

Economic Sovereignty and the Fetters of Finance: The Making of Lebanon's Central Bank

By

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Abstract

Lebanon gained formal political independence from France in 1943. Yet, its Central Bank, Banque du Liban, was not founded until 1964. This study is a critical history of the making of Banque du Liban. I trace the Central Bank's formation from its Ottoman origins in the mid-19th century up to its inauguration in 1964 and restructuring a few years later following a major banking crisis. I analyze this history in the context of theoretical questions of state formation and institution-building in a Middle Eastern context.

Employing a structural empiricist approach, I argue that Banque du Liban, as an instrument of monetary policy and a set of rules and regulations governing banking operations, was constituted by a complex interaction of war economies, international financial regimes, post-colonial state-building, global currents of technocratic knowledge, and private business interests. I show that despite its representation by Lebanese authorities as a symbol of economic sovereignty and growth, the resultant institution seldom acted as a lever for asserting monetary autonomy or pursuing economic development. It was, to a large extent, an apparatus that reproduced colonial monetary policies and, more significantly, served rather than challenged the interests of the indigenous banking class.

My study questions dominant accounts of Lebanon's post-WWII political economy. It eschews a sectarian framework of analysis, challenges the division of Lebanon's post-WWII economic history into *a laissez-faire* period and a later planned phase, and emphasizes the institutional dimension of how political and economic forces shape the state. The study also aims to illustrate the historical specificity of the process of state building and the limits of economic sovereignty in a neo-colonial setting while simultaneously probing the degree of rupture and continuity in the evolution of financial institutions over time.

To Moushka, of seas and sunsets

To Bundu', biking on a breeze

To Jasmin, who would smile till the end of love

And to newborn Layal, a labour of love worthier than this

“Cide Hamete Benengeli was a very exact historian and very precise in all his details, as can be seen by his not passing over these various points, trivial and petty though they may be. He should be an example to those grave historians who give us so short and skimmed an account of events that we scarcely taste them, and so the most substantial part of their work, out of carelessness, malice, or ignorance, remains in their ink-horns.”

Miguel de Cervantes Saavedra
The Adventures of Don Quixote

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The friends and colleagues who kept me company during the years of my graduate studies are too numerous to list lest I forget any. The music of Fayruz, Um Kulthoum, Dirk Maassen, and Hans Zimmer were a different kind of company during long periods of reclusive writing. Finally but most importantly, I owe much of my determination and sense of purpose to the love and support of my family members: My father Nazem, my mother Fatina, and my brothers Najib and Ali. The birth of my niece Layal coincided with the completion of this dissertation, serving as a reminder of what matters most in one's life, and what eventually fades into a footnote.

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Note on Transliteration

The transliteration system adopted by the *International Journal of Middle Eastern Studies* served as a rough guideline for words transliterated from Arabic in this study. Diacritical marks were dropped, long vowels were not accounted for, and ‘a’ rather than ‘ah’ denoted the *ta marbuta* in the construct state. Exceptions where diacritics were used include the titles of some works and their authors cited in footnotes or in the bibliography. In some instances, I also retained common French or English spelling of the names of places and public figures.

List of Abbreviations

ABL	Association of Banks in Lebanon
AUB	American University of Beirut
BCC	Banking Control Commission (Lebanon)
BDL	Banque du Liban
BSL	Banque de Syrie et du Liban
BSGL	Banque de Syrie et du Grand Liban
BCAIF	Banque Crédit Agricole Industriel Fonciere (Lebanon)
BIO	Banque Imperiale Ottomane
BIS	Bank for International Settlements
BLOM	Banque du Liban et d'Outremer
BNCFI	Banque Nationale, Foncière, Commerciale et Industriale (Lebanon)
CCC	Commodity Credit Corporation (US Government Agency)
CMC	Council on Money and Credit
CMOP	Colonial Mode of Production
EDPB	Economic Development and Planning Board
EFO	Economic and Financial Organization (League of Nations)
ERI	Economic Research Institute (AUB)
FRB	Federal Reserve Bank (United States)
HCCI	Higher Council for Common (Syro-Lebanese) Interests
IBRD	International Bank for Reconstruction and Development
IFIs	International Financial Institutions
IMF	International Monetary Fund
KFTCI	Kuwait Foreign Trading Contracting and Investment
KWD	Kuwaiti dinar
LL	Lebanese Lira
MEA	Middle East Airlines
MEEP	Middle East Economic Papers
MESC	Middle East Supply Centre
NBER	National Bureau of Economic Research (USA)
NDIC	National Deposit Insurance Company
OPDA	Ottoman Public Debt Administration
SLEP	Société Libanaise d'Économie Politique
TAPLINE	Trans-Arabian Pipeline Company

