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# Lebanon's Political Economy: From Predatory to Self-Devouring

Lydia Assouad

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## + CONTENTS

Summary	1
Introduction	2
A Country of Extreme Income and Wealth Inequality	4
The Culprits: Lebanon's Political and Business Elites	10
Tax Reform: A Concrete First Step Toward a New Economic Model	13
Conclusion: Toward a New State	20
About the Author	21
Acknowledgments	21
Notes	22



## Summary

Over the past three decades, Lebanon's ruling class—which comprises intertwined political and business elites—has run the country into the ground. To survive its ongoing accumulation of challenges, including the financial crisis that erupted in October 2019, Lebanon requires a revamped state backed by a new economic model with social justice at its core. Tax reform is central to such an endeavor—and to ensuring that the state has the means both to deliver basic services and to tackle poverty and inequality.

## Key Themes

- Since 2005, Lebanon has been characterized by extreme inequality in both income and wealth. The richest 1 percent of the population receives, on average, 25 percent of national income, while the poorest half receives less than 10 percent. Regarding wealth, the richest 10 percent of the population owns almost 70 percent of total wealth. Additionally, the middle class and the poor have little chance of upward mobility.
- Those responsible for this situation are the country's political and business elites. Together, they have divided the country's public and private sectors between themselves and created a system in which they can extract rent on virtually any economic activity.
- Without radical and immediate reforms, Lebanon will become a failed state. Though major political and institutional change is necessary, redesigning the country's economic model is no less urgent. The key to designing such a model as well as a new state guaranteeing a fairer distribution of resources is fiscal reform.

## Findings and Recommendations

- Lebanon should design a general and progressive income tax, one that taxes all sources of income together, as opposed to separately. This would include all types of capital income.
- Lebanon should increase top marginal tax rates applied to the highest incomes. Top marginal tax rates in Lebanon are quite low by international and historical standards.

- Lebanon should institute a one-time wealth tax on the richest Lebanese for the purpose of funding much-needed emergency relief: an exceptional 10 percent tax on billionaires would yield 2-3 percent of the national income, which is more than what the progressive income tax currently collects from all Lebanese combined.
- Over and above the one-time wealth tax, it is essential that Lebanon levy an annual tax on wealth in all its forms, in particular on built property, in order to increase revenue.

## Introduction

Even before the massive protests that shook Lebanon in October 2019, the country's political economy was fraying.<sup>1</sup> Yet the inevitable and ongoing financial collapse has taken many by surprise, owing to the widespread assumption that Lebanon's consociational democracy and laissez-faire economy—rooted in the banking and real estate sectors—was both exceptional and durable. The country's political elite had long amplified this trope of Lebanese exceptionalism in order to maintain a status quo of which it was the prime if not exclusive beneficiary. The truth, however, is that Lebanon's exceptionalism lies in its record-high income and wealth inequality, which is perpetuated by a corrupt political economy. In fact, it was precisely such exceptionalism that served as the main driver of the 2019 protests.<sup>2</sup>

Earlier that year, the Lebanese government had discussed launching an austerity program to deal with a brewing financial crisis. The poorest and most vulnerable segments of the population would have been disproportionately affected by a raft of ill-thought measures: cuts in public sector wages, monthly salaries, and pensions; a hike in taxes on imported products; and decreased funding for nongovernmental organizations, many of which cater to the disadvantaged. On October 17, 2019, the government complicated matters by announcing two new measures—a twenty-cent daily fee on Internet phone calls, including on the widely used WhatsApp application, and a plan to increase the value-added tax from 11 to 15 percent by 2022.<sup>3</sup> This was the last straw. Lebanese took to the streets en masse to call for an end to a corrupt political system that denied them economic opportunities and enabled the intertwined ruling and business elites to continue enriching themselves.

In 2020, with the devaluation of the Lebanese pound brought about by the now full-blown financial crisis, the economy went into free fall and the share of the population in dire straits ballooned.<sup>4</sup> In June 2020, outgoing economy minister Raoul Nehme announced that 60 percent of Lebanese would find themselves below the poverty line by the end of the year.<sup>5</sup> That same month, the head of the Beirut Traders Association revealed that a quarter of Beirut's private sector businesses had closed, with the figure even higher outside the capital. He predicted that the trend would continue.<sup>6</sup> In July 2020, the price of food items and non-alcoholic beverages increased by 24 percent compared to the previous month and by more than 330 percent compared to July 2019.<sup>7</sup>

Human Rights Watch has warned that millions of people in the country are at risk of famine.<sup>8</sup> Among poor Lebanese, suicides due to insolvency and desperation have surged.<sup>9</sup> Meanwhile, domestic migrant workers, already subject to the exploitative *kafala* (sponsorship) system and often living in appalling conditions, are increasingly abandoned outside their countries' embassies by "sponsors" who can no longer afford to pay them.<sup>10</sup> The COVID-19 crisis accelerated Lebanon's implosion and further harmed the country's most vulnerable sectors of the population. And then, on August 4, the Beirut Port explosion brought the country to its knees.



Lebanon stands in dire need of a bailout by the International Monetary Fund (IMF), which has signaled its willingness to help. However, the IMF attached conditions to its proposed aid package: Lebanon would have to enact structural reforms that increase transparency and financial stability as well as reduce corruption and tax evasion.<sup>11</sup> Unsurprisingly, the country's ruling class has proven unwilling to meet such demands for fear of losing its privileges. As a result, the meetings Lebanese governmental delegations have held with IMF officials have ground to a standstill.<sup>12</sup>

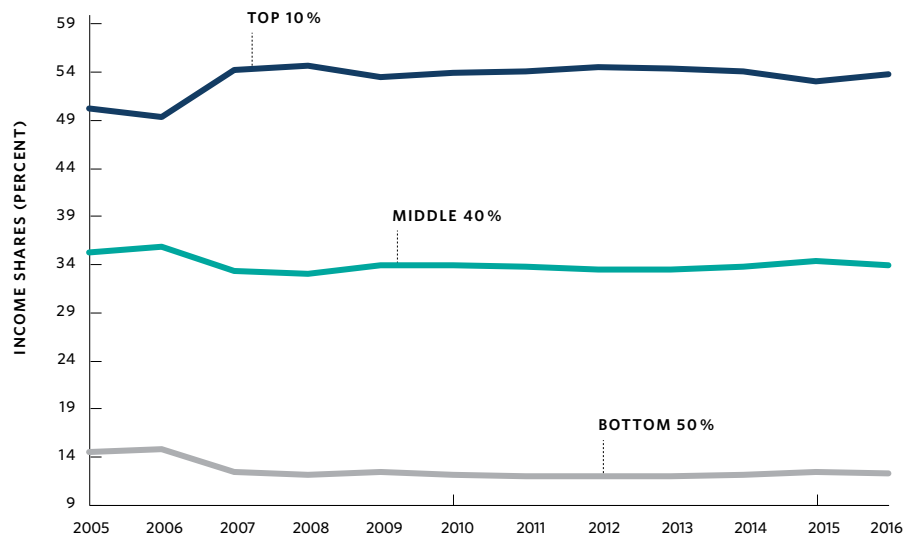
Nevertheless, if anything, the ongoing collapse of Lebanon's financial sector presents Lebanese with an opportunity to revamp their country's inherently unsound political economy. While such an overhaul would entail radical political change, including the dismantlement of the sectarian power-sharing system, it should also introduce a redesigned Lebanese economic model, one that moves away from neoliberalism and toward a centralized welfare state.<sup>13</sup> Given Lebanon's extreme levels of poverty and inequality and the shriveling of its middle class, the new economic model must have social justice at its core. In a country where the state raises little revenue and fails to guarantee social justice, tax reform should be a building block of any reform package and of a revamped Lebanese state.

