

THE ECONOMIC CHAOS IN DEVELOPING COUNTRIES: THE CASE OF LEBANON.

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Abstract

Economic studies in recent have been strongly influence by mathematical formulas ignoring to a high degree, the basic specificities and differentiating factors in every state and society. It has been common, by international institutions, such as the IMF, the World Bank and local banks, economists or researches to simply rely on superficial and often inaccurate statistics, revolving around GDP, per capita income, inflation rate and others to formulate economic and financial strategies mainly for the developing countries. The general results have been so far abysmal. Wealth is being accumulated in few hands and poverty stricken social closes are rapidly expanding. This paper focuses on the case of Lebanon to highlight the meaning and effective bases of its development. The Real Estate sector was chosen for the study because it is considered the main engine for development. The hypothesis claims that the ballooning of property prices, in the absence of proper taxation policy and economic strategic planning, is indirectly forcing the country's youth to emigrate, while the poor class increased to about 60% of the population. The research demonstrates that in the absence of good governance and the rule of law, corruption creeps monopolizing power and finances. The country consequently is heading toward instability, violence and possible chaos. It also proves that statistical data wrongly collected do not lead to development rather prevent or worsen it.

Keywords: International institutions, inflation, developing countries, strategic planning, good governance, corruption

Introduction

The geography and populations of planet Earth have been divided into “sovereign” states, each governed by a particular system based on complicated and often naïve or utopic economic, military and political

theories imposed by the few over the large majority of the world. These theories can best be described inconclusive, unproductive and misleading.

When the term “state” is mentioned one refers to land, people and government regardless of the political system, aptitude and performance.

The “term” governance in contrast, presumes two distinct modes of living citizens of a specific territory strive to reach and achieve. Two basic levels in this case become evident. The first, generally, refers to the built-up personality of the state to include its human resources, government bureaucracy; norms cultural values and ethics, education, skills and qualifications.

The second, which has been selected as the major axel of this research, focuses on economic development, resources’ management and developmental sustainability.

Both levels act as twins in forming and advancing the state, leading it to continual effective and productive development.

The topic of this research has been selected following much studies and experience as a challenge to the floating and utopic theories advanced by writers and researchers for implementation, mainly in industrialized countries where they remain debated, partially unsuccessful and subjects of contention and counter-debate.

This paper is divided into three basic categories to help the reader be the judge and decision-maker on the issues. Category one, briefly highlights the political and legal machinery’s impact on a specific country’s development; category two focuses on analyzing the pillars of economic planning and development in general, and in the Developing countries in particular. Category three revolves around leadership and decision-making.

Hypothesis:

The hypothesis of the research intends to clearly prove that western political economic thoughts or theories do only partially apply to developing countries, known as countries of the South; consequently blindly borrowing and applying those theories invite endless negative risks, suffering to and abuse of the citizens.

I.

Political governance and development.

In this category of developing countries power is considered the main engine to generate, define and control state activities. The term “power” in this case applies to any behavior starting with fear, terror, destruction of national morale and unity to constructing and developing healthy environments.

The purpose of this research is not to dwell on scientific and factual concepts, or theories of power, rather to remind the reader of a simple formula:

Power+ ignorance= total disaster. A society ruled by ignorance, has unofficially buried its wisdom, goodness and freedom. Power becomes the instrument that dictates to individuals, societies and states the long and strenuous path for development and survival. Ignorance, coupled with power, may be compared to an uncontrolled volcano of brutality and vices that burns and destroyed anything in its path.

Political power sets up the laws and the games' rules that vary from one country to another. It can ignite conflicts, wars, terror and death on one hand, or promote peace, stability, justice and cooperation on the other. Many writers and researchers attempted to create models or theories that would act as magic wands capable of solving any problem, once applied; regardless whether the ground is fecund and ready to grow on foreign cultural seeds. The overall results of many theoretical applications end as intellectual appeasement, but do worsen the actual problem far from resolution, for clashing with foreign cultures and thoughts, would often institutionalizing the rule of violence deprivation and revolutions.

Consequently the political environment to promote sustainable economic development ought (a) to be based on the rule of law, under the guidance and management of intelligent and reasonable regulatory policies. (b) to require highly effective strategies for action away from chaos, distortion and utopian declarations. (c) to institute a high and continual effective process of education, training and dissemination of knowledge.

