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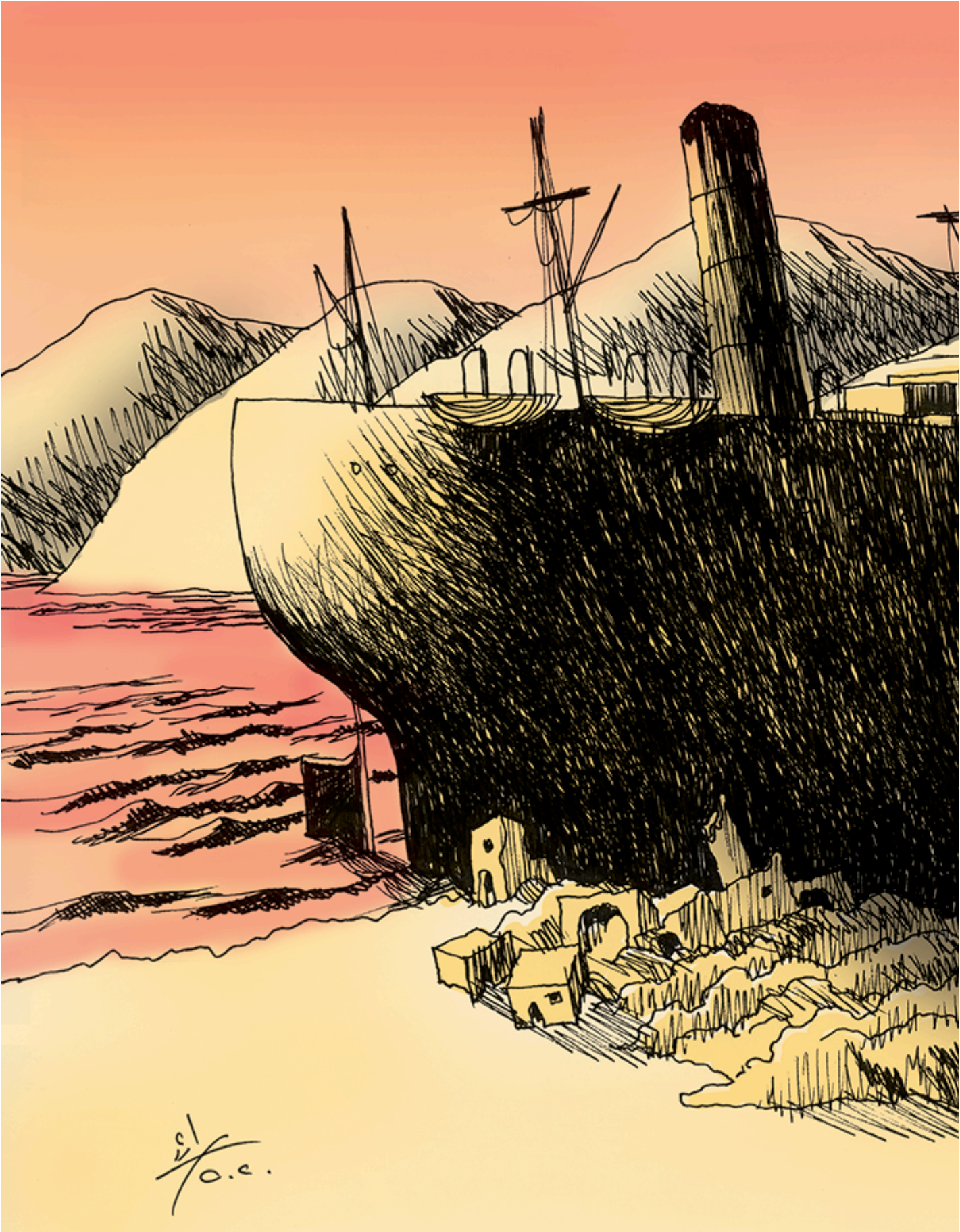
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## **The Moral Limits of Michel Chiha's Economic Liberalism**



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### ***Illustration by Raed Charaf***