## A Country of Extreme Income and Wealth Inequality

Income disparity is endemic to Lebanon. The first countrywide study of Lebanese income distribution took place in 1960 and revealed that the richest 4 percent of the population earned 32 percent of the national income. Half the population lived in poverty, earning only 18 percent of national income.<sup>14</sup> There were even significant disparities between the two groups falling between the richest 4 percent and the bottom 50 percent.<sup>15</sup>

Little has changed in the intervening six decades. A study published in 2018 by the World Inequality Lab used micro-fiscal data to estimate income distribution for the entire population of Lebanon between 2005 and 2016, including non-Lebanese migrant workers and refugees.<sup>16</sup> The figures are startling. The top 10 percent of the country's richest individuals earned between 49 and 54 percent of national income, the middle 40 percent earned 34 percent, and the poorest 50 percent of the population earned between 12 and 14 percent (see figure 1). As a yearly average, the richest 10 percent pocketed more than 50 percent of all income earned in the country. By comparison, this figure stood under 35 percent in France and around 45 percent in the United States. Such a statistic places Lebanon among the countries with the highest levels of income inequality in the world, alongside South Africa and Brazil (see figure 2).

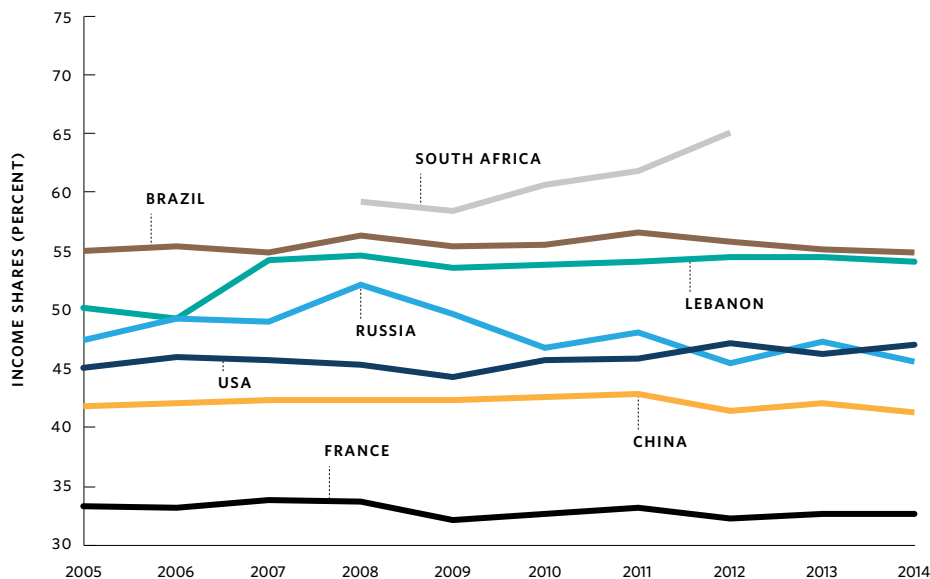
FIGURE 1  
**Income Shares in Lebanon, 2005-2016**



**SOURCE:** Lydia Assouad, “Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon 2005-2014,” WID.world working paper series number 2017/13, World Inequality Lab, September 19, 2018, <https://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713>.

**NOTE:** The figure shows the distribution of national income among adults age 20 and older. Corrected estimates combine survey, fiscal, wealth, and national accounts data. They utilize an equal-split-adults series (where household income is divided by the number of adults in the household for the bottom of the distribution).

FIGURE 2  
**Top 10 Percent Income Share in Lebanon and Selected Countries**

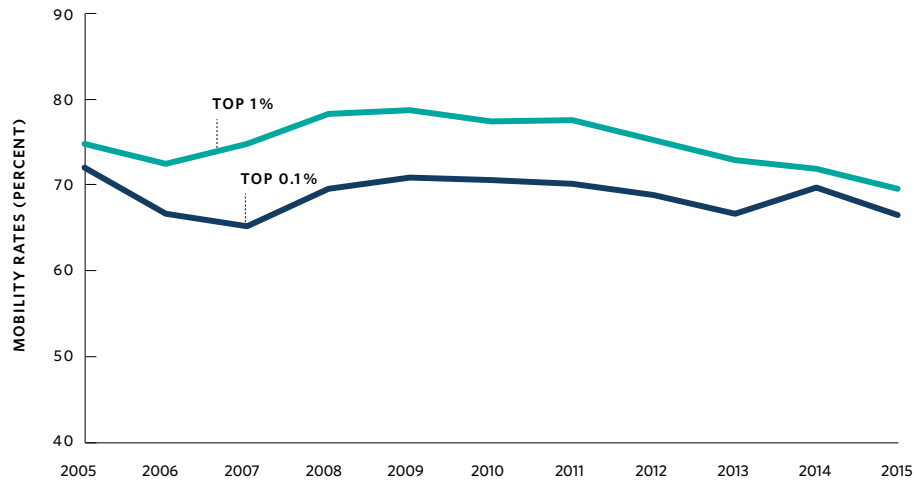


**SOURCE:** “Data,” World Inequality Lab, <https://wid.world/data>; and Lydia Assouad, “Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon 2005-2014,” WID.world working paper series number 2017/13, World Inequality Lab, September 19, 2018, <https://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713>.

**NOTE:** This figure shows the distribution of pretax national income (before taxes and transfers, except pensions and unemployment insurance) among equal-split adults (where household income is divided by the number of adults in the household for the bottom of the distribution) for all countries except South Africa. For South Africa, the figure shows the distribution of fiscal income.

