies. An early FB comment suggested “a currency board,” and should be considered.

<sup>4</sup> The concept of civil society has a long and rich pedigree. The best understanding can be found in Robert Fossaert’s works, esp. *La Société* (Paris, 8 vols, 1977-1996) on the site of the Chicoutimi library in Québec. Fossaert (d.2015) defined CS as always relative to the State, insofar as one can conceive circles of society outside the State (individuals, families, neighborhoods, trade unions etc.) There is no CS without the State, so the concept is always of a couple, or duality, CS + State. See in vol.5 of *La Société, Les Etats*, ch.18. This is generally accepted in the use of the term. I add here the concept of Revolutionary Civil Society (RCS) which is a provisional expression of Lebanese CS in revolt as it was let down by the State and is called upon in this paper for the specific purposes of monetary stability.

<sup>5</sup> The reverse principle advocated here, i.e. “good money drives out bad money”, is sometimes dubbed the Thiers law, after Adolphe Thiers, a leading historian of the French revolution (and first president of France in the third Republic). Thiers noted in *Histoire de la Révolution Française* (Paris 9th ed. 1898, Vol.8, *Le Directoire*, 10-11), that the massive rejection of the ever-diminishing paper-note known as the Assignat during the French Revolution drove it out in the people’s use of metal coins instead: “D’ailleurs les métaux, comme toutes les marchandises, viennent toujours là où le besoin les appelle, et, en chassant le papier, ils seraient revenus, comme ils revinrent en effet quand le papier périt de lui-même.” Confirming this reverse rule in *Denationalization of Money -The Argument Refined, An Analysis of the Theory and Practice of Concurrent Currencies* (London 1976), at 43 (footnotes omitted, but emphasis in original), celebrated economist F.A. Hayek concludes his analysis of Gresham’s law by showing its limits: “Indeed, whenever inflation got really rapid, all sorts of objects of a more stable value, from potatoes to cigarettes and bottles of brandy to eggs and foreign currencies like dollar bills, have come to be increasingly used as money, so that at the end of the great German inflation it was contended that Gresham’s law was false and the opposite true. It is not false, but it applies only if a *fixed rate of exchange* between the different forms of money is enforced.” The fixed rate of

16th century. In time, the received wisdom of economists has established in fact the reverse likelihood that “good money drives out bad money.” It means that people prefer dealing with a strong and stable currency in their daily transactions rather than with a constantly debased currency.<sup>6</sup>

This is such an obvious statement for every one of us Lebanese that we prefer dealing with USD instead of our national currency. We could move straight onto the feasibility part. Yet it may be useful to elaborate further on the nature of the monetary crisis in Lebanon to provide some perspective on the usefulness of the proposal, but also on its limits. Driving out the LBP from the market will not solve the multiple economic, political and moral crises in the country. But this paper suggests that it would alleviate the monetary crisis considerably.

We live in Lebanon at least three tiers of crisis. One is political-constitutional and is expressed in the unavailability of a government, namely a cabinet, to perform its constitutional role at the head of the executive branch and of the administration.<sup>7</sup> Even when there was a cabinet during the presidential tenure of Michel Aoun which started in October 2016, it was dysfunctional and ineffective, and drove the country further into the second, economic crisis tier. It is not the purpose of this paper to address what must and should be done to fix this deeper economic tier which goes to the heart of the paralysis of the country, let alone the full constitutional-political crisis, save to say that we have to find solutions, to the extent possible, outside government.

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exchange is absent on the Lebanese scene, and an additional agreed exception to Gresham’s law relevant in Lebanon operates in an international context: “In the market for international exchange media a similar tendency for good coins to be favored over bad stemmed from the absence of government authorities capable of enforcing legal tender laws and other rules compelling the acceptance of official coins ‘by tale’ (that is, at par or face value, rather than by weight) beyond national borders.” George Selgin, “Gresham's Law”, EH.Net Encyclopedia, edited by Robert Whaples. June 9, 2003, at <http://eh.net/encyclopedia/article/selgin.gresham.law>.<sup>6</sup> ‘People’ here are the average citizen. Obviously, some sectors benefit from the collapse of the currency, and I will address this further near the end of the paper.