1 Introduction

The colonized, underdeveloped man is a political creature in the most global sense of the term.¹

Frantz Fanon

In the fall of 1918, when British-led armies occupied Damascus, Ottoman coins of gold and silver were still in circulation alongside paper bills issued by Istanbul's state bank, the Banque Imperiale Ottomane (BIO). British authorities introduced Egyptian banknotes to finance their stay and threatened to imprison anyone in *Bilad al-Sham* (thereafter Greater Syria) who refused to accept them as payment. A few months later, however, the northern Syrian provinces including Mount Lebanon fell under French rule. Before the League of Nations officially recognized the French mandate, the new colonial power reconstituted the BIO into the primary instrument of financial control of its newly-conquered territory. Under Ottoman rule, the BIO had been a privately-funded Anglo-French venture that monopolized the issue of paper money, acted as the Sublime Porte's financial agent, and served as an arm of European financial penetration of Ottoman lands. During the Mandate period, French authorities turned the BIO's branch in Beirut into the *de facto* and later *de jure* bank of currency control and financial dependence of the Ottoman Syrian provinces that fell under its rule.

For the next two decades, the bank took on different names (Banque de Syrie, Banque de Syrie et du Grand Liban, Banque de Syrie et du Liban) that reflected the changing political and legal arrangement between occupier on one hand (France), and occupied (Syria and Lebanon) on the other. The Lebanese state was itself a product of this occupation. Under Ottoman rule, only Mount Lebanon had attained political autonomy in the mid-1800s. In 1920, the French annexed surrounding areas. These included the Bekaa valley in the east and the western coastline, and its hinterland, extending from the north of the city of Tripoli to the south of the city of Tyre. The new entity was named "Greater Lebanon".² Under French occupation, Greater Lebanon was

¹ Frantz. Fanon, *The Wretched of the Earth* (New York: Grove Press, 1963), viii.

² For a concise history of 20th century Lebanon, see Fawwaz Traboulsi, *A History of Modern Lebanon* (London; [Ann Arbor, MI]: Pluto, 2007). For a classical account, see Kamal Salibi, *The Modern History of Lebanon*. (London: Weidenfeld and Nicolson, 1965).

constituted based on a confessional system of power sharing that linked political office to sectarian affiliation. The main local architect of this constitutional arrangement decreed in 1926 was the Beirut-based merchant, banker, and nationalist ideologue Michel Chiha. Despite the formal declaration of Lebanon as a republic under the new constitution, indigenous rule remained wholly subservient to French political will. Moreover, Syria and Lebanon remained a single economic unit. In 1943, French occupation came to an official end. Political independence was declared. In Lebanon, the new republic was based on a national pact which was billed as a Christian-Muslim understanding over the finality of the Lebanese state on one hand and its Arab identity on the other.³ The pact however further institutionalized the sectarian system and largely empowered the same Christian elites that had governed under French tutelage and their new Muslim allies.

In 1946, all remaining French troops withdrew. The French political and military mandate had come to an end. But the monetary mandate over Syria and Lebanon, embodied in the operations of the BIO's final reincarnation, the Banque de Syrie et du Liban (BSL), outlasted both. In Syria, the BSL concession as a state bank was unilaterally withdrawn by Damascus and in 1953 it was replaced by a national central bank. In Lebanon, however, the BSL concession, which was renewed in 1939 for another 25 years, was left to expire on its own. The concession lasted for two decades after independence, at which point it was replaced by a national institution. Inaugurated on April 1, 1964, Banque du Liban (BDL) was billed by Lebanese authorities as the primary symbol of economic sovereignty and as such as the last step towards full independence. In the press, it was described as a means of projecting state power and enhancing national pride. The history of its making and the nature of its institutional constitution, which are the object of this study, tell a different, and more complex, story.