Besides, there has been little upward mobility for the middle class and the poor. Between 2005 and 2016, the probability of staying in the richest 1 percent income category the following year was, on average, 75 percent. For the top 0.1 percent, the probability of remaining in the group was about 70 percent. The same applied to the probability of staying in top groups after two or three years (see figures 3a and 3b). These figures were high when compared to those of other countries, such as Canada and the United States.<sup>17</sup>

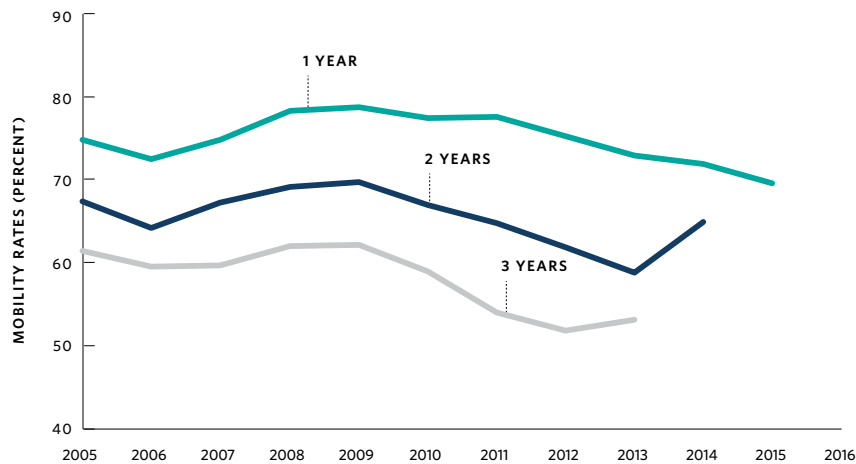
FIGURE 3A  
**Mobility Rates in Lebanon: Probability of Staying in the Top Income Groups After One Year**



**SOURCE:** Based on author calculation using microfiscal data.

**NOTE:** In 2005, the probability of an individual in the top 1 percent of income earners staying in the top 1 percent in the following year was equal to 75 percent.

FIGURE 3B  
**Mobility Rates in Lebanon: Probability of Staying in the Top 1 Percent After One, Two and Three Years**

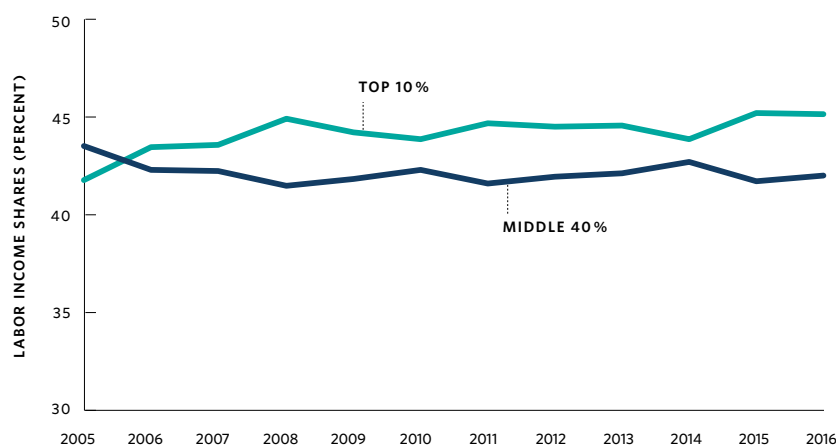


**SOURCE:** Based on author calculations using microfiscal data.

**NOTE:** In 2005, the probability of an individual in the top 1 percent of income earners staying in the top 1 percent the following year was equal to 75 percent. The probability of staying in the top 1 percent two years later was equal to 68 percent. Finally, the probability of staying in the top 1 percent three years later was equal to 61 percent.

A similarly alarming situation becomes apparent when looking at only the labor income distribution (meaning wages, salaries, and pensions), the type of income that the majority of the population earns.<sup>18</sup> The data indicate that the top 10 percent of labor income earners received between 41 and 45 percent of total labor income (see figure 4). The poorest 50 percent received between 13 and 15 percent of the total share, which is almost the same as the share earned by the richest 1 percent (see figure 5). Interestingly, between 2005 and 2016, the fiscal data only cover between 4 and 13 percent of the total labor force. In other words, the fiscal administration covers only a small share of the total labor force, suggesting that the informal sector's share is very large and probably larger than official estimates.<sup>19</sup>

FIGURE 4  
**Top 10 Percent and Middle 40 Percent of Labor Income Shares in Lebanon, 2005-2016**

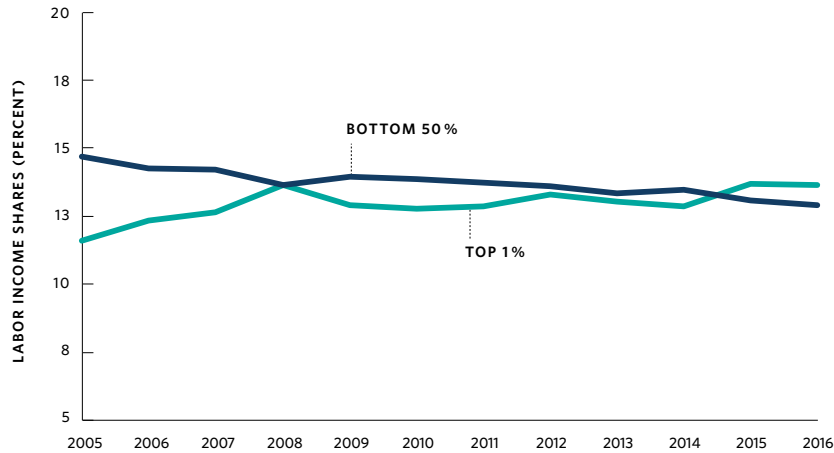


**SOURCE:** Lydia Assouad, “Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon 2005-2014,” WID.world working paper series number 2017/13, World Inequality Lab, September 19, 2018, <https://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713>.

**NOTE:** This figure shows the distribution of labor income declared by tax papers (micro-fiscal data shared by Lebanon’s Ministry of Finance).

FIGURE 5

**Top 1 Percent and Bottom 50 Percent of Labor Income Shares in Lebanon, 2005-2016**



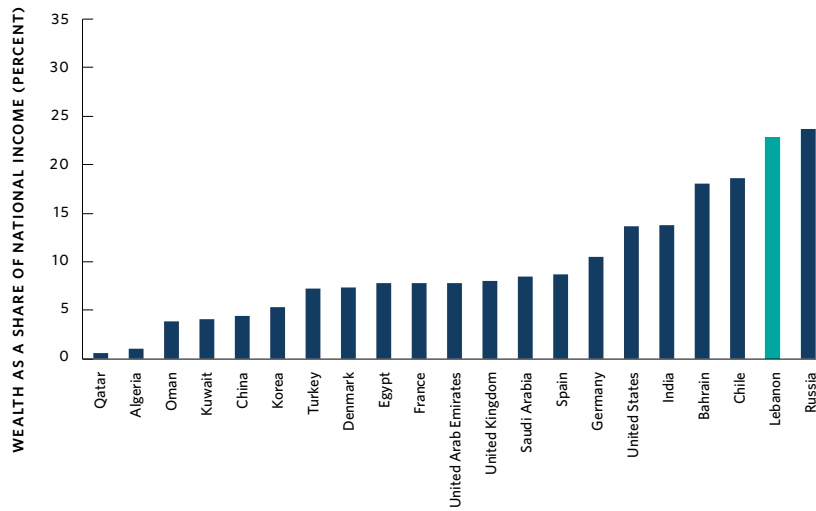
**SOURCE:** Lydia Assouad, “Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon 2005–2014,” WID.world working paper series number 2017/13, World Inequality Lab, September 19, 2018, <https://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713>.