<sup>7</sup> Lebanon remained without a president between 2014 and 2016, when Michel Aoun was forced on the deputies as the only candidate by a process characterized as “*ta ‘til*” (blocking, torpedoing). Although unconstitutional, systematic blocking by Aoun and his allies continued through his tenure, resulting in 4 out of 6 years without a government. The appointment of the Miqati cabinet in September 2021, after the earlier version of this paper was published, affects the policy proposed only marginally, as governmental effectiveness to address the constitutional, economic and monetary crisis in the country is doubtful.

Then there is the economic crisis. Prodrômes started in the flight of all the foreign banks from the Lebanese market in 2010-15.<sup>8</sup> In late 2019, the banking system has collapsed in a spectacular way.<sup>9</sup> To my knowledge, the Lebanese monetary crisis is unique in the combination of (i) banks separating people from their deposits in both national and foreign currencies with no end in sight, with (ii) the vertiginous collapse of the national currency naturally coupled with inflation in the prices of ordinary goods.

(i) On the banks preventing customers from access to their funds for such a long time, such callous treatment of depositors anywhere in the world without the collapse of the defaulting bank(s) is unprecedented. Remember, these are deposits in USD, not in local currency.

The LBP has been pegged to the USD since 1992, at 1500 LBP for 1 USD. The collapse effectively started with persistent rumors that the money exchange dealers were no longer respecting this ratio. This soon reflected in banks refusing to proceed with any significant exchange transactions once it was clear that a run on the banks had started.

The Lebanese banks, supported by the LCB, prevented people from accessing their deposits freely, and established a draconian regime allowing limited withdrawals of money from deposits, all in debased Lebanese currency. Holders of deposits in USD saw their deposits devalued through this ‘capital control’ system, so that if you had 100,000 USD in a bank, you could not withdraw it except in small increments of devalued Lebanese pounds. Deposits in LBPs were forbidden or heavily curtailed with low monthly caps. Soon, in a repeat of the . Aided by the memory of the collapse of the Lebanese pound in the mid-80s, which saw people’s savings in LBP effectively vanish, the Lebanese (and foreign depositors) took to save US dollars to the extent that the monetary mass became 80 p.c. ‘dollarised’.

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<sup>8</sup> I noted this worrying trend when HSBC and other international banks closed their branches in Beirut. “Ofac, péril en la demeure”, OLJ, 14 June 2016, reprinted in my *Boussole*, Beirut 2019, 177-81. Citibank Lebanon reacted by saying that they were still operating a branch in Lebanon. As it turned out, Citibank had reduced its presence almost exclusively to large commercial transactions, and was therefore not functioning as a normal, deposit bank. *Id.* at 178.

<sup>9</sup> In a thoughtful Spring 2021 paper of the World Bank, *Lebanon Sinking (To the Top 3)*, the crisis was described as one of the ten, possibly three, worst financial crises documented since 1900 (at 19-21). Unfortunately, the details in the paper are not supportive or clear enough, mainly because the criteria include speculation on the duration of the crisis, the ignorance of the effective confiscation by the banks of customers’ deposits, which is an enduring feature of the Lebanese collapse, and the somewhat confused choice of crises in history by the paper’s authors.