With the dawn of Lebanon's independence, the country faced the choice of different economic paths. While newly independent nations often opted for industrialization, self-reliance and a break with previously enforced colonial systems of mercantilist trade with the West, important sections of Lebanon's dominant elite chose to create an intermediary role for the country instead. They opted for an export-oriented economy, which they deemed more appealing for Lebanon because of its assumed diverse and worldly identity, education and 'civilization'. Arab in identity but also deeply Westernized, the abovementioned elites saw the country's role as building bridges between East and West. Their foremost spokesman was the famous ideologue Michel Chiha. As I will argue below, the theoretical foundations of Lebanon's outward-oriented economy may have been successful had its domestic foundations been solid. Chiha's laissez-faire economy was far from a perfect application of the theory. While Lebanon's position in the international market was well established and Beirut became a hub of economic activity in the Eastern Mediterranean, the competitive force of economic liberalization was restricted through a deep neglect of domestic institutions and organizations to monitor and guarantee fair competition. The resulting economic environment facilitated financial preponderance to a coalition of business giants while financial inequality became a systemic problem.

#### **Sources of Inspiration: Ancient Phoenicia or the Mutasarrifiyya?**

The developments of the 19th century had a lasting impact on the idea of Lebanon. Chiha's ideology considerably drew from the experience of Mount Lebanon's mutasarrifiyya.[1] The image of the Lebanese sea merchant, so evocatively retraced to ancient civilization by Chiha and other proponents of Phoenicianism, likely derives its inspiration from this short-lived commercial experience of the 19th century rather than the national myth of Phoenicianism. As Mount Lebanon's silk industry expanded and French interests became more entrenched in the region, Beirut grew. Home to a fast-developing infrastructural plan, its port, roads, educational and diplomatic institutions flourished as France gained more and more concessions in the city.[2]

Chiha's family exemplified this rising urban bourgeoisie. In 1876, Antoine Chiha and his father-in-law re-invested the fortune they made speculating on raw silk into one of the country's first indigenous banks: "Banque Pharaon-Chiha." Before the demise of sericulture, the Pharaon-Chiha

association became the biggest silk-reeling enterprise in the Wilayat of Beirut, responsible for 12% of the total export of silk from the port of Beirut.[3] Many within this class of merchants would also make more profits as they traded essential commodities during the blockade of WWI.

The emergence of this mercantile bourgeoisie, which prospered as global capitalist relations penetrated the region and benefitted an exclusive class of merchants, was conducive to Lebanon's outward economic orientation in the aftermath of independence and Chiha's own articulation of it.

### **Chiha's Economic Ideology**

Chiha wrote extensively on his socio-economic vision of Lebanon. His editorials in *Le Jour*, unmistakable in their poetic style, made him sound like a moralist at heart. Whether he discussed corruption or economics, the bottom line was a matter of principle. Accordingly, his outspoken support for economic liberalism equated the latter to individual liberty, and his disdain of nationalization was presented as inspired by his apprehension of Big Government.[4] He wrote: "In its commercial life like its intellectual life, Lebanon lives on freedom." [5] Like the ancient seafaring Phoenicians of the 1st millennium BC, mobility, transport and commercial spirit remain relevant to the Lebanese merchants. In a starkly essentializing and unhistorical tone, he wrote: "Lebanon was already a country of commerce three or four thousand years ago. It did not change much." [6] He goes on to list the various means of transportation available: "maritime roads, terrestrial roads... have multiplied, and aerial routes, this century's newcomer, are predominant." Casting the image of the worldly Phoenician traveler as the inspiration for contemporary Lebanese, Chiha made use of the Phoenician national-myth, which he called the country's "historical predisposition", to entice a growing number of partisans. In a statement that portrays the Lebanese as essentially tradesmen who would not know how to survive outside that specific model, he wrote: "Lebanon is one of those countries where foreign trade is a condition of life". [7]

To allow any kind of state intervention in the economy, especially protectionist measures to regulate foreign imports, was detrimental in practical terms due to restricted competition but also undermined the very character Chiha drew for Lebanon: "Lebanon, to ensure life, cannot handle barriers." [8] And, true to form, in dire times of inflation, like the ones witnessed directly after WWII, instead of resorting to government intervention, Chiha redeployed the ideal of Lebanese resourcefulness and resilience of character, noting: "In Lebanon, our essential raw material is brain matter. We sell services more than products. When there are no more

outlets for services, it is necessary to impose privations and tighten our belt.”[9]

In light of his enormous influence in shaping the ideology of the newly emerging Lebanese nation, Chiha’s neglect of the welfare state and the minimal role he prescribed to government played a major role in ensuring that Lebanon’s political economy would be based on shaky social foundations (due to inequity). It would be unable to react in a systematic and concerted way to unforeseen regional or international economic or political crises.