**NOTE:** This figure shows the distribution of labor income declared by tax papers (micro-fiscal data shared by Lebanon’s Ministry of Finance).

Wealth inequality in the country also appears to be extreme, although it is trickier to estimate as wealth data are scarcer than income data in Lebanon. Only two sources are currently available to track wealth ownership in Lebanon: the distribution of bank deposits in 2017 and billionaires’ lists published by two magazines, *Forbes* and *Arabian Business*. According to the former source, 0.1 percent of bank accounts made up 20 percent of all deposits.<sup>20</sup> According to both *Forbes* and *Arabian Business*, billionaires’ wealth represented, on average, 30 percent of total national income in Lebanon between 1990 and 2016, and 23 percent between 2010–2017, surpassing by far most other countries’ figures (see figure 6). Between 1990 and 2016, 10 percent of the population owned nearly 70 percent of the country’s total wealth, 1 percent owned close to 45 percent, and the poorest 50 percent were left with less than 5 percent (see figure 7).<sup>21</sup> These income inequality levels are substantially higher than those of China and France and slightly higher than those of Russia and the United States during the same period.

FIGURE 6

**Billionaires' Wealth as a Share of National Income in Selected Countries, Average For 2010-2017**

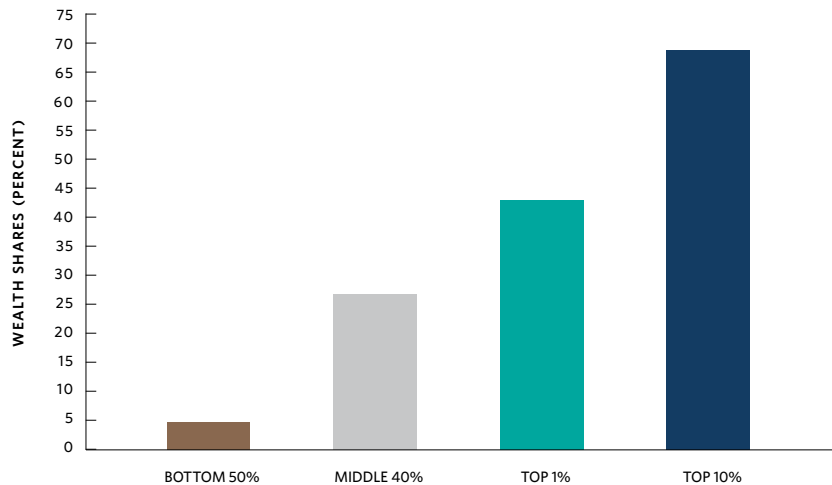


**SOURCE:** Author’s computation using rich lists from *Forbes* and *Arabian Business* magazines for Middle Eastern countries. See Lydia Assouad, “Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon 2005-2014,” WID. world working paper series number 2017/13, World Inequality Lab, September 19, 2018, <https://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713>.

**NOTE:** This figure shows total billionaire wealth as a share of national income (measured at market exchange rates), averaged for 2010-2017.

FIGURE 7

**Wealth Shares in Lebanon, Averages For 1990-2016**



**SOURCE:** Lydia Assouad, “Rethinking the Lebanese Economic Miracle: The Extreme Concentration of Income and Wealth in Lebanon 2005-2014,” WID.world working paper series number 2017/13, World Inequality Lab, September 19, 2018, <https://wid.world/document/rethinking-lebanese-economic-miracle-extreme-concentration-income-wealth-lebanon-2005-2014-wid-world-working-paper-201713>.

**NOTE:** This figure shows the distribution of personal wealth among adults. Estimates were obtained by combining billionaire data for Lebanon, generalized Pareto interpolation techniques, and normalized World Inequality Database wealth distributions.

## The Culprits: Lebanon's Political and Business Elites

The causes of Lebanon's extreme wealth and income inequality are both economic and political. They were exacerbated by the Taif Accord of 1989, which ended the civil war but also reinforced the country's problematic consociational form of democracy.<sup>22</sup> Consociational democracy ensures that each identifiable community is represented in the government and other national institutions and is able to influence policy.<sup>23</sup> Theoretically, consociational democracy is advantageous in that it mandates the equitable sharing of power between a multiplicity of groups to prevent civil conflict. However, in practice it can seriously warp governance.<sup>24</sup> In the Lebanese case, it provided the elite—the sectarian political leaders—with various means to enrich themselves at the expense of the majority.

The Lebanese brand of consociational democracy created a “party cartel” system. A party cartel is essentially a coalition of elites who are ideologically at loggerheads but who have to share power, often through national unity governments. Lebanon has experienced an overreliance on such governments since the end of the civil war, especially in the years following the assassination of former prime minister Rafik Hariri in 2005 and the Doha Accords of 2008. Due to their fragmented nature and the often conflicting interests of the political parties they represent, national unity governments do not—one might argue, cannot—consistently implement cohesive public policies in the common interest. However, despite their ideological disputes, the elites behind such governments often collude in the matter of plundering the state, protecting their economic privileges, and preventing political competition from upstarts, particularly those who wish to change the system.<sup>25</sup>

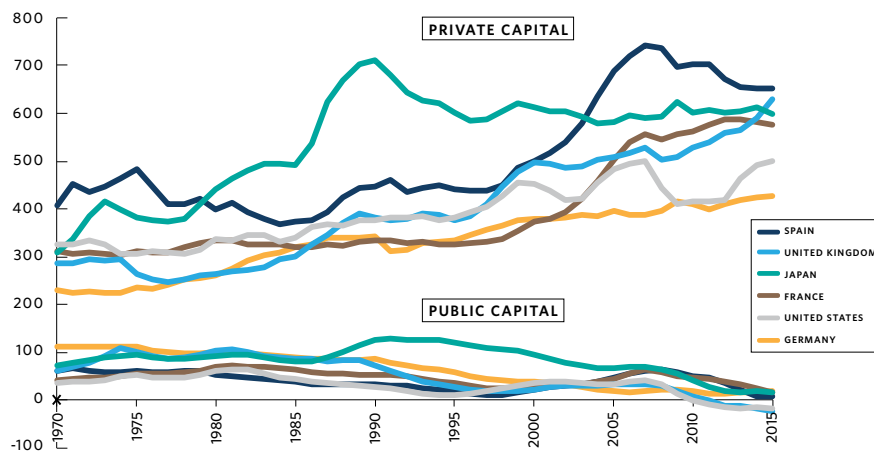
A particularly pernicious aspect of the Lebanese brand of consociational democracy, one that has also served to increase inequality, is that it reinforces and even institutionalizes sectarian identity. In Lebanon, sectarianism figures in every aspect of life: marriage, inheritance, political representation, job applications, land ownership, appointment of judges, and much else. Such institutionalization fosters competition between sects and encourages clientelism. It also hinders the emergence of multi-sectarian political parties that could break this dynamic. In exchange for ordinary people's support, sectarian leaders provide services such as job placement, reductions in school fees, and healthcare to their communities.<sup>26</sup> To maintain these patronage networks, sectarian leaders stoke religiopolitical grievances while blocking the state from assuming responsibility for dispensing the services in question.<sup>27</sup> A vicious circle is at play: Consociational democracy paralyzes the state and prevents the adoption of public policies that favor the common good. This, in turn, increases the public's reliance on sectarian leaders. As a consequence, sectarian leaders continue to enjoy support from the population, retain their economic privileges, and maintain their grip on power.<sup>28</sup>