Governing is an act like an orchestrated masterpiece of music. Cacophonous notes should not be allowed. The developing countries' constitution could not act as the Maestro director of the musical concert. To be an artist manager requires knowledge, education and skills. Public management consequently is not based on superficial and empty slogans and statistics, fake class nobility and self- allotted honorary titles, nor the spread of fear and terror in the hearts of citizens. Public management requires commitment to serve within wise creative planning.

Economic Development.

The economic development of any society entails, in depth, scrutiny, analysis and awareness of the many factors that constitute the economic "all", sustained by a continuously evolving system, theories or models. It is not something to copy from some and paste to others, but it is locally created although drawing benefits from international recommendations, achievements and trade cooperation.

Economic planning:

Planning entails a deep and accurate micro and macroeconomic discovery and analysis of the said factors assessing their impact on the overall economic growth and performance. Planning necessitates several modified strategies for action and effective application.

In turn these strategies and actions require a highly qualified and advanced team of humans and technology management on various levels, beginning with identifying the issues, searching for answers or solutions, selecting and applying the most adequate policies and last evaluating and assessing the results. The efficiency of the team and related policy are highly dependent upon a high degree of accuracy in collecting the pertinent data. These are principles that cannot be subjected to emotional whims of leaders, or the will of the ruling contributing actors specifically where financial and business monopolies escape legal control and are permissible by law. Some economists claim that a healthy economy must be based, in some forms or others, on (a) less regulations, preferably complete deregulation; (b) application of the supply and demand slogan meaning that the market would regulate itself while government's hands are off; (c) attraction of Foreign direct investment in the country even though it might be sometimes quiet detrimental to the majority of citizens; (d) cut down on all governmental basic services to the citizens such as subsidized education, health and agriculture; (e) borrowing more funds from international institutions giving the latter's higher role in causing corruption, elite governance and national general bankruptcy. In Lebanon, for example the national debts have so far bypassed the eighty billion U.S. dollars, meaning that for every new born is assigned an amount of \$75,000 debt to be paid off.

The results have, so far, proven disastrous for this developing country is further for it is downed into debts and underdevelopment. The main question then: what is the real meaning of development?

This research defines development as the discovery and proper management of human and natural resources of a sovereign state.

The involved factors in development include: (a) adequate level of education and literacy of bureaucrats and citizens at various levels; (b) highly modern, efficient and transparent political and judicial systems; (c) highly qualified, trained and recruited leadership and bureaucracy; (d) good governance under the rule of law, with strict accountability of those responsible and citizens' participation in the management process.

The focal magic revolves around "good governance" and management of the country's resources under the rule of law. It is ironic that a country ought to spend thousands of billions of U.S. dollars on its military hardware, its high-rise buildings, its laws blindly copied and foreign to its culture and its needs to be classified as developed. Evenly it ensued that

humans transformed into an arena of corruption, internal strives, terror, economic and political monopolies. The authors chose a case for this research the country of Lebanon, and in particular the sector of real estate.

The research is detached from any individual or groups' influence or interest; rather it simply and clearly shows the weakness and fallacies of some economic theories that are often borrowed by certain local developing ruling elites to justify their failure in running their poverty striking country, Lebanon.

Lebanon is a country with glorious past history of discoveries and achievements, beginning with the alphabet to sailing, the oceans, merchandising and cultural dissemination. In its recent history and since its independence in 1943, it became plagued by major socio- religious-economic and political diseases like, feudal lordism, theocratic conflicts, illiteracy in matters of nationalism, and public management control by group of elites and mafias practicing governance through fear and corruption.

The Lebanese economic environment.

The basic indispensable elements needed in assessing such an environment do not scientifically exist. They consist of:

- A sound and effective political system based on the principle of separation of powers,
- An effective judicial system, offering security and protection to the citizen as embodied in the constitution. The reality, however, reflects chaos, crimes, corrupted and ineffective public institutions and bureaucracy. Consequently governance is led through individuals, or feudal families in an administratively centralized process.

The Lebanese economy.

It is, in contrast, disheartening to discover that politicians and economists lack adequate awareness of what really constitutes the Lebanese economy or should be its engine.