From an international political economy perspective, the making of Banque du Liban embodied the transition from a financial system of control tied to a single colonizing "metropole" to a global multinational one marked by US hegemony and supervised by International Financial Institutions (IFIs) such as the International Monetary Fund (IMF). BDL history was thus the

³ On the pact and Lebanese national identity, see Farid. El-Khazen, *The Communal Pact of National Identities : The Making and Politics of the 1943 National Pact* (Oxford [England]: Centre for Lebanese Studies, 1991).

history of the standardization (or the attempt thereof) of economic practices and financial regimes within a peripheral sphere of the world money market. It was equally the history of how central banking was imagined in the early 20th century as the financial bedrock of the modern nation-state by European economists like John Maynard Keynes and later reimagined, in a Lebanese context, by Lebanese economists like Sa'ïd Himadeh and Salim Hoss.

At the national level, the making of the BDL was the story of contestation and bargaining among agents of various political and economic interests. The policy outcomes of these struggles were largely dictated by dynamics of political power and financial profit rather than by well-defined notions of national interest or a concerted desire for economic sovereignty. The four main parties to this clash on the national stage were the following: the upper echelons of government officials such as the president, prime ministers and cabinet ministers, the administrative bureaucracy, academically-inclined technocrats, and the private banking community. The formal and informal networks of political influence and alliances that bound these groups together served as the *institutional* nexus that produced the central bank as a set of evolving rules and regulations and a complicated administrative structure. National and international actors were not operating in isolation of each other but were quite interdependent. US diplomatic channels and IFIs fora often acted as major interfaces of the national and international spheres. Global currents of economic thought were also an important bridge that facilitated the germination and dissemination of policy preferences pertinent to the question of central banking among Lebanese political elite circles and within the state bureaucracy. AUB economists like Himadeh and Hoss cited above took an active part in this intellectual exchange. In that sense, the making of the BDL was also the conflict of ideas, not just of interests.

Writing a critical history of Lebanon's Central Bank that incorporates all these local and global dimensions into an analytically sound, factually consistent, and stylistically coherent narrative runs into several methodological and conceptual challenges. These challenges largely pertain to three features of such an endeavour. The first is the sheer length of the time period under study, over 100 years, and the fact that it spanned what has been conceptualized as three major historical stages of social formation or systems of political organization in the Middle East: imperial/proto-colonial under late Ottoman rule from the mid-1800s to WWI, colonial during the

interwar years of French occupation, and post-independence/neo-colonial following the end of WWII.⁴ Attempting to chart this history is thus dependent on how the political economy of each period is conceived, the availability and type of sources per conjuncture, and how this historical record is deployed as part of the larger narrative that I try to construct.

The second feature concerns the empirical nature and theoretical scope of the inquiry, namely that it is about the historical evolution of a financial and state-linked institution in a Middle Eastern country. Consequently, it relates to but is not synonymous with, the larger question of state formation in the Middle East. The latter was and remains an object of theoretical debate and steeped in conceptual controversy.⁵ The role of financial institutions as an arena for this process is even less understood or adequately mapped. Recent studies of “colonizing projects” in a late and post-Ottoman context were largely restricted to the realm of education, military, law, civic space and later the economy.⁶ Why has the sphere of finance rarely served as a primary object of

⁴ I adopt Kwame Nkrumah’s definition of neo-colonialism, namely that the state that is subject to it “is, in theory independent and has all the outward trappings of international sovereignty. In reality, its economic system and thus political policy is directed from outside.” See footnote 3, Antony Anghie, *Imperialism, Sovereignty and the Making of International Law* (New York: Cambridge University Press, 2005), 118, <http://www.loc.gov/catdir/toc/cam051/2004049732.html>.