The absence of political constraints on sectarian leaders also enabled them to design an economic model favoring their economic privileges, and to do so independently of sectarian and clientelist

networks by forging strong alliances with business magnates and bankers. In Lebanon, perhaps more than any other country in the region, business and political elites are connected.<sup>29</sup> For instance, as many as eighteen of the country’s twenty top banks have major shareholders linked to political elites, and “individuals closely linked to political elites control 43% of assets in Lebanon’s commercial banking sector.”<sup>30</sup> This is significant because, historically, economic sectors dominated by a concentration of politically connected firms prove less competitive.<sup>31</sup> The crux of the mutually advantageous relationship between political and business elites is simple: In exchange for major tax breaks, laissez-faire policies, and minimum state intervention, business elites provide regular kickbacks to political elites.<sup>32</sup>

It is also worth noting that the reconstruction period following the civil war was marked by a neoliberal policy shift close to that observed in Western countries during the 1980s.<sup>33</sup> The politico-business elites privatized the economy and facilitated their clique’s massive acquisition of real estate and financial assets, thanks to which they derived massive rent over the following years.<sup>34</sup> Political leaders’ appropriation of the country’s resources also explains why Lebanon’s total share of public capital, or government-owned assets used for the public good, is almost certainly very low, although unfortunately it is impossible to derive exact estimates of the Lebanese wealth to income ratio. This is a worrisome sign, as research has shown that the dynamics of public versus private capital is a key mechanism in explaining inequality levels. For example, the rise of income inequality observed worldwide since the 1980s went hand-in-hand with an increase in private capital and a decrease in public capital (see figure 8).<sup>35</sup>

FIGURE 8  
**Net Private Wealth and Net Public Wealth to National Income Ratios in Rich Countries, 1970–2015**



**SOURCE:** Adapted with permission from Figure 3.1.3 in Facundo Alvaredo, Lucas Chancel, Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, “World Inequality Report 2018,” World Inequality Lab, 2018, <https://wir2018.wid.world>.

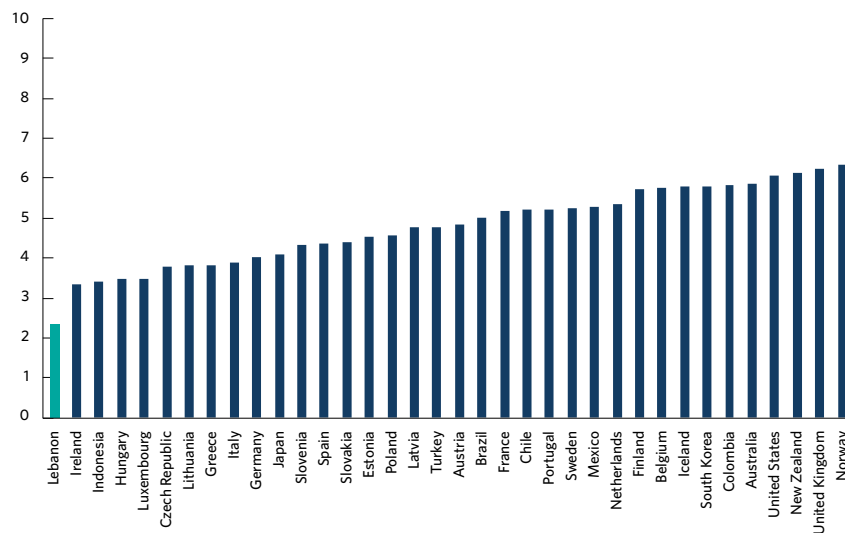
**NOTE:** In the United States in 2015, the value of net public wealth (or public capital) was negative (-17 percent of net national income) while the value of net private wealth (or private capital) was 500 percent of national income. In 1970, net public wealth amounted to 36 percent of national income while the figure was 326 percent for net private wealth. Net private wealth is equal to new private assets minus net private debt. Net public wealth is equal to public assets minus public debt.



Two salient examples illustrate how the ruling class slowly destroyed the state at the expense of ordinary Lebanese. The first is the direct looting of the Lebanese treasury, which is the cause of today's astronomic levels of public debt.<sup>36</sup> Since the 1990s, the state has issued public debt in the form of government bonds in Lebanese pounds. These bonds were mostly bought by the Central Bank, domestic Lebanese banks, and other public institutions and had very high interest rates. As a consequence, most of the money the state collected through the bonds was in the end used to repay the interest rather than to fund social welfare programs or public infrastructure. This direct profit scheme enriched bankers as well as anyone who bought the bonds, including the political elites who had issued them in the first place.

The second example is the ruling class's neglect of the Lebanese public education system. This has had major consequences for social mobility and long-term inequality levels. Indeed, recent research at the World Inequality Lab shows that, for example, Europe is more equal than the United States today, not because it redistributes more income ex post, but because the income distribution pre-taxation is more equal, thanks to stronger public services and free access to education and health. Compared to the rest of the world, the percentage of GDP that is spent on education (public and private) in Lebanon is quite low. Education expenditure represents 2.4 percent of Lebanon's GDP, compared to 4.8 percent in Turkey, 6 percent in the United States, and 6.3 percent in Norway (see figure 9). Worse yet, it has been decreasing since 2005, when it stood at 3 percent of GDP (see figure 10).

FIGURE 9  
**Total Education Spending (Public and Private) as a Share of GDP, 2015**

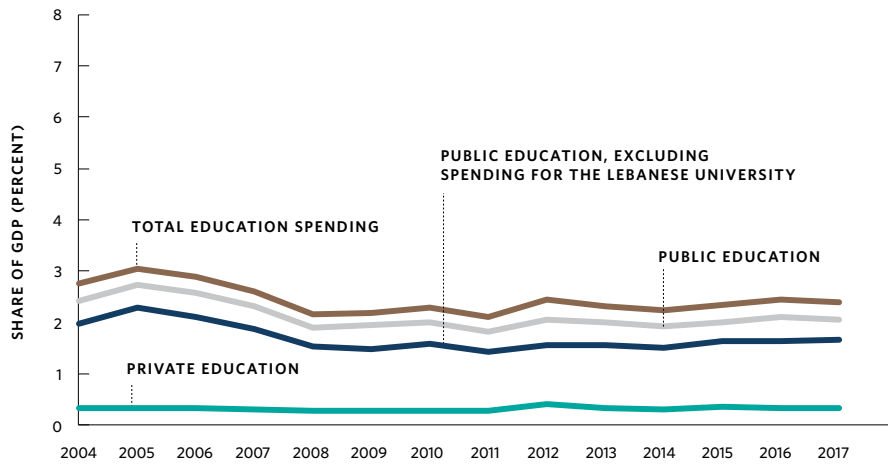


**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Report (2015), <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>; and OECD (2020), "Education spending (indicator)," accessed June 15, 2020, <https://data.oecd.org/eduresource/education-spending.htm>; doi: 10.1787/ca274bac-en.