This proved not to be a failsafe system. In the remake of the crisis with a far more serious intensity, dollar-denominated deposits were effectively confiscations. Banks refuse to give you cash in USD, not in any significant amount anyway. Withdrawals are all capped, with a mind-boggling staggered value for the dollar ranging from the ‘official’, in other words LCB-imposed rate of 1500 LBP for one dollar. Then there is the market value, which has declined steadily (17000 LBP for one USD at the time of writing, so a loss of over ten times). As USD deposits trade at between 15 and 20 pc of their nominal values, the bizarre practical way it works in Lebanon takes the shape of cheques written on one’s USD account to another person with a USD account within Lebanon, with neither able to cash it. Typically A will write a cheque of 1 million bank-deposited USD (‘lollars’) to buy B’s house valued at 150,000 or 200,000 USD (‘fresh money’).

(ii) The concomitant collapse of the national currency is a more common feature of mismanaged or isolated economies and finds its archetype in the collapse of the German Mark in the Weimar republic.<sup>10</sup> Unlike Germany at the time, we have no government to retire or remove zeros from the LBP with new monetary printing, and no trust in either banks or officialdom, let alone US support so long as Hizbullah retains its weapons in government.

This is why only Lebanese RCS can act under this paper’s proposed policy. With a revolution ongoing in various forms over two years, the government (in this case the President, supported by Hizballah) did not step down. Nor did it regain the confidence needed domestically and internationally at the time all monetary and economic indicators were steadily getting worse.

How did we get here? In an obviously complex scene, the collapse of the banking system, and the concomitant collapse of the LBP, were owed to two major causes: an increasingly tight compliance regime forced by the United States government to dry up Hizballah’s funding sources and facilitators; and the bank owners’ own mismanagement in tandem with the Lebanese Central Bank (LCB) governor and the political class.

Let me address those two causes in turn. Especially under the Trump administration, the financial pressures on Hizballah through OFAC (Office of

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<sup>10</sup> On the second aspect, the Weimar-style antecedent to the vertiginous collapse of the LBP can be read in the lively description in Adam Fergusson, *When Money Dies : The Nightmare of the Weimar Collapse*, London 1975. It describes the collapse of the German mark in 1922-3, until the government replaced it altogether in November 1923, restored by the trust of the population coupled with the prospects of US financial support known as ‘the Dawes plan’.

Foreign Assets Control, part of the Department of Treasury) increased against Lebanese banks and wealthy individuals suspected of supporting the party, mainly amongst Shi'is, and effectively bankrupted them. This also took a toll on the whole sector in terms of confidence, which is the *sine qua non* existential condition of banking.<sup>11</sup> In turn the LCB and the Lebanese banks which survived carried out a policy that sought to increase deposits to reassure depositors and attract further funds from abroad which would benefit from the Lebanese banking secrecy law and high interest rates. The policy worked for a while, and the deposits in USD continued to rise to an estimated 200 billion USD-denominated deposits in early 2019.<sup>12</sup>

Beneath the rosy figures of increasing bank deposits in USD, coming in large part from abroad, disaster was looming. Practically all other economic indicators were in the red, notably trade balance and the deficit, and the Lebanese bankers were offering far higher interest rates than available in the West, in LBP but also in USD. This was sustained by the acceleration of a callous Ponzi scheme, where new deposits would finance the higher interest rates to keep depositors happy and to attract new funds.<sup>13</sup> It was untenable.

In May 2016, the first big shock came when the Central Bank governor designed its first “financial engineering” stunt, an illegal scheme which injected on the bank’s books up to 5 billion USD.<sup>14</sup> This the governor did to save leading

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<sup>11</sup> Mallat, “Ofac, péril en la demeure”, above n.8 (Arguing that Lebanon’s banking sector is under existential threat with the heightened warnings from Washington).

<sup>12</sup> “[B]anking sector assets had increased 83 per cent in eight years to \$253bn, equal to roughly five times the country’s economic output.” Junko Oguri, “Part II of Crisis in Lebanon: Buildup of Interrelated Challenges”, Yale School of Management, Program on Financial Stability, 21 September 2020, 11. By comparison, in the mid-1990s, when the currency was effectively pegged to the USD by the first Rafic Hariri government at ca 1500 LBP to one USD, USD deposits in Lebanese private banks were estimated at 20 billion USD. With dollarization at 80 pc when the monetary crisis hit hard from the end of Summer 2019, this means the holdings of Lebanese banks in USD stood at ca \$200 billion. There are no reliable figures on the flight of capital in or around the beginning of the collapse of confidence in the pegged currency, but it happened massively, and accelerated the run on the banks in the Fall of 2019.