Moreover, one of Chiha’s main arguments against protectionism and the industrialists who pressed for it was to encourage competition domestically. Citing the dangers of informal markets, nationalization (which he referred to as a monopoly and therefore an instrument of “abuse” and “excess”)[10], Chiha harshly denounced state intervention. He and the commercial lobby portrayed industrialists as unable to survive in the face of international competition due to their subpar products: “We do not like industries which, in order to painfully produce a mediocre article, want us to close the sea and the sky for them”.[11] This created an association in the minds of many Lebanese between protectionism and an illegitimate kind of domestic monopoly.

However, even after economic liberalization, internal regulations to maintain a healthy dose of competition within the domestic economy never took place. This is well illustrated by the semi-official business consortium known as SERIAC (Societe d’Etudes et de Realisations Industrielles, Agricoles et Commerciales) which Chiha helped found. SERIAC was a collection of mostly French participants (both governmental and private) but included substantial Lebanese interests all related to president Bechara El Khoury and his entourage of family members and business partners.[12] Acquiring many of the country’s lucrative contracts, especially in construction, the company thus perpetuated both, the influence of a narrow circle of Lebanese businessmen and, French politico-economic sway in the country post-independence. This made the company susceptible to accusations of monopoly and corruption.[13] Rather than facilitating mechanisms to encourage competition, the government (especially the Ministry of Supply created in 1942), due to corruption (or *wasta*), often worked in the opposite direction. For example, by issuing import licenses to or turning a blind eye on trade controls for select families or individuals, they facilitated the creation of a commercial oligarchy.[14]

At the dawn of independence, Chiha and his economic associates, self-styled ‘the New Phoenicians,’ formed the Société Libanaise d’Economie

Politique (SLEP). At its inauguration banquet in 1943, Gabriel Menassa, the main economist and president of SLEP made it clear that the society's aim was to reverse the war economy and liberalize the entire system.[15] Despite objections by industrialists, the structures of a free market were set up and the roots of the "Merchant Republic" were implanted. Chiha and SLEP were also major players in the decision to revoke the Syro-Lebanese Customs Union in 1950, which had existed since the French mandate. Opposed to Syria's protectionist economic model and struggling to revoke the high tariffs it set to protect its infant industries, Lebanese merchants lobbied for a complete separation with their Arab neighbor. Underlying the economic differences between Lebanon and Syria was an obvious ideological-political conflict. Certainly, in the era of decolonization, Syria like many other newly-independent countries decided to develop self-sufficiency and invested in agriculture and industry. A powerful portion of Lebanese bourgeoisie disagreed with this strategy. They had a strong Western cultural propensity and were politically open to the West, despite colonization. Their economic focus on the service sector opened Lebanon to international markets and revealed their Western and liberal ideology. Indeed, as Chiha admits, "Lebanon's economy [was] subordinate to its politics".[16] The failure of the Syro-Lebanese Customs Union equally reflected the growing national predisposition of the Lebanese to follow an economic path separate from Syria.[17] This distinct economic path led to a period of growth famously known as the Merchant Republic.

### **The Merchant Republic**

The initial outward economic success of the 19th century silk industry left a lasting mark on generations of elite merchants who strived to recreate what WWII – with its trade barriers with Europe – had interrupted. With independence achieved in 1943, and the rise of Bechara El Khoury and his Constitutional Union Party to the presidency, Chiha's ideology seemed ripe for application. In fact, Lebanon's famous post-independence "economic miracle" owes much to Chiha's laissez-faire model and a cluster of circumstances favoring economic growth.

It is true that Chiha pressed for a reversal of the inward-oriented war economy; yet it was the regulations under the French mandate which encouraged the kind of investment in the open economy he highly esteemed.