**NOTE:** Education spending covers expenditure on schools, universities, and other public and private educational institutions. Spending includes instruction and ancillary services for students and families provided through educational institutions. Figures sum primary, secondary, and tertiary education.

FIGURE 10

**Evolution of the Structure of Educational Spending as a Share of GDP in Lebanon, 2004-2017**



**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Reports, tables on main social spending, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>.

According to the latest available figures, private education institutions in Lebanon attract almost 60 percent of primary school students and 50 percent of secondary school students. Yet private schools are often expensive. In 2013, the average tuition fee for private education in Lebanon was \$2,513 per year. The threshold to enter the middle 40 percent of income earners in 2013 was \$9,014 PPP (purchasing power parity) per year, with the average standing at \$15,165. The average tuition fee of a private school therefore represented 16 percent of the total annual income of the average member of the middle-income group. This partly explains why the already underfunded public sector is overcrowded, with fewer resources per student.

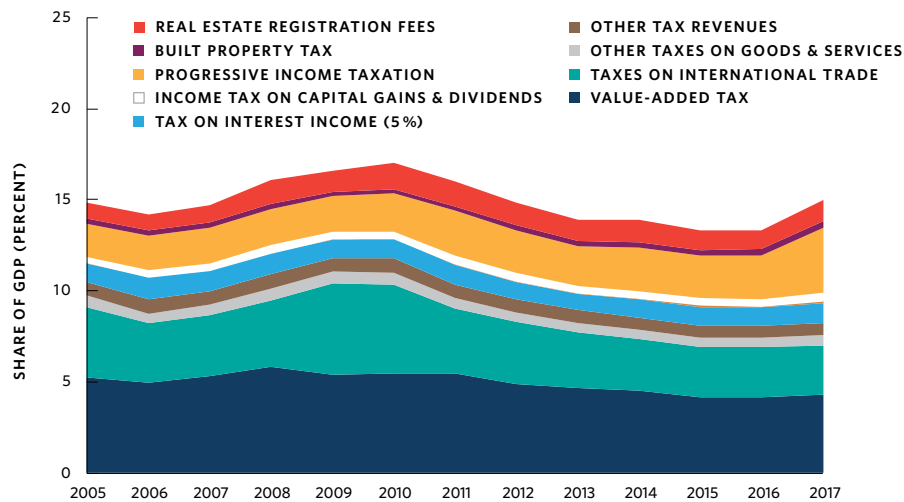
**Tax Reform: A Concrete First Step Toward a New Economic Model**

The causes of the multiple crises Lebanon currently faces are systemic: The country’s political economy enables the ruling elites to get richer at the expense of the majority and to slowly destroy the state. The solution should therefore be first and foremost political. Given the extent of the problem, however, a massive redesign of the country’s economic model is needed. Among economic reforms, tax policies stand out as particularly well-suited to tackle the extreme levels of poverty and inequality, as well as to raise urgently needed revenues. Fiscal measures alone will not suffice to put Lebanon back on track, and scholars and activists have already suggested a set of complementary reforms.<sup>37</sup> However, taxation is key to building a new state and social contract with social justice at their core.

## An Inequitable Tax System

Building an efficient and fair tax system should be a cornerstone of any new Lebanese economic model. In this regard, Lebanon enjoys a degree of maneuverability to make significant improvements. The current fiscal system not only does a dismal job of redistributing resources and alleviating poverty, but also of collecting revenue. Tax revenue represented only 15 percent of total GDP in Lebanon in 2017, compared to 21 percent in Chile, a country with a similar income level and that also experienced massive protests last year; 25 percent in the United States; and an average of 34 percent for the countries of the Organization for Economic Cooperation and Development (OECD) (see figure 11).<sup>38</sup>

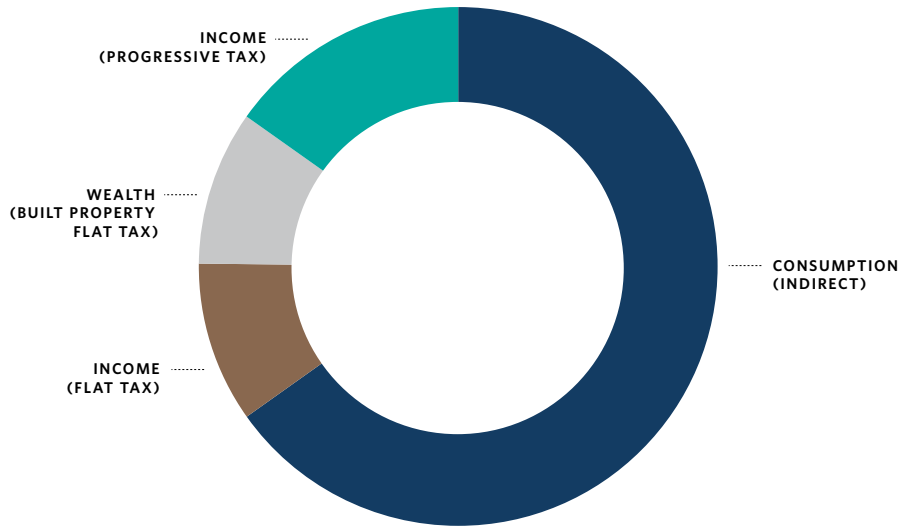
FIGURE 11  
**Evolution of Tax Revenues by Component, as a Share of GDP, 2005-2017**



