

ELUSIVE PROSPERITY, RECEDING PROSPECTS

Musings on globalism and the economy's defunct paradigm

Albert Nasr

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The plethora of literature on current international economic and financial affairs directs thoughts to five basic conceptual constructs namely, capitalism; democracy; welfare; globalism; and the nation-state.

When the five terms-cum-constructs are connected, a pattern emerges that is laden with clues to understanding complex international developments and, tangentially, Lebanon's economic history and current economic quandary.

1. Capitalism, past and present

The precepts

For the best part of seven decades, Lebanon's strain of capitalism was extolled roughly in the following terms: a) it is a system that sanctifies private ownership of personal and business assets, and the freedom to use these assets without legal or regulatory hindrance; b) State intervention is condoned only to prop up the market economy (and its stalwarts); and c) trade openness and the unrestricted movement of capital are essential to generate affluence (directly at the crest, and through 'trickle down' for the rest).

Notionally, economic policy in such a system should have been conducive to capital accumulation in all sectors of activity; after all, that's what capitalism is about, and that's whence it derives its name. In reality, however, that was not the case.

The halcyon days

Lebanon's brand of capitalism was best exemplified by the emergence in the nineteen-fifties of Beirut as a trading, banking and financial center for the Levant and beyond. This came about primarily as a result of colonial investments in the

city, but also in the wake of the de-industrialization of Mount Lebanon, followed by the ruinous impact of the First World War on that once-prosperous region.

Trade openness, free movement of capital, and a stable currency were key to the city's – or more appropriately, the city-state's – role as a regional provider of all forms of services.

In such a system, capital naturally flowed to segments of activity that required less of it, attracted by comparatively high gains and rapid accumulation of wealth. In that era, success in the race for riches entailed weaving solid commercial and financial interests with the countries of the region.

The three decades to the mid nineteen-seventies were deemed to have validated this paradigm.

The city-state built itself a modern cosmopolitan façade, an alluring display window so necessary for the conduct of regional business; a Potemkinesque deception if there was one.

Beyond the façade, Mount Lebanon was a welcome 'annex' as a lodging place for wealthy tourists. As for the country's peripheral regions and the city-state's poverty belt, they were deemed to be an imposed encumbrance, not worth spending much of the recurring State budget surpluses on their development.

In the eyes of its beholders, the city-state, with its oversized port, its commercial links with the region, its competencies in the provision of services to that region, could have remained *über alles* had it been on its own, insulated, protected, cocooned, and not "a piece of the continent, a part of the main."

The halcyon decades ended with the internal war.

2. Democracy and social policy

Equally lauded was the country's parliamentary democracy, but that was – and still is – also a peculiar variety of governance.

Whereas the elected legislators in Western democracies had to adopt social policies with an egalitarian tinge at the behest of their voters and faced the threat of not being re-elected should they fail to legislate in that direction, Lebanon's parliamentarians were not under such obligation, as repeat votes were theirs by 'tribal' and confessional right.

Whatever socially motivated measures or projects were undertaken throughout the decades of prosperity, reflected the will, moral standing, or statesmanship of those who instigated them. The system's bouncers made sure daring socially motivated initiatives were stifled in the crib, and such measures and projects were scant indeed.

This systemic failure to accept the redistributive rationale of fiscal policy has fossilized a raw form of capitalism, one that had ceased to exist in advanced industrialized countries.

To different degrees, these countries had gone farther away from the primitive and callous system toward the welfare state, a form of governance that not only did not depart from capitalism, but it plainly reinforced it morally and ideologically.

Then came globalism.

3. Globalism: Ideology or historical process

There are two misleading notions propagated by the globalist literature: The first is the use of the term 'globalization' in instances where the term 'globalism' – or more appropriately 'global statism' – ought to be used (no minor semantic matter), and the second is the charge that opponents of globalism are against the fusion of activities and aspirations that make the oneness of humanity.

On the latter point, no words ring more forebodingly pertinent than those of J.M. Keynes, uttered more than eighty years ago: “Ideas, knowledge, art, hospitality, travel – these are the things which should of their nature be international. But let goods be home-spun whenever it is reasonably and conveniently possible, and above all, let finance be national.”

Globalism is primarily an ideology; globalization is a process. As a process, globalization is neither a historical imperative nor is it necessarily a vector of progress, and its opponents are certainly not retrograde nationalists who embrace *völkisch* ideas.

As an ideology, globalism triggered, guided, and expanded the damaging variety of globalization, namely financial globalization.

Heralded by financial deregulation in the United States, which started in the late nineteen-seventies with a string of legislations that unbound greed and the yen to dominate, the globalist ideology gained ground and countries, shrewdly propped up as it was by international financial institutions. With the consequent evanescence of national financial boundaries and jurisdictions, the reins of global-level financial manipulation were placed in few hands intent on pushing for more control and more concentration of wealth. In this process, some of the very foundations of Western democracy were gradually nibbled away to varying degrees in different countries.

Long accumulated ‘social gains’ are anathema to globalist ideology. Thus, the first foundation of democracy that had to go was accountability to the electorate, to be replaced by accountability to global financial institutions and transnational conglomerates.

Lebanon had an edge on that count. After a decade and a half of basking in the carnage of an internal war, the economy of the early 1990s had to re-integrate

within a radically different world than the one it had left when it took time off to attend to warfare.

Reintegration, it was commonly thought, could occur painlessly since the economy was as unencumbered as ever by social obligations to its workforce. And its parliamentarians were also as free as they have always been from the burden of being held accountable for the socially-minded legislation they had so deviously failed to enact.