⁵ The Arab uprisings that broke out in 2010 and 2011 rekindled the debate over the formation of the modern state in the Arab world and its perceived crisis-ridden configuration. See Sharabji Adil Mujahid, ed., *Azmat al-Dawlah fi al-Watan al-Arabi: Buhuth wa Munaqashat al-Nadwa al-Fikriyya al-Lati Nazzamaha Markaz Dirasat al-Wihdah al-Arabiyya bitta’awun ma Markaz Karnigi lil Sharq al-Awsat wa al-Jam’iyya al-Aarabiyya lil ‘Ulum al-Siyasiyya* (Beirut: Markaz Dirāsāt al-Wahdah al-‘Arabiyyah, 2011).

⁶ One of the earliest and influential studies in this vein was Timothy Mitchell’s *Colonizing Egypt*. See Timothy Mitchell, *Colonising Egypt* (Berkeley: University of California Press, 1988). The colonizing projects Mitchell looked into included schooling, military methods, and urban planning. Joseph Massad extended the purview of this methodology to examine law as a site of colonization, see Joseph Andoni Massad, *Colonial Effects : The Making of National Identity in Jordan* (New York: Columbia University Press, 2001). Massad sought to explore the role of *institutions* in producing colonial and post-colonial national identity. Elizabeth Thompson employed gender as an analytical tool in order to examine the production of state and citizen and what she terms a “colonial civic order”, the latter comprised of the norms and institutions that govern relations among citizens and between citizen and state, see Elizabeth. Thompson, *Colonial Citizens : Republican Rights, Paternal Privilege, and Gender in French Syria and Lebanon* (New York: Columbia University Press, 2000). Unlike Finance, the “economy” has been examined as a site of producing the nation in the Middle East by Timothy Mitchell (Timothy Mitchell, *Rule of Experts : Egypt, Techno-Politics, Modernity* (Berkeley: University of California Press, 2002). Roger Owen has also examined the “national economy” as an imagined and constructed category of analysis; see Roger Owen, “The Middle Eastern National Economy: Imagined, Constructed, Protected,” in *Configuring Identity in the Modern Arab East* (Beirut: American University of Beirut Press, 2009). .

investigation of this method?⁷ One possible explanation is that state finance, at least up until the mid-20th century, was a matter of high politics and institutional arrangements that were several steps removed from national space writ large.

The third feature is a derivative of the second. It is the question of state formation in the Middle East as applied to the *specific* case of Lebanon. Lebanon is generally conceived as a weak state with a very distinct political system, that of sectarianism. This has given rise to the notion of Lebanese exceptionalism often expressed by the invocation of sectarianism as the defining, almost compulsory, framework or lens through which to understand the nature and transformation of the Lebanese polity. Another dimension of this exceptionalism relates to the question of political economy in general and financial history in particular. This is the invocation of *laissez-faire* as the distinct character of Lebanon's post-WWII political economy that gave rise to the concept of a 'Merchant Republic' (1948-1958) which largely set Lebanon apart from regional trends of the development of political economies in the Arab world.

Addressing the challenges posed by the second and third feature of the study requires some further elaboration of what is meant by state and state formation and how a history of central banking speaks to these articulations. I draw on the works of Roger Owen, Simon Bromley, and Sami Zubaida in relation to the question of state formation in the Middle East to situate my inquiry within this larger debate and articulate an open-ended framework for examining institution building. This framework is informed by the embracing of historical specificity and the rejection of cultural essentialism in relation to both the Middle East and Lebanon. Having argued in favour of adopting the state as a category of analysis in a Middle Eastern context, I then make the case for it in relation to modern Lebanese history. The theoretical arguments of Lebanese Marxists Mahdi Amil, which I engage with in *Section 1.2* in relation to the question of class versus structural dependency, are particularly useful in this regard. Amil sought to systematically apply Marxist theory to socio-economic history of the Arab world including Lebanon. He wrote extensively about the implications of dependency theory on our

⁷ One study in which finance and banking were posited as sites of examining the colonial confrontation in the Middle East is that of rise and collapse of Bank Misr, see Eric. Davis, *Challenging Colonialism : Bank Miṣr and Egyptian Industrialization, 1920-1941* (Princeton, N.J.: Princeton University Press, 1983). See also 'Abd al-'Azīz. 'Izz al-'Arab, *European Control and Egypt's Traditional Elites : A Case Study in Elite Economic Nationalism* (Lewiston, N.Y.: Edwin Mellen Press, 2002).

understanding of state and class in a peripheral setting like Lebanon.⁸ I deploy Amil's critique of prevalent understandings of sectarianism to address the challenges to my state-building approach posed by the persistence of Lebanese exceptionalism.