**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Reports, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>.

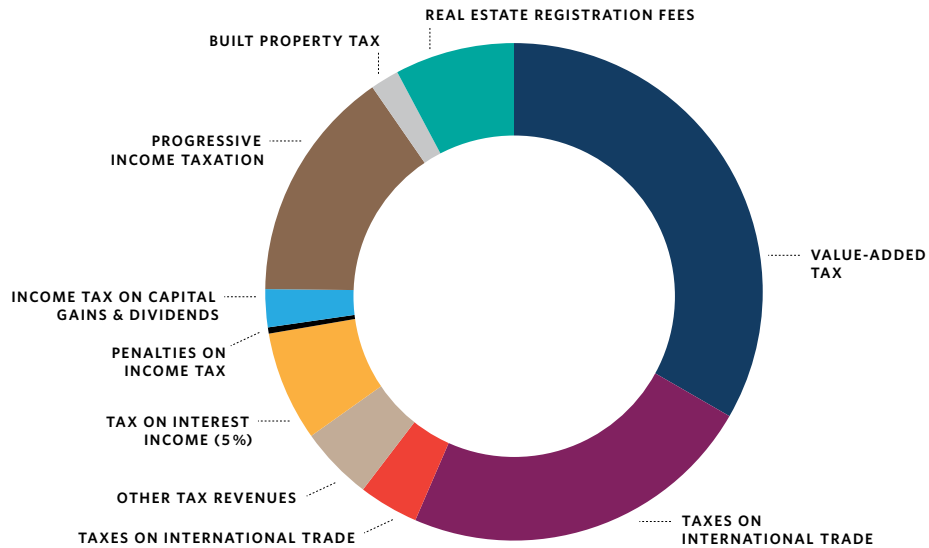
Moreover, the tax system is structured in such a manner that more prosperous citizens pay less in taxes than their poorer counterparts. First, the system relies mostly on indirect taxation—value-added taxes, excise taxes, tariffs, and other taxes collected through intermediaries such as retail stores. These taxes do not depend on individuals' levels of income. As such, they hit the poorest segments of society hardest. Taxes collected indirectly represent 65 percent of total tax revenues in Lebanon, as opposed to 25 percent collected through direct taxation. And only 60 percent of the direct taxation is collected through a progressive scheme—that is, with a rate that increases as one's income increases (see figures 12a and 12b).

FIGURE 12A  
**Structure of Lebanon's Fiscal System, Average for**



**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Reports, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>.

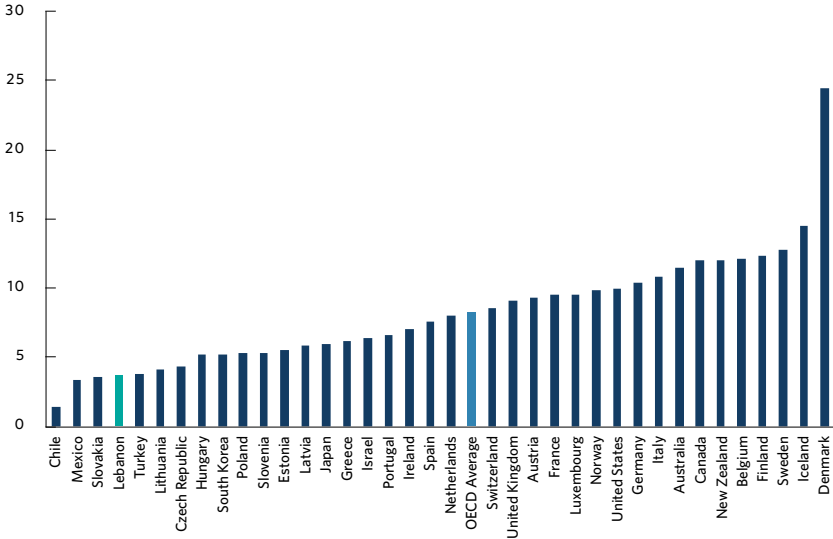
FIGURE 12B  
**Structure of Lebanon's Fiscal System, Average for 2005-2017**



**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Reports, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>.

In Lebanon, only a part of the Personal Income Tax (PIT) is progressive. Moreover, the PIT—which covers wages as well as profit derived from self-employment, privately owned companies, and certain built property revenues—accounts for only 2 to 3 percent of GDP, which is very low by international standards (see figure 13). The PIT is schedular, which means that instead of taxing an individual’s overall income, it taxes each income stream separately. There are three separate categories of income taxation: business income (profits made by self-employed individuals, partners in partnerships, and individuals in small corporations), which is taxed at rates of 4–21 percent; labor income (salaries, wages, bonuses, allowances, life annuities, pension payments, and other benefits in cash and kind), taxed at rates of 2–20 percent; and built property rental revenues, taxed at rates of 4–14 percent.<sup>39</sup>

FIGURE 13  
**Personal Income Tax Revenues as a Share of GDP (latest year available)**



**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Reports, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>; and OECD (2020), “Tax on Personal Income (Indicator), accessed June 15, 2020, doi: 10.1787/94af18d7-en.

**NOTE:** Tax on personal income is defined as the taxes levied on the net income (gross income minus allowable tax reliefs) and capital gains of individuals. This indicator relates to government as a whole (all government levels) and is measured in percentage both of GDP and of total taxation.

Taxing each source of income separately creates a lack of uniformity in the treatment of taxpayers. Specifically, the system is unfair to those who draw all or most of their income from a single source. This is more often the case among low-income earners, as the rich tend to have diversified sources of income. By taxing each source of income separately, the fiscal administration is likely to underestimate the position of the individual in overall income distribution. Were it to take into account the total amount earned, many taxpayers would find themselves placed in a higher tax bracket.

For example, consider a fictional Lebanese citizen called Ghada, who owns two properties in Beirut—one that she rents out and the other that she personally inhabits. She also works as an employee at a cinema. Ghada appears twice in the fiscal administration files, once for the income she receives from renting out her property and once for her wage. Although her overall income level is quite high, in her capacity as an employee she pays a low income tax on her labor income. Were her overall income taxed—wages plus property revenues, as opposed to each income stream taxed separately—this would bump her up into a higher tax bracket and oblige her to pay more.

Additionally, direct taxes are more rigorously assessed in the case of taxpayers at the bottom than at the top of the income distribution pattern. The result is that labor income earners represented 50 percent of all taxpayers subjected to the PIT in 2005 and 63 percent in 2012. At the same time, tax avoidance in Lebanon is easier for the richest taxpayers. The fiscal law contains many deductions and exemptions, and in certain instances allows individuals to switch from the PIT to a tax category that is exclusively for capital income. Such institutionalized inequality regarding the differential application of methods of control and penalties among taxpayers hinders the intended overall progressivity of the tax system. Additionally, most capital income, which constitutes the biggest share of income for the richest, is taxed at a flat rate. Finally, the Bank Secrecy Law further impedes access to information about well-off taxpayers.<sup>40</sup>

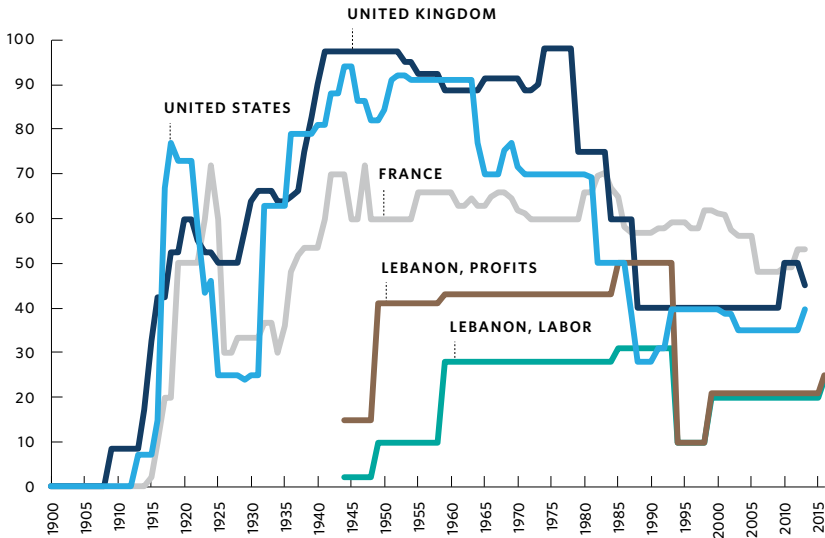
### The Road to Social Justice Passes Through Tax Reform

Lebanon needs to design an income tax that is progressive and also comprehensive, one that taxes all sources of income together and not separately. In this regard, it is important that direct taxation include all types of capital income, certain streams of which—such as interest and capital gains—are not taxed under the current PIT system and are instead subject to a flat and nonprogressive rate. Comprehensive taxation of income is an effective means of raising revenue and of doing so equitably.