Firstly, the low-competition structure of the closed economy that WWII imposed on Lebanon and the high-consumption local market was easily manipulated to the benefit of merchants and industrialists who accumulated huge amounts of profit. These internal savings would be a cornerstone for

the establishment of a service-based economy in the era of independence. Indeed, readily available capital flowed into new business ventures in finance, trade and tourism. Secondly, and despite some major drawbacks] of the Franco-Lebanese monetary agreement of 1948,[18] freeing Lebanon's reserves of French francs abroad and guaranteeing the value of a portion relative to the price of British sterling boosted confidence in the Lebanese economy. It also provided importers with a robust and stable currency with strong purchasing power, making imports flow into the port of Beirut.[19] The prospects of high profit in Lebanon's service economy and its banking system, which absorbed the region's petrodollars and provided banking secrecy, encouraged its growth to the detriment of industrialization and agriculture. The interest of the financial bourgeoisie, of whom Chiha was an integral part, compounded with the high reserves of foreign currency (accumulated through the allies' increased expenditure in the region) and the ideological predisposition of a growing circle of Lebanese against the economic trends of nationalization and closed economy, overlapped to create the 'economic miracle' of the 1950s. While the glow of Beirut's service sector made it an international destination for tourists and businessmen alike, the country's internal structure – with its weak government and lack of market competition due to rent-seeking activities and corruption – made Chiha's model viable and beneficial to only a handful of affluent businessmen centered in Beirut. When confronted with the prospects of corruption, an idealistic Chiha elaborates:

The vast moral and social conflict, in which the whole humanity is agitated today, concentrates all its efforts around these two poles: freedoms and constraints... the general direction of the debate is that the individual left to his own devices is incapable of limiting himself for the benefit of the community. [...] But good citizenship is what varies the most from one country to another and it is *education* that governs the whole problem.[20]

Unfortunately, citizenship and education could not forestall the expanding reach of corruption in Lebanon. Instead of a balanced socio-political system, Lebanon's model reinforced an informal network of patron-client relationships, in which the country's most vulnerable are granted much needed services by their political leader only in return for loyalty. And while education remains one of Lebanon's fortes, it failed to moderate individual greed and deception – two problems which have taken root at the heart of the Lebanese political economy. Even if we take Chiha's claims about laissez-faire at face-value, upholding individual virtues as a substitute for the role of government in socio-economic affairs was optimistic at best. At

worst, it was self-serving for a member of an economic and social elite that sought to operate free from government controls.

The very structure of this economy (with its over-reliance on the tertiary sector, and its underdeveloped agriculture and industrialization) gave pre-eminence to the country's mercantile bourgeois elite. In 1948, while at least 50% of the population depended on agriculture for income,[21] the government's neglect and lack of private capital in the sector displaced a large part of the population, especially from the south, who would migrate to the capital for work and better prospects. As Kamal Salibi states, "after 1943 [i.e. independence], the mountain became more and more a hinterland to Beirut, which could be easily visualized as a city-state of the modernized Phoenician type at the head of what was essentially a merchant republic." [22]

This centralization and the neglect of Lebanon's peripheral regions set the stage for mass immigration into Beirut's suburbs during the 1950s. The irregular dispensation of electricity and the poor irrigation system in the countryside in effect reflected economic policies that elite men like Chiha pushed for. The working class families who made up the infamous 'poverty belt' around Beirut thus increasingly looked to communal networks, rather than the central government, for protection and security.[23] According to sociologist Fuad Khuri, this phenomenon solidified communal affiliations to an unprecedented extent, making these rural migrants more conscious of their communal identity than they had been in the countryside.[24] Indeed, this clientelist system ultimately gave way to a vertical (rather than horizontal) stratification of society along sectarian lines and stymied a healthy social formation of the population at large. These unbridled laissez-faire policies, combined with a parliamentary system of confessional representation, enhanced the use of sectarian patronage.