Researchers are often faced with solid obstacles such as lack of public statistics, coupled with application of outdated and primitive technology, lack of effective governance and modern applied laws. The Lebanese economy, in general, is built upon some basic pillars: (a) the banking system and related financial institutions; (b) the service sector, comprising tourism; (c) remittances by Lebanese emigrants to their families; (d) the Real Estate sector based on future speculations, absence of an equitable taxation system, long term planning, effective regulations and accountability under the law; and last (e) the flow of Gulf money by foreign investors with high appetite for property in Lebanon. (Real Estate Registry, Audi, 2009)

These buyers pay cash for the property. Ironically those who naively confuse the numbers of granted construction permits along the delivered quantities of construction steel and cement placing figures such averaging from 20- 30% increase, are really unaware of the reality.

Banks offer housing loans with interest rates usually *affected by the U.S. prime [rate of LIBOR and an added fixed percentage]*. The loans covers between 50 to 85% of the appraised value, given for a term between 20-30 years (Bank du Liban 2012). The BDL has so far efficiently regulated the flow of capital in the sector. Lebanese banks consequently are quiet conservative in their landing and practices with limited exposure to derivatives and structured products.

One must be careful about the tourism factor. Although the figures presented by the Ministry are highly inflated for they do not specify who were the tourists, rich or poor? Did they truly contribute to sustain and develop the economy? Did the average citizen benefit or they covered higher prices of goods and consequently move inflation? (Ministry of Tourism)

The authors opted to focus in this research on the real estate sector being directly dependent on Foreign direct investment. (There is also a direct reflection on the changing of a beautiful country into very expensive blocs of concrete).

The authors' hypothesis highlights the fallacy and erroneous claims of the soundness of the economic adage in this particular case, namely: demands control supply. It further intends to prove that deregulation of business activities in developing countries constitutes a blessing to foreign investors and their agents, but a curse to the local population.

It is ironic that the Development of a country is based on statistical clichés and errors such as GDP, per capita income of the individual or the macroeconomic performance of a country.

The CEOs of the National Central Banks (BDL), in their series of speeches, locally an internationally, cite so many statistics such as

The GDP is expected to rise to 2 percent this year.

- Political tension, internally, regionally and internationally affected the growth.
- Inflation is about 6%.
- Interest rates are stable.
- The balance of payment this year exceeded \$2 billion due to the high costs if impacts and fall of exports.
- Lebanon's oil bill is \$6 billion.

They then urged the Lebanese government not to raise taxes especially on the real estate sector. (Daily star, 2012). The government is urged to consult the real estate developers on matters of taxation to protect their profits.

The World Bank rushes to the rescue providing additional statistics. It reassures the reader that Lebanon enjoys a healthy and large middle class. It classifies Middle class those who can earn between \$15,000 and \$27,000 annually. (Daily star)

The author intends to prove that most of the statistics are false for those reasons:

a. The statements of assurance by the Central Bank top management are general, vague and non-realistic.

b. The actual Lebanese designate Middle Class by the World Bank constitute 5 to 6% of the population while the traditional Middle Class forms 50-60 percent of population.

3.4.3 The Lebanese reality shows different figures than those advanced by the World Bank and other sources.

- The minimum wage per labor is \$500 per month. A freshly graduate student from a university may earn between \$800 to \$1,500 per month= a total of \$9,600- \$1,800 per year. Assuming that the worker is not engaged in a second job or in illegal activities.

The living costs of an individual to barely survive on a monthly basis are:

1. Single individual.

a. Transportation in the absence of adequate and dependable transportation system may vary between the average of \$ 300 was used.

b. Food average of \$15 a day. 450.00

c. Living quarters 100.00

d. Cell phones or others 50.00

e. Minimum medical expenses 50.00

f. Schooling? ?

g. Clothing? ?

Total \$950 x12= \$23,000

Would this be considered a middle class living? The standard here is below poverty level.

2. Let's now consider a young married couple's cost of living, assuming that the sum of their earning is joint together \$2,500 or 3,000 per month.

a. Transportation \$600

b. Housing (rent/ purchase) 1000

c. Housing appliances and equipment 600

d. A child cost 400

e. Food 900

f. Medical expenses 100

g. Cell phone, water and electricity	200
h. Clothing	150
i. Schooling	?