Another step Lebanon must take is to significantly increase top marginal tax rates applied to top incomes. Top marginal tax rates in Lebanon are quite low by international standards. The 2019 reform, increasing top rates for labor from 20 to 24 percent and for profits from 21 to 25 percent, was a step in the right direction, but Lebanon still taxes its top income earners much more lightly

than France, Germany, the United Kingdom, and the United States, as well as countries from the Global South from 1979 to today (see figures 14a and 14b). In exceptional times, such as wars, top marginal tax rates are commonly hiked. For example, in France, the United Kingdom, Germany, and the United States during the Second World War, they reached 60 and even 80 percent. Lebanon is currently undergoing major political, social, and economic crises that call for such exceptional measures. Doubling the top marginal tax rate to be on par with that of the contemporary United States represents the strict minimum of what should be done.

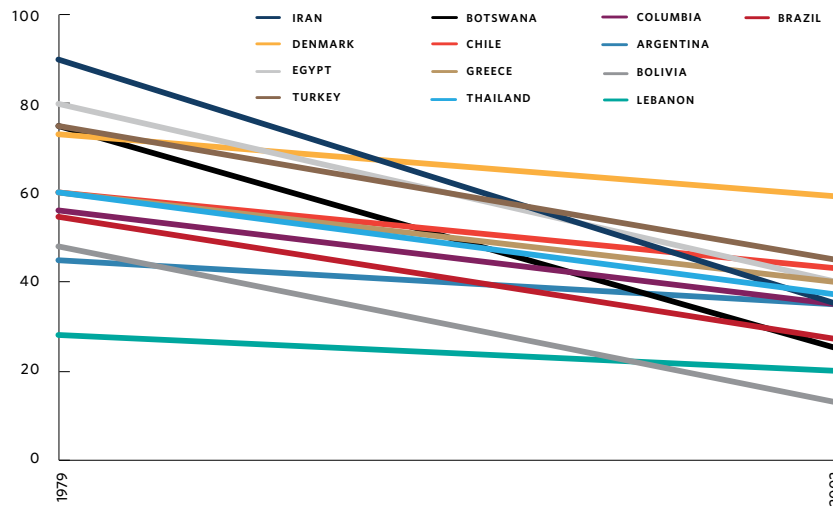
**FIGURE 14A**  
**Structure of Lebanon's Fiscal System, Average for 2005-2017**



**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Reports, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>.

FIGURE 14B

**Structure of Lebanon's Fiscal System, Average for 2005-2017**



**SOURCE:** Republic of Lebanon Ministry of Finance, Public Finance Reports, <http://www.finance.gov.lb/en-us/Finance/Rep-Pub/DRI-MOF/PFR>.

The next step is wealth taxation. A powerful tool to mitigate extreme income inequality levels, wealth taxation would also finance much-needed welfare services. In this area, two reforms are needed. First, given the exceptional circumstances with the COVID-19 crisis and the Beirut Port explosion buffeting a country already experiencing severe political and financial turmoil, a one-time wealth tax on the richest Lebanese should be assessed for the purpose of funding emergency relief.<sup>41</sup>

Consider the fact that billionaires in Lebanon (believed to be seven individuals) have a combined net worth of just over 20 percent of the Lebanese national income (see figure 6). Taxing these individuals at a rate of 10 percent would yield a sum equivalent to 2–3 percent of the country’s national income, which is more than what the progressive income tax currently collects from all Lebanese combined.<sup>42</sup> And billionaires are only the visible part of the iceberg, as there are many more millionaires. This suggests that even a lower tax rate, when applied to them, would generate significant and much-needed resources.<sup>43</sup>

The one-off wealth tax should be accompanied by a more comprehensive and progressive wealth tax on property and financial assets, given the importance of the real estate and banking sectors in the Lebanese economy and the amount of income they generate. Regarding property taxation, there is currently a tax on inheritance and a tax on registered built property, which together account for a



paltry 0.3 percent of GDP.<sup>44</sup> As a first step, the authorities should launch an effort to acquire all relevant data on wealth stock in Lebanon, in particular built property. Armed with such information, the state could proceed to maximize revenue by levying a comprehensive wealth tax that covers financial assets as well as business and nonfinancial assets of all kinds.<sup>45</sup>

## Conclusion: Toward a New State

Without radical political change and serious economic reform, it is easy to imagine Lebanon's fate. The country's downward spiral would accelerate. Income and wealth inequality, already endemic and extreme, would worsen. This, in turn, would lead to social unrest, if not outright conflict. The sorry saga ends with Lebanon as a failed state.

Whether the politico-business class that governs Lebanon would agree to urgently required change, and what form such change might take, are open questions. Convincing a long-entrenched and notoriously self-serving clique to cede some of its privileges is a tall order. But today, given the unprecedented severity of the situation in Lebanon, a window of opportunity has presented itself. The popular anger directed at politicians across the spectrum, which skyrocketed following the Beirut Port explosion, might lead the more intuitive among them to conclude that they can no longer ignore calls for reform.

For the others, a cynical message in the language the politicians best understand—that of money and power—seems necessary. The message is simple and blunt: If drastic and immediate economic and political measures are not enacted, nothing of this country's wealth and resources will remain for them to plunder.

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Lydia Assouad is an economist at the Paris School of Economics and World Inequality Lab, specializing in political economy, economic history, and development economics. She is working on the dynamics and roots of economic inequality in the Middle East. She is the author of the articles “*Rethinking the Lebanese Economic Miracle: the Extreme Concentration of Income and Wealth in Lebanon*,” “*Measuring Inequality in the Middle East 1990–2016: The World’s Most Unequal Region?*” with Facundo Alvaredo and Thomas Piketty, and “*Political Cleavages and Social Inequalities in Algeria, Iraq, and Turkey, 1990–2019*” with Amory Gethin, Thomas Piketty, and Juliet-Nil Uraz. She was the El-Erian fellow at the Malcom H. Kerr Carnegie Middle East Center for the year 2019–2020.

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