Given the nature and scope of these challenges, it is important at the outset to clearly outline what I attempt to do (and do not) in this study in order to be able to identify the subset of challenges that most directly pertain to this project and address them. Firstly, this study is not a comprehensive and chronological history of the making of Lebanon's central bank. Rather, my study is a delineation of the temporal boundaries and analytical dimensions through which such a history is possible. I do so through a detailed recounting of the defining moments of its formation and a critical analysis of the formative factors (including military conflicts, economic crises, intellectual currents, and political rivalries) that contributed to such a making. Secondly, my study is not an inquiry into state formation broadly defined. As Roger Owen pointed out, state formation is the twin creation of "new sovereign entities and of new centers of power and control".⁹ Such a conception requires an examination of multilayered processes of social, political and economic transformations, such as the rise of nationalism, which are essential to understanding capitalist state formation or the nation-state and which do not feature prominently in my study. Rather, this study is an empirical investigation into the construction of a *particular* institution of the state *apparatus*, whose operation is nonetheless *central* to the formation of the modern nation-state. In particular, I aim to shed more light on the *institutional* aspect of this construction within *selective* spaces of historical agency. The latter include legislative activity delineating central banking functions and powers, public debates and scholarly knowledge production articulating competing notions of financial reform and ideal central banking practices, and market-driven forms of collective political lobbying.

The concept of institution-building that runs through this inquiry is thereby not confined to some narrow understanding of the expansion of state bureaucracy as a monolithic appendage used for

⁸ Amil was assassinated in Beirut in 1987. On his project of formulating an Arab theory of underdevelopment, see Ibrahim M. Abu-Rabi', *Contemporary Arab Thought: Studies in Post-1967 Arab Intellectual History* (London ; Sterling, Va: Pluto Press, 2004), 318–343.

⁹ See Roger Owen, *State, Power, and Politics in the Making of the Modern Middle East*, 2nd ed (London ; New York: Routledge, 2000), 6.

exerting state power. I employ an expansive definition of institutions. They are “formal or informal procedures, routines, norms, and conventions embedded in the organizational structure of the polity or political economy”.¹⁰ These relations range from state-linked bureaucratic rules to private conventions that govern inter-bank relations such as the Associations of Banks in Lebanon (ABL). They operate and evolve under asymmetrical power relations that privilege certain actors and marginalize others. Moreover, they allow for individual agency at certain junctures. Other seemingly exogenous factors, such as ideas and socio-economic development, can play a significant role in determining developmental trajectories of these institutions.¹¹ Under such an analytical scheme, the state ceases to be a unitary agent or mediator of social conflict and competing special interests. Private institution-building, such as that of the creation of the ABL I discuss in detail in *Chapter 5*, influenced the making of the central bank and consequently was part of this state formation process. As such, my historical inquiry seeks to contribute to our understanding of state formation by identifying the dynamic process of engineering its institutions and how the latter enabled or undermined attributes generally associated with the nation-state such as economic sovereignty, financial autonomy, and political legitimacy.

Section 1.1 and *1.2* below address the challenge of employing a state-based model of analysis in both a Middle Eastern context and a Lebanese one respectively. In the former, I introduce the structural empiricist approach I use to probe the viability of such a model. In the last section of this introduction (*Section 1.3*), I return to the first feature of the study regarding its time range and address the challenge of writing history across conjunctures. I do so in order to explain the logic of how this study is structured: its analytical underpinnings and limitations, the content and organization of its different chapters and the sources relied upon, the style of its narration, and the findings and scholarly contributions it purports to make and avenues of research it hopes to open up. The findings and contributions are discussed in more detail in the conclusion.

¹⁰ I borrow these definitions, not the theoretical framework, from Peter A. Hall and Rosemary C. R. Taylor, “Political Science and the Three New Institutionalisms*,” *Political Studies* 44, no. 5 (1996): 938, doi:10.1111/j.1467-9248.1996.tb00343.x.

¹¹ On the main tenets of historical institutionalism, see *Ibid.*, 938–941.

1.1 State Formation and Institution Building in the Middle East: Structural Empiricism as a Building Block

What is understood by a state and by state formation can vary between theories and among different proponents of the same theory. These concepts run into further controversy when applied to non-European settings. Seminal writings by Sami Zubaida, Roger Owen, and Simon Bromley in the closing years of the 20th century attempted to chart a rethinking of this question in a Middle Eastern context. They advocated an approach that neither fell into orientalist tropes of adopting “pre-modern” concepts of political organization like tribalism, kinship, and oriental despotism nor adhered to rigid and preconceived understandings of state making akin to those propounded by modernization or dependency theory that had prevailed for much of the mid-twentieth century. The modern nation-state is, as Zubaida put it, the “compulsory model” by which political organization and social relations exist and are produced in the Middle East.¹² The rise of Middle Eastern states, however, occurred under different historical circumstances compared to those of Europe. As a result, the process of their creation did not conform to some universal abstraction based on the European experience. It was shaped by historical conditions specific to each of these societies. Zubaida argued that analytically, such historical specificity may be illustrated by showing “how, for any given social formation, a series of historical conjunctures, each with its own pattern of socio-political processes, have led to a distinctive configuration”.¹³

It is important to stress the fluid nature of this configuration, particularly in relation to the concept of the state. As Owen pointed out, attempting to define the state in binary terms, as a coherent entity or one distinct from society, can run into theoretical problems and act as a barrier to examining certain aspects of political life. A definition that might be more amenable to an open-ended and institutionally-centered inquiry was proposed by Joel Migdal and invoked by Owen. According to this view, the state is a complex of organized agencies controlled by an

¹² Owen also invoked Talal Asad’s assertion that current states in the Middle East, as a result of socio economic development brought about by capitalism –such as urbanization – employ practices to organize and control their societies that are distinctive of the twentieth century and hence are modern by all accounts, see Owen, *State, Power, and Politics in the Making of the Modern Middle East*, 5.

¹³ See Sami Zubaida, *Islam, the People and the State: Political Ideas and Movements in the Middle East*, New 3rd ed (London ; New York: I.B. Tauris, 2009), 129–130.

executive authority for the purposes of creating and implementing the binding rules that organize social life in a given territory. The process of state creation then becomes the twin process mentioned above, “of creating new sovereign entities and of new centres of power and control”.¹⁴ Bromley, who adopted a somewhat different definition of state formation based on materialist relations of surplus appropriation, enumerated three main guidelines for investigating state formation. Bromley stressed the role of the state apparatus, the world market, and the social forces engaged in the material reproduction of the society concerned in this process of formation.¹⁵ These guidelines further framed such an inquiry within well-defined theoretical boundaries but did not speak to how they *actually* unfolded in particular contexts. Trying to push such an investigation further, one might ask the following: How does this process unfold in a *concrete* manner? In other words, how did the particular social forces, political agents, intellectual concepts, and specific institutional arrangements interact to produce a *particular* state formation? And does a detailed empirical inquiry enable us to move one step closer towards illustrating the historical specificity of a particular formation compared to another?

My historical account of the making of Lebanon’s central bank is an attempt to provide a preliminary response to these questions in relation to the formation of the financial state apparatus in the Lebanese case.¹⁶ To achieve this goal, I adopt a methodological approach that is best described as structural empiricism. I define structural empiricism as the critical and detailed interrogation of the historical record in order to better understand the specific structural modalities (institutional/ formal/ informal/ material/ discursive) by which relevant social, economic, and political forces interact to produce a particular configuration of the apparatus in question, in this instance the financial one. I maintain that only through such a preliminary stage of rigorous investigation of “what really happened” is a contextual and concrete theorization of state and state apparatus formation possible *and* convincing. By definition, this task can never be completed, nor should it seek to be. Rather, it is one that takes the question of historical

¹⁴ Owen, *State, Power, and Politics in the Making of the Modern Middle East*, 5–6.

¹⁵ For a list of these three guidelines, see Simon. Bromley, *Rethinking Middle East Politics* (Austin: University of Texas Press, 1994), 104–105.

¹⁶ I do so while keeping in mind the caveat that the state cannot exist without its apparatus but must not be reduced to it, see *Ibid.*, 103.

specificity seriously and as a result aims to provide the “raw” material out of which a better theorization of the specific historical state formation in a Middle Eastern context is induced. This is done in the hope of also providing a better understanding of the construction and operation of financial institutions across different historical conjunctures in various regions of the world.

An important qualification is in order. Historical specificity can only be shown through comparative analysis, since the point is to demonstrate how *similar* social formations produced *distinctive* configurations. This is why much of the work by Zubaida or Owen relies on the exploration of different formations in different states such as Iran, Turkey or Iraq. My study is an examination of the making of a single institution over time. In other words, it is one side of the comparative coin. What is lost in analysis across social space is, in my view, compensated for by acquiring a deeper institutional knowledge of one path across time. One of the advantages of peering through three different historical conjunctures over time to trace the evolution of a single institution is the presence of points of socio-economic disequilibria during transition from one conjuncture to the next or within the same conjuncture. These are often marked by intense military conflict or large scale socio-economic crises. By investigating the actual making and remaking of the same institution at these given points, we are better able to understand processes of historical continuity or rupture (not just specificity) at the institutional level. Such an understanding is a first step towards determining the extent to which state formation in the Middle East took place in spurts or more gradually. A shift in the identification of which periods constituted a juncture break may also be possible. The delinking of Lebanon’s currency system from France in 1948, for instance, might emerge as one such juncture that had been overshadowed by others such as political independence in 1943 and French military withdrawal in 1946.

Before applying this methodology to my case study in order to produce a well-defined set of questions and outline the analytical narrative borne by it, I turn to the third feature cited above and the main challenge it generates. This is the challenge of employing a statist approach in the specific case of Lebanon in light of the persistence of the notion of Lebanese exceptionalism and the animating concept at its root, sectarianism. In this study, I make very few explicit references to sectarianism beyond this introduction. Some scholars of Lebanon might regard that as methodological blasphemy. I contend the exact opposite. A state-centered approach that does not concern itself with explicitly explaining sectarianism is not only possible but necessary. I make

this argument based on a particular interpretation of the meaning of sectarianism that was most convincingly articulated by Arab Marxist intellectual Mahdi Amil. His interpretation not only undermines Lebanese exceptionalism, but also provides a theoretical justification for a state-centered approach by illustrating the centrality of the state project to the very survival of sectarianism. Amil's radical critique of Lebanese exceptionalism in its Chihist variant is worth summarizing in order to get the elephant of sectarianism out of the room.

1.2 The Dialectic of Sectarianism and the State

One form in which the idea of Lebanese exceptionalism manifests itself is in the endorsement or decrial of the cultural, economic, and political tropes of Lebanese nationalism that were articulated by the founder of Lebanese nationalist ideology, Michel Chiha.¹⁷ Culturally, Chihism highlights Lebanon's "Christian" character and locates its religio-civilizational space in closer proximity to a distant Europe and ancient Phoenician past rather than a surrounding Islamo-Arab Middle East. Economically, the country is billed as a unique entrepot between East and West dictated by geography. Its *laissez-faire* and entrepreneurial spirit is touted as a distinctive feature compared to other regional economies. More significantly, this intermediary role is posited as an ahistorical attribute dating back to legendary Phoenician skills of trade and commerce. Politically, Chihists celebrate the sectarian-based power-sharing arrangement among Lebanon's various confessional communities, which Chiha personally helped found under the French Mandate, as a model of tolerance. Their detractors decry it as an abominable manifestation of primitivism. For both camps, however, sectarianism looms large as a unique characteristic of Lebanese society that set