Total \$3,950 or 46,000 per annum

These costs for minimum survival drive the couple into abysmal debt and poverty. In Lebanon the truth attests that 60% of the Lebanese miraculously survive to pay their bills.

Such measuring factors may be partially applied to certain countries where statistical data could be scientifically reached along acceptable errors but not in Lebanon. Development as a result, would be misperceived, when based on the number of high-rise buildings, freeways, restaurants, hotels and numbers of night entertaining pubs.

Instead of using several Arab countries as examples, Lebanon has been selected as a comprehensive case. The following clearly reflect the tragic and blunt negative side of country's economic reality. The findings are categorized as positive vs. negative ones.

The Positive results.

1. The people of Lebanon are in general great entrepreneurs, survivors and kind of inventors of ways and means to sustain their existence regardless of how painful are the costs. They often work two or three jobs to barely pay their bills, or emigrate to collect fortunes. This explains why there are over 14 million Lebanese emigrants living overseas compared to 3 ½ millions residents of the country. As a result a high percentage of the economic booster to Lebanon's economy is caused by the expats' remittances, the return of retired who desire emigrants to spend their remaining life in their country of origin. The other source of economic push relies on the tourist sectors that allegedly attract over 3 ½ million visitors per year. This sector has been lately proving to be detrimental to Lebanon in the long run. Last is the illegal and uncontrolled traffic of foreigners and into the country as refugees or others benefiting from Lebanese banking secrecy, poor system of taxation and actual economic chaos?

1. The Problems.

The negative issues affecting Lebanon is economic life are so multiple that further studies are required. The focus of this research is on Lebanon, a country of paradoxes, contradictions, exceptions, a sort of a guise pig for international corruption and waste. Searching deep in the country's state of affairs one would identify a long lists of "lacks".

- The country named after the white summits of its mountains covered by snow and much rain, runs out of water. It is plagued by acute and lasting

thirst. Citizens buy water to drink and wash, while natural water flows wasted into the sea.

- On the average over 16 hours a day large areas of the country are plunged in darkness due to shortage in electrical power. Dangerously high voltage lines pass within few meters of the residents living quarters, causing a series of illnesses.

- The green country of the cedars, has presently few hundred trees left; worse it is being flooded by unplanned and non-regulated unlimited number of concrete blocks under the pretext of constructive development by wealthy real estate investors. The country faces total desertification as costs of “so-called” unplanned and abysmal modernization. It is estimated that over half a million apartments stand either empty or unaffordable to purchase by local citizens. Since the great majority of Lebanese, especially the youth belong to the low middle class or poor one, that fails to earn a monthly salary to pay for its basic needs and necessities as demonstrate previously, wealthy foreigners come into the country to purchase or rent the concrete cubical at high costs, generating unpredicted inflation and fake economic growth. The actual Lebanese youth and labor in contrast immigrate, often for no return, to earn a decent living. The real estate market is transformed into an ugly bazaar market controlled by greed, theft and corruption. It is the major factor that drives the people of Lebanon to leave their land and search for new homes abroad. Wealthy foreigners slowly take over the country and their place. It is unconceivable to consider this economic development, when, lands that had no agricultural, nor industrial value sold few years ago at \$ 10 to 20 a square meter is now marketed at \$700 to \$13,000 a square meter. The government lacks any proper taxation plan or policies. Lebanese citizens can no longer afford to own property, consequently rich foreign citizens take their place. Is this the hoped for economic development? Lebanon is sold out to wealthy tycoons and to monopolizing businesses. This invasion of the country causes prices of goods, commodities and services to spirally racket [?] large numbers of the citizens of their basic existence. It is reported according to Bank Audi, real Estate registry, based Ramco Real Estates advisors to the bank’s research department that prices in 2009 scored on average by 41.9% .(Real Estate Registry-Audi, 2009) This was confirmed by Georges Abou Joude of Renaissance Holdings. The searching of prices in this sector does by no means proves that the Lebanese economy is healthy. The main issue remains the few collect wealth while the majority suffers the consequences. It is unconceivable that in certain areas the value per square meter rose from \$3,000 to 10, 12 and 13 thousands in a short time.