<sup>13</sup> Ponzi schemes are borrowing methods by which the ‘financier’ would take your money, give you high interest on it, and then use the new money deposited by new clients to pay for the interest he gave you. It takes various forms, from the original scheme of Ponzi in the 1920s (trade in Italian coupons) to the 2008-9 US banking collapse (trading securities, in particular mortgage ‘packs’) to Lebanon (trading in USD deposits to finance a corrupt deficit).

<sup>14</sup> Mallat, “Alternance”, OLJ, 23 May 2017, in *Boussole*, above n.8, 134-8 (Arguing that in addition to the “financial engineering” stunt by the Central Bank governor who had vaunted until then his conservatively prudent policy, remaining in post for such a long-time entrenched

Lebanese banks in difficult situations, but also in contradiction to his own conservative policy since he took over the LCB in 1992. This 5 billion USD scheme destroyed the reputation of the Lebanese sector, built over a century, in the international banking system. No bank stood up to the governor, and a stream of other banks cashed in on the scheme.

Reader: banking is no rocket science, however straight the banker's suit and proverbial his arrogance as the holder of your money. Banking is a process with one single transaction. The bank uses deposits (the money you entrust them with as client/depositor) to lend customers big and small at a rate higher than the interest they give you on your deposit. Because there are masses of depositors, money adds up at the disposal of the bank and multiplies for other use. This is called risk, and banks work on the assumption that not all depositors will retrieve their deposits at the same time. Multiplication allows all kinds of other payable services (cheques, transfers, mortgages, commercial bills, portfolio management, etc.), but the bottom line remains the same, and is based on your confidence that the bank will give you your deposits safely back upon your timely demand.<sup>15</sup> When confidence fails, a run on the banks destroys the system.

The Lebanese banks overexposed your trust in them, in part by shifting your deposits through the Central Bank, which was giving them unreasonable profits. Effectively, the LCB governor was responding to growing clientelist urges from the government, skyrocketing the deficit by pumping the people's deposits to finance it. This included astronomic increases in public sector salaries and pensions, for instance Lebanese University professors and army officials, and the plethoric hiring of civil servants. The LCB governor was also taking a course diametrically opposed to his original cautious, conservative policy (which allowed the country to sail unscathed through the 2008-9 world crisis) in order to maintain and increase his personal power and stay at the helm come what may, whilst lying to the public about the allegedly secure situation of the Lebanese lira. In at least a decade-long process of mutual services at the expense of the depositors between

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corruption in government.) Bank Audi in particular, one of the three main Lebanese banks, was reported to have lost heavily in a Turkey-based speculative adventure.

<sup>15</sup> The best introductory book on banking remains Jacques Lavrillère, *L'Industrie des Banquiers*, Paris 1966. It is particularly adequate for the way Lebanon's banking sector (partly modelled after the French) worked until the LCB "financial engineering" in 2015-6. Lavrillère is a pseudonym of Robert Fossaert, above n. 4. The book is available at [http://classiques.uqac.ca/contemporains/fossaert\\_robert/Industrie\\_des\\_banquiers/Industrie\\_des\\_banquiers.html](http://classiques.uqac.ca/contemporains/fossaert_robert/Industrie_des_banquiers/Industrie_des_banquiers.html). In English, see chapters 23 and 24 of the classical book of Paul Samuelson, *Economics* (1<sup>st</sup> ed. 1948, New York 2010 ninth edition with William Nordhaus used here.)