On the economic front, the credo of *laissez faire*, trade openness, and the rekindled – but irrational – aspirations to regain a regional role in commerce and finance, conspired to fashion the self-image of modern-day Phoenicians traders and middlemen as old-hand globalists. And of course, a display window had to be rebuilt and was placed under private stewardship with a mandate to price the plebs out of its bounds.

Facetiously, impish analysts of those days harped on about the enlightened foresight that led to the embracement of globalism well before the term gained currency. The sneer was not viewed as such, and it echoed – seriously, amusingly.

The irony took on a tragic turn with the increasing pauperization of the labor force, as measured by the steadily diminishing share of wages in Gross Domestic Product. So much for prosperity trickling down.

Trade openness and the discretionary control over business capital induced the displacement of a number of manufacturing concerns to ‘wage havens’ in the region, thus conferring a peculiar meaning to corporate social responsibility.

At the public sector level, fiscal policy was summoned to provide the tools for the further compression of the share of wages in national income. Regressive taxation and unbridled public borrowing were the most injurious of these tools.

Adding insult to injustice, this nefarious redistribution of income and wealth was incessantly coupled with the mendacious claim that in the phase of reconstruction, the economy could not afford the cost of instituting a modicum of social justice.

Through thick and thin, the plutocracy has evoked State indigence as a lame justification for unwillingness to introduce policies that provide basic social protection and equal opportunity for all.

Capitalism is what policies make of it. As a guiding model for economic management, capitalism may be viewed as being ideologically insipid, but the shortsighted and unenlightened economic policies of Lebanon's ruling posse have rendered the country's strain of capitalism plainly unpalatable.

4. The national sovereignty backlash: the emergence of post-globalist capitalism

Financial deregulation, the overpowering sway of mega supranational financial corporations, and the emergence of corporatocracies in a number of Western countries have led to the financial implosion of 2008 and are paving the way for an even more destructive collapse, topped off with a cataclysmic currency pole-shift this time around. Writ large is the fact that globalism did not survive its first major economic crisis.

Trampling on national sovereignty on the altar of dysfunctional federations invariably revives nationalism, either in its virulent variety or in its more judicious version. And because what is past is prologue, the reaction should have been predictable.

The backlash is history in the making; it is generating strong centrifugal forces that are beginning to splinter supra-national behemoths and treaties.

Of these, the triple T treaties¹ express nothing less than the consummation of war alignments and attempts to consecrate the power of transnational conglomerates over signatory governments. Ironically, these treaties were partly designed to parallel the World Trade Organization, which globalists view as having tolerated a 'disruptive' say and sway to 'maverick' countries.

Compared with this level of threat, the backlash is reasoned indeed; it calls for the law of the land to be homegrown and holds that certain national interests ought to supersede compliance with the interests of global financiers.

The historical process has been engaged and the globalist interlude in the history of capitalism is on a waning course. This is so because the misshapen, global-statist form of capitalism has lost its ability to kindle hope for more material progress and by the same stroke, its institutions have lost the confidence of those who are under its yoke. Growing awareness of the deceitful and disruptive social, political, and security 'engineering' wrought by globalism will help lay the moral foundations of the emerging version of capitalism.

Viewed from that perspective, factors such as election outcomes in first-world countries are of second-order importance. These outcomes may hasten or slow down the process of change, but that process is a manifestation of deeper undercurrents and hence there is hardly a conceivable stratagem that could marshal critical force to induce a reversal.

5. A template for reforms

Saddled by a massive and unpayable public debt, fast-degrading governance, and complex geo-political risks, Lebanon's polity is in no position – ethically and practically – to retort the well-merited castigation of globalist financial institutions.

¹ The Trans Pacific Partnership (TPP); the Trans Atlantic Trade and Investment Partnership (TTIP); and the Trade in Services Agreement (TiSA).

While admitting that the system can hardly be tweaked out of its predicament by patchy reforms, a guiding template may be drawn that is meant to focus research on the fundamental flaws of the obsolete paradigm.

The primary premise is that the past quarter century has proven that it is impossible for Lebanon's economy to replicate past prosperity just by clinging to the trade openness ideal, notwithstanding the notional advantages of free trade.

For one, traders have lost considerable ground in regional triangular trade, and have been marginalized by the emergence of larger regional capital and markets. And, of course, the warehousing, transit, and rotating-platform functions – relic buzzwords from the nineteen-seventies – have been bypassed and outclassed by fast regional infrastructure development. As for the web of commercial interests weaved with the region, it proved to be too fickle to withstand the emergence of markedly better-capitalized regional trading houses.

Hence, economic reform needs to be structural and focused mainly on capital accumulation in the goods producing sectors – manufacturing industries and agriculture – in order to narrow down sectoral disparities, however moderately.

Arguably, a larger measure of sectoral balance would result in a more sustained and stable growth as the economy's over-dependence on some of its sectors and some of its regional economic 'partners' would be evened out.

Economic efficiency and equity, the normative principles of public finance, need to be established as policy guides. And it is only when this is achieved, would the functions of allocation, distribution, and stabilization be effectively fulfilled, and the merits and the solid theoretical grounds of a secular equilibrium in State finances be confirmed and espoused.

A social policy needs to be formulated that ought to be anchored to the principle of instituting equal opportunities for all. With Lebanon's Gini index nestled so high on the global scale, analysts may want to revisit the chapter on the

redistributive powers of fiscal policy. By the same stroke, they may also have to ponder over the role of these powers in heightening work incentives, establishing a national work ethos, and spurring growth.

Reform also calls for dismantling kleptocratic institutions, eradicating corruption, penalizing the wasteful and improvident management of communal assets, and thwarting rent-seeking and other predatory economic activities.

Barring lightning, deep and all-out reforms, Lebanon's governance and the tribulations it wrought will make amusing cartoon depictions in treatises on desolation economics.