- Due to the lack of effective governing bodies, corrupt and bureaucrats, the country and its people are enslaved to economic mafias and greedy elites. The bureaucrats can be easily bought and sold out at any time;

the leaders are pampered by financial gifts, or become puppets of wealthy masters and last justice hibernates. Laws, rules and taxes are strictly applied to weak and poor citizens, businessmen e.g. use two different ledgers to disclose their income, portfolio and subsequent taxes to be paid. In contrast governmental authorities lack proper taxation laws and collection mechanisms. Most Lebanese economists hide behind certain theories and preach the clichés of “supply and demands”, “Laissez- faire”, “the market will regulate itself – government stay out”. Beautiful hopes are fed to consumers whose main concerns are their basic needs to be fed or feed their families. In all, the agencies which would apply the rule of law and hold violators accountable to justice are yet to come out for the rescue.

- National debt has reached the \$75 billion, with no means to slow it down, reduce it or pay it back, especially when most of the borrowed money has little or no guarantee and is take from the citizens’ savings.
- The country lives under the despotic and unchecked rule of monopoly and corruption. One would wonder who? Where and how this unhealthy state will be repaired?
- The claimed for modernization of the country remains an empty slogan to perpetuate the power of the corrupt ruling elite high costs of living, shortage of water, open corruption at all levels for institutional, ideological and economic reforms need to be urgently addressed, scanned and resolved.
- Corruption is deeply rooted at all administration levels of the public sector. Being employed by the Lebanese government means having access to sources of wealth, social power and recognition. It is eventually a safe and guaranteed investment, for there is no clear and mandated ethics except compliance with the adage “the stronger survives and the weakest is enslaved”. Freedom, democracy and equity are musical notes for in different lands.

The main questions, as a result, the authors would address to those who rule Lebanon as managers of the public sector:

- Is Lebanon a developed or developing country and what constitutes its development?
- Is the annual earnings of \$9000 by the educated youth, fair and commendable, knowing that the youth spent \$50.000 or more to graduate? Is this a sign of national development and modernization? How many years does this youth need to pay off a car valued at \$20.000 and an apartment valued at \$300.000?

Following some mathematical calculation it became clear that if the applicant saves \$200 per month, which is not always feasible because in reality he is unable to many additional expenses. It is estimated that a Lebanese young man or woman would need to work 160 years just to own

together a car and an apartment. If a young couple spares \$1000 to pay for their apartment valued at \$450.000 after interests, taxes etc... they need to live and work 45 years. But what about their food, children, schools, medical expenses, others...?

The ugly result is that the citizen is compelled to (a) leave the country in search of possible opportunities; (b) divorce himself/herself from any ethical concept; (c) and join the mafias deal with illegal businesses; (d) or be lucky and find a treasure. In brief, Lebanese youth are being compelled to emigrate. It is ironic that one must face the hard truth and reality if one ops to activate his/her intelligent thinking. Furthermore, it is disheartening to become fully convinced that man, although born free in theory, is fully controlled and ruled by ignorance, greed and ruthlessness.

Conclusion

A small elite rules and exploits Lebanese available resources while the majority live in poverty, slavery and deprivation. Their salvation is either in submission or joining their lords when allowed.

Lebanon's economy has been surviving due to debts, grants, loans and Lebanese expats remittances to their families, in addition to flux of wealthy foreigners. In addition to hunger and poverty, the people suffer from so many archaic laws, insecurity, uncertainty, lack of safety and above all pollution of the food they consume, the air they breathe, the roads they drive or walk on; yet their leaders have taught them well the art to dissimulate their pains and surrender. Through words and speeches they express their dreams and wishes to succeed, be famous and outstanding. They are entrapped into a psychological circle of pretentions.

These same people pledge their loyalty to individual leaders who feeds them often empty words and keep them victim of unreachable hopes, fear, uncertainty, authority and depressive state.

The author feel that further urgent research needs to be undertaken by scholars and professionals who would free themselves from unreliable statistics, and objectively focus on the advantages, disadvantages, weaknesses and strengths of the three Lebanese economic sectors. The priority should be given to the Banking and Real Estates sectors, followed by tourism and agriculture. National economic development could not be based on false advertisements or camouflaging of realities. With all its Real Estate boom and its banking's superficial flattery, the country's poor class has reached 50% and increasing, unemployment estimated at 20% with abysmal salaries, and emigration of its creative youth has no solutions.

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