the Central Bank governor, the private banks, and corrupt politicians, bankers dared not say no to the LCB governor, and he did not say no to the politicians whom he did not want to displease, because to say no threatened his hold on to the LCB governorship that has lasted for over a quarter of a century. In short, the private bankers and the Central Bank ruined the country economically, egged on and arm-twisted by politicians who used the growing mass of deposits in the private banks to finance the deficit and the corruption that went with it on both sides: politicians developing their clientelist base and banks receiving money from interest from the LCB on their financing the deficit and other troubled schemes like the 2015 ‘financial engineering’ scheme, money which they swiftly transformed into profits for their shareholders and executives.

The collapse in the summer of 2019 was a long-announced disaster staring the country in the face. The moment of truth was accelerated by two events: the first was the open alignment, with a rocket in hand, of the Lebanese foreign minister with Hizballah.<sup>16</sup> His siding with Iran against Saudi Arabia and the Sunni world was vaunted to no end. As the detachment of Lebanese foreign policy from its traditional Arab allies moved towards Iran, Prime minister Hariri remained silent instead of standing up to a wayward foreign minister. His Saudi patrons had warned him against the election in 2016 to the presidency of Michel Aoun’s, the Lebanese foreign minister’s father-in-law. They called him in the summer of 2017 to Riyadh when Lebanese foreign policy expressed itself increasingly as advocacy for Iran in regional fora. He did not heed their mounting anger. They called him in again in November 2017 to arrest him and force him to resign. He was let free thanks to US and French pressure and reinstated. Through the perceived alignment with Iran, Lebanon steadily lost its Arab economic depth, on which a sizeable part of the population relied directly or indirectly for their daily living. There is no downtown Beirut without Arab Gulf money.

The second event was the plain lie of the LCB governor to us, the Lebanese public. Looking straight into the cameras, he said that “the Lebanese pound could not be safer.”<sup>17</sup> This was at the time when the banks were increasing their interest rate

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<sup>16</sup> For a picture on 5 May 2019 of Gebran Bassil, then Lebanese foreign minister, donning a large smile while holding a rocket offered to him by Hizballah, e.g.

<https://www.albawaba.com/news/lebanons-bassil-gets-rocket-shell-gift-hezbollah-1284303>.

<sup>17</sup> As late as 11 November 2019, the LCB governor was still repeating that the LBP is in good health “thanks to the policy of the LCB” and banks safe on account “of the high dollarization” of the sector, “and the stability of the LBP as the expression of confidence in the continued entry of the dollar to Lebanon.” See quotes e.g. in “*Hakem masraf lubnan: hafazna ‘ala istiqrar si‘r al-sarf rughm al-dughut* (LCB governor: we have succeeded in keeping the stability of the currency



astronomically to calm their customers, reaching 15, even 20 pc on the LBP, and up to 15 pc in some cases on the USD, while interest on USD and other major currencies earned close to zero interest elsewhere in the world.<sup>18</sup> Doomsday was staring us in the face throughout the summer and fall of 2019, and those responsible: the bankers, the LCB, and sundry officials playing ostrich, all lying through their teeth.

Large depositors (in USD) started pulling out their money from the banks in the course of 2019, probably earlier (we have no statistics, also a field with little transparency because of the personal hold of the governor onto the LCB). The flight of USD accelerated, and the LBP was undermined first on the moneychangers' market. Confidence collapsed and people made a run on the banks to withdraw their money. Banks first closed shop, for days and weeks at a time, with the support of the LCB. Then they froze people's access to their money. By bluntly depriving depositors from their deposits, they robbed their customers clean, there is no other word for this. All legal attempts by depositors to sue the bank hit the brick wall of an unsaid collusion between the Lebanese Bank Associations, which federates banks on whose boards many politicians sit (when they do not own them outright), and the high judiciary.

No one has been held accountable to date: the lead bankers are still there, sitting on their boards unperturbed. They reelected the same man as president of their Association. The LCB remains governed by a man accused of corruption in various legal actions in Europe. The three top public officials in government are still in position, give or take the persona of Saad Hariri. Hizballah continues to flout Lebanese law openly, and operates a state within a state under the protection of the Lebanese president and its own weapons. The Lebanon nonviolent revolution, massive and ongoing, has not succeeded in removing them from power, and the rot deepens whose utter expression is the down spiral of the national currency.

In light of this reading of the background, the upshot is clear: in daily transactions, one cannot, must not, rely on private banks, the Lebanese Central Bank, or the

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despite all the pressures), *Al-'Arabi al-Jadid*, 11 November 2019. By then, the banks had closed shop for two weeks to prevent a run by customers to retrieve their money. This was followed by the so-called 'Capital control' policy, which meant that, in addition to the collapse of the national currency, the deposits were no longer freely accessible to their owners, as described earlier.

<sup>18</sup> For some figures on the rise of interest rates on deposits, see <https://tradingeconomics.com/lebanon/deposit-interest-rate>. The statistics here do not quite match the frenzied rise of interest rates before capital controls were established, or the debasing of the USD denominated deposits once people's monies were confiscated.

political rulers. Since we have been unable yet to hold them accountable despite our massive nonviolent revolution, let alone remove them from power despite their incompetence and crimes, we must limit their harm to the full extent possible by taking the monetary future of the country in our own hands to the extent possible. A key part of their monetary power revolves over the LBP inexorable collapse against foreign healthy currencies. We must face the fact that our national currency is clinically dead, and cleanse our daily life from the miseries resulting from its artificial support.

### **b) A feasible policy?**

Since we all think in USD and not in Lebanese lira -- again, I have no particular reverence for the USD, one can use Euros or rials or whatever stable currency one is comfortable with --, how do we retire the old lady until the other conditions for its revival, i.e. a political and economic renewal, are settled?

In the opening cite, I propose we conform our daily life to the reality of our transacting perception, which is in USD. We use LBP but think in USD. It is therefore imperative that we conform our perception to the reality, and pay the taxi driver in USD, the medicine we buy in USD, our employees in USD, that we bill our clients in USD, so that we slowly and surely drive, to the utmost possible extent, the LBP out of the Lebanese monetary market.

In a thoughtful comment on the present paper, Professor Ibrahim Warde expressed his skepticism on the feasibility of the policy which requires nothing less than a ‘heroic’ stance from people who have scant dollars to afford the luxury of parting with them.<sup>19</sup> While I share his concern, the Lebanese have shown ‘heroism’ and unimaginable resilience since they set on the nonviolent revolution that has been going on relentlessly over the past two years. A sense of community by way of a shared common vision to lessen the impact of the currency spiral downwards can also be supported by the considerable financial power that Western countries command.

Where do we find the USDs? In an open world market of which Lebanon remains part, dollars circulate massively and freely, except for the deposits trapped in Lebanese banks. We import USDs every day from abroad, mainly in the shape of foreign remittances. It is the foreign remittances that sustain what is left of the

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<sup>19</sup> Email, 30 July 2021.

people's revenues. It was estimated in 2020, despite Covid, at 7 billion USD.<sup>20</sup> This is money that came into the country fully in foreign currency, and continues to sustain us against an impending famine, approximately 1000 dollars per annum per capita. In addition, foreign governments and public and private institutions are also injecting relief to NGOs, Syrian refugees, sometimes ministries and their programs, even the Lebanese army, and various businesses, all in foreign currency. Figures for this are scant, but the amount may be significant.<sup>21</sup> And all visitors to Lebanon operate in foreign currencies, namely USD. All of the above money is in hard currency and is better kept in circulation in hard currency. Good money drives out bad money in our head. The question is how to make it real, and how to organize the cleansing for us and the bulk of the Lebanese population.<sup>22</sup> Will this people-conducted policy solve our problems? Not fully of course. The impact of the present paper is limited, and such a policy is insufficient to solve our political and economic problems. It will not even solve our monetary problems in full, because the Central Bank will continue to print Lebanese pounds for the government to pay its hundreds of thousands of employees. In the absence of

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<sup>20</sup> In a brief response on this paper, Prof Ishac Diwan made the following two enlightening comments: "I estimate that about 8-10 bil /yr enter Leb these days, in remittances and exports - less than half what used to come in. If these scarce dollars are used as a store of value, rather than for imports (as is happening), imports will naturally have to fall further (i.e, equivalently, the XR will become more devalued). This is too bad (and in a way an "inefficiency"), but it cannot be avoided in the absence of the needed reforms.

- Finally, if, or as, the movement towards dollarization accelerates, printing money to finance deficits and LBP withdrawals from banks become increasingly unfeasible: every injection of new LBP will be even more inflationary than before, leading to a deadly spiral. This will end up sending rapidly the \$ towards a million LBP. This may end up a softer way of 'destroying the old system' than a civil war." (Email, 21 July 2021). The figure conforms with personal information from UNDP that support for Syrians in Lebanon is ca 1.7b usd annually.

<sup>21</sup> There is also a proposal from the World Bank to create a fund that takes care of the poorer 700,000 families in the country. This is another occasion for a significant injection into the economy of foreign currency.

<sup>22</sup> Amongst the various economic (as opposed to monetary) proposals, the most adequate may be to create an altogether new bank, based abroad, through which financial support flows into Lebanon : "Lebanon's inability and unwillingness to structure a financial rescue along the lines of the standard IMF playbook bode ill for the country's future. The only solution may be to devise a new playbook with unorthodox approaches that have not been used before but may be better suited to Lebanon's situation... As an alternative, a group of international lenders (IMF, CEDRE, and the United States) might form a new legal entity under UK or Swiss law and provide it with substantial capital. This new entity – call it the New Lebanon Bank (NLB) – would begin with a clean balance sheet and a large capital base." James Rickards, *Crisis in Lebanon: Anatomy of a Financial Collapse*, Monograph from the Foundation for Defense of Democracies, 4 August 2020, available at <https://www.fdd.org/analysis/2020/08/04/crisis-in-lebanon/>, 35.

profound administrative reforms, public sector salaries continue to plummet in value, bringing a cruel equilibrium by making one's salary count in Lebanese humor as "gallons of gas per month." Less and less subsidized, gas prices have risen inexorably to international market value, making the soldier or the teacher earning less than ten gallons in salary a month.

As the monetary crisis gets worse with inflation skyrocketing and salaries paid in Lebanese pounds not worth a laborer's drive to her place of work, my proposal is meant to lessen the citizen's despair of seeing the LBP reach ever lower bottoms, and to start bringing sanity to the market by retiring an ever deteriorating currency. The stability of currency is an essential part of daily life. The collapse of the national currency dominates every other economic aspect for the citizen. Better not to deal with a fading currency than to continue being robbed everyday by the growing chasm between the LBP and the USD. This can also apply in the donors' community, as a condition which ought to be imposed on the Lebanese government for the disbursement of funds. One does not realize enough the depth of the impoverishment of Lebanese citizens, who vote everyday with their feet on their disillusion with the country at the door of Western and Arab consulates in search for visas, let alone revolting reports of kidney and other organ blackmarket sale. Any outside financial support is an occasion for the injection into the economy of foreign currency straight to the end user.

Private companies must adjust, and they slowly do. What about civil servants, who are paid in debased LBP by the State? To be candid, the sergeant in the army who receives today the equivalent of 100 USD for salary is better served if he does not receive next month the equivalent of 80 USD. The tragedy that affects him and every other civil servant and public employee will not subside, because the state will continue to print money and debase its own currency. My proposal will not solve the civil service problem, it is destined to help the private sector in the real economy pull itself together in a cleansing operation that stops the hemorrhage. To get better, the civil service needs to be cleansed from atrophy, plethoric hiring, and corruption, a vast and impossible task without a change in the ruling class. Until then, the tragic impoverishment of the hundreds of thousands of state employees continues, and there is no monetary solution for that. As the LBP continues its devaluation, employees in the public sector are likely to flee a job that won't pay for a few days livelihood. I hope that the present proposal will help alleviate this tragic development by a) providing possibilities for productive employment in the private sector for moonlighters and defectors, b) ridding the public sector 'naturally' from plethoric and ineffective employment as civil servants simply stop showing up considering their insignificant salaries, and c) forcing out the political

class in power so that good government is possible. This is a tall order, but it is peripheral to the current proposal which concerns how the rest of society, specifically Revolutionary Civil Society, can extricate itself from the monetary spiral downwards.

The more sophisticated observer will say, but what about legal tender? In all sovereign countries, the national currency is legal tender. You must accept LBP otherwise you stand in violation of the law. But the objection does not apply to the present proposal, which is voluntary. Most of the private sector is free to pay and to ask for payment in foreign currency.<sup>23</sup> If a legal tender objection is raised, your average citizen will ask for parity of the day and seek to change her money into a stable currency before the LBP in her possession collapses further. It starts therefore with each of us extricating ourselves in reality, as we do it effectively in our mind, by dealing as much as possible in USD.

Nor can the ‘government’, and there has been none for most of the past decade, and no prospects for an effective one, prevent us from adopting this proposal. Nothing in the legal tender laws prevents you from paying in USD, or prevents the other party in the transaction from receiving the money in USD. The more USDs circulate, the less LBPs circulate, the faster the rebirth of the economy on the monetary side of our ever-worsening impoverishment.

There are some sectors which are likely to oppose this proposal. Bankers lose control over the money flows in the real economy if the LBP dries up, but they benefit on the long run from currency stability when the economic circulation is restored on a healthier basis. The LCB leadership loses their *raison d’être*, but it is time to retire it, along with most of the 4000 employees of the bank, let alone the various perks for board members of various regulatory schemes which would become meaningless. Moneychangers have been amassing small fortunes, but their services will remain needed for a while. The main problem is the public sector, but it has become an increasingly hollow shell when salaries have diminished by a

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<sup>23</sup> Prof Georges Ghanem confirmed this policy in the health sector, one of the most sensitive in the country because of a confluence of factors: it is massive, vital, sits between public and private agents, and uniquely advanced traditionally in Lebanon. Ghanem commented that the “healthcare we are elaborating, 1) plans with fresh US Dollars premium payment; 2) plans using healthcare-based dynamic exchange rate; and 3) [seeks to] suspend current co-NSSF policies and re-issue co-Nil policies. Fresh dollars should be injected in all businesses in order to assure some stability. We are entering a period of international aid and support; all supportive funds will be in dollars; portion of salaries will be (is already) on fresh dollars basis....all this will help to contain inflation and stabilize the market....relatively.” (Email, 26 July 2021).

factor of over 10 (this, when the USD traded at 15,000 LBP months ago), and employees and pensioners will see their revenues increasingly hit. Together, these sectors may appear as a big and powerful group, but they cannot prevent the application of the proposal.

They can do little against a scheme which people can adopt without coercion. The private sector has always served Lebanon better than the State. This is where the concept of Civil Society, and more specifically Revolutionary Civil Society, becomes key. This is also where this proposal requires a considered and studied support from international actors, Western and Arab ones in particular, to help the Lebanese out of the criminal policy conducted by the ruling class.

So fellow Lebanese citizens in the RCS, rise and cleanse our monetary system, to the extent you can, from our ever-worsening national currency. Use foreign currency in your daily transactions.

Beirut, Summer 2021