Banking on the State: The Financial Foundations of Lebanon, by Hicham Safieddine, Stanford, CA: Stanford University Press, 2019, 253 pages, $30.-

Reviewed by Clement M. Henry

As some of Lebanon may prepare to celebrate the country's first century (1920-2020), this study of its financial foundations is not only a brilliant rewriting of history but also timely and prescient. The recent run on Lebanese banks may be turning the so-called foundations into quicksand. The author warned that their underlying "mercantile-financial interests" render them vulnerable to financial risk. Indeed, an elite set of bankers has been extracting the profits from an exchange rate fixed to the dollar since 1997. They converted dollars to Lebanese pounds and lent them to the state at higher interest rates than their dollars could earn, with the assurance that they could be reconverted to dollars without loss. "Banking on the State"--its ballooning public debt—became unsustainable once remittances and Gulf petro-dollars could no longer keep expanding the pyramid scheme.

Writing shortly before the latest collapse, Safieddine traces Lebanese banking from its Ottoman origins through the Mandate period to the emergence of independent Lebanon and, eventually, to the creation of Banque du Liban (BDL), its central bank. He documents the intimate connections between the bankers and the very concept of Lebanon as a state. Unlike other classic accounts of the merchant republic, he focuses on bankers rather than on broader social groups of the commercial community, such as traders or entrepreneurs. He shows how the former's vested interests in trade finance shaped "the engineering of monetary space formation, a key component of the construction of heteronomous national economies" (p. 20).

Unlike their Syrian counterparts, the Lebanese bankers pushed back against any substantive regulation until the formation of Bank of Lebanon in 1964. Even then, it took the major financial crisis following the collapse of Intra Bank in 1966 for their Association des Banques du Liban (ABL), founded in 1959 to defend their Banking Secrecy Act of 1956, to accept a Banking Control Commission in 1967. Safieddine argues that their shortsighted laissez-faire led them in 1948 to extend the concession of the Banque de Syrie et Liban (BSL) to print Lebanese money, a concession viewed as neo-colonialism by their Syrian counterparts. Previously bankers had preferred foreign currency or gold, even old Turkish gold coins, for their lucrative private sector financing, while reserving the legal currency issued by the BSL for public sector transactions. The Lebanese decision to keep the BSL as the bank of issue resulted in an overvalued Lebanese lira to encourage French imports and presaged the end of the Syrian-Lebanese customs union in 1949.

As oil revenues flooded Lebanon, American and Gulf Arab banking interests weaned the ABL from its dependence on French business to support some regulation being promoted by international financial institutions, resulting in a "tense alliance" in Lebanon between bankers and "Chehabists," the followers of President Fuad Chehab (1958-1964) who advocated administrative reform. Generations of "money doctors" from the American University of Beirut helped to engineer new monetary spaces and indeed, in an institute attached to its Economics Department, literally to operationalize the Lebanese state by generating Lebanese rather than combined BSL statistics. They developed blueprints for the central bank, which inherited and developed these statistics. So it was that in 1964, twenty-one years after Lebanon's theoretical independence, the BDL represented full Lebanese economic independence, although Safieddine also insists that Lebanon still remained structurally dependent, this time on American financial hegemony.

The collapse of Intra Bank in 1966 endangered the entire financial edifice. Safieddine devotes a full chapter to objectively explaining the various interpretations and conspiracy theories associated with its collapse. He concluded that much fault laid with the bank's founder, Yusif Beidas, a Christian who was half Lebanese, but that his unprofessional business practices, so common among Lebanese bankers, did not justify the BDL's inattention to his needs. A Lebanese court arbitrarily ruled that the bank was bankrupt although Price Waterhouse was dismissed before completing an audit that seemed to be indicating that the bank was solvent and simply suffering a liquidity squeeze. Towering over other Lebanese banks, it had antagonized them; and Beidas, half Palestinian, did not socially fit in with the leading coterie of bankers attended to by the BDL.

Safieddine also deals with the reorganization of Intra into a financial investment company under the supervision of Kidder Peabody, the New York financial consulting company, and its Geneva "point man," Roger Tamraz, deemed by the author to be part of an American "supranational policy network." Tamraz would subsequently become a "monetary warlord" serving President Amin Gemayel (1982-1988), but the full extent of his problematic management, including running another major bank to the ground after JP Morgan divested its shares to Intra's successor company, is not disclosed in this book.

During the years of Lebanon's uncivil war (1975-1989) its banking system survived, and the BDL "kept the very idea of a viable, stable, independent Lebanon alive" (p. 175)—its governor becoming the president of Lebanon and the head of its Banking Control Commission the prime minister (1976-1980), a pattern for prime ministers to be repeated in 2005-2009 with another former bank supervisor). While Safieddine devotes relatively little space to the war or subsequent years, he points to the BDL's continuing significance. US Ambassador

Jeffrey Feltman chose to reside inside it in 2006 so as to protect it from Israeli bombs (p. 176). Rescuing it from financial ruin will involve far more complex policy choices which, the author concludes, must take full account of Lebanon's uneven economic structure and become "an ongoing process of constructing state-embedded regulatory regimes...neither subject to the dictates of international financial institutions nor subordinate to private banker power" (p. 180).

Clement M. Henry, Emeritus, University of Texas at Austin