As a result, the ruling upper class could remain in power and conduct its economic affairs as it pleased. They did not fear that labour unions would bring lower sections of society together in the fight for a more equitable economic system.[25]

### **Conclusion**

Chiha's views were not confined to politics. He devised a system of thought that also focused on the economy and which led a line of scholars to roundly criticize his moralizing tone. As many have noted, to understand Chiha we need to account for the various personalities that made him the man he was: a journalist, a catholic, a politician, an intellectual, and an affluent banker.[26] His adherence to Lebanon's financial bourgeoisie cannot be ignored when assessing his economic thinking. And certainly, his



promotion of Lebanon as a service-based economy coincided with the interests of the ruling class who had lucrative investments in trade and banking. Nonetheless, in retrospect, his economic model seems less fitting to the Lebanese context rather than unrealizable in principle. For one can perhaps imagine a workable service-based system with minimal government control in a different economy; however in a developing economy, like Lebanon's during the 1940s with half the population working in the agricultural sector and with the sectarian complexities of the political system, such unrestrained laissez-faire policies were bound to end in trouble.

Ironically, the market failures Chiha apprehended so much seemed to emerge in large part due to a neglect of government regulations, rather than an overly-interventionist central power.

[1] Nadim Shehadi, *The Idea of Lebanon: Economy and State in Cenacle Libanais 1946-54*, Oxford: Centre for the Lebanese Studies, 1987, p. 8. See footnote 11.

[2] Marwan R. Buheiry, "The Rise of the City of Beirut," and "Beirut's Role in the Political Economy of the French Mandate," in *The Formation and Perception of the Modern Arab World*, The Darwin Press, 1989.

[3] Fawwaz Traboulsi, *A History of Modern Lebanon*, Pluto Press, 2012, p. 59.

[4] Michel Chiha, *Propos d'Economie Libanaise*, Arab Printing Press, 1994, p. 52–54.

[5] *Ibid*, p. 119.

[6] *Ibid*, p. 32.

[7] *Ibid*, p. 56.

[8] *Ibid*, p. 30.

[9] *Ibid*, p. 35.

[10] *Ibid*, p. 53.

[11] *Ibid*, p. 312.

[12] Carolyn Gates, *The Merchant Republic of Lebanon: Rise of an Open Economy*, Oxford: Centre for Lebanese Studies, 1998, p. 94, p. 170 and p. 60.

[13] Irene L. Gendzier, *Notes from the Minefield: United States Intervention in Lebanon and the Middle East, 1945-1958*, Routledge, 1999, p. 46 and p. 83-85.

[14] Gates, *The Merchant Republic*, p. 39. Gates mentions F. A. Kettaneh who was "reported to have made a fortune from illegal US imports."

- [15] Gates, *The Merchant Republic of Lebanon*, p. 82.
- [16] Chiha, *Propos d'Economie Libanaise*, p. 270.
- [17] Edmond Chidiac, "Les Intérêts Communs Syro-Libanais (1920-1950)," in *France, Syrie et Liban 1918-1946: Les Ambiguités et Les Dynamiques de La Relation Mandataire*, Institut Francais d'études Arabes de Damas, 2002, p. 268.
- [18] Lebanon's 4 billion French francs stored in Paris lost 45% of their value due to the franc's devaluation a day after signing the agreement.
- [19] Gates, *The Merchant Republic of Lebanon*, p. 43 and p. 97.
- [20] Chiha, *Propos d'Economie Libanaise*, p. 20–21.
- [21] Gates, *The Merchant Republic of Lebanon*, p. 59.
- [22] Kamal Salibi, *A House of Many Mansions*, University of California Press, 1988, p. 179.
- [23] Albert Hourani, "Political Society in Lebanon: A Historical Introduction", Emile Bustani Middle East Seminar, Center for International Studies MIT, 1985, p. 15.
- [24] Mentioned in Hourani, "Political Society in Lebanon", p. 15; and Fuad Khuri, *From Village to Suburb: Order and Change in Greater Beirut*, University of Chicago Press, 1975.
- [25] Michael Johnson, *Class & Client in Beirut: The Sunni Muslim Community and the Lebanese State, 1840-1985*, Ithaca Press, 1986; Michelle Hartman and Alessandro Olsaretti, "The First Boat and the First Oar': Inventions of Lebanon in the Writings of Michel Chiha," *Radical History Review*, no. 86 (Spring 2003): pp. 37–65; Traboulsi, "Identités et Solidarités," pp. 96–102.
- [26] Fawwaz Traboulsi, *Michel Chiha and the Lebanese Ideology*, Riad El-Rayyes Books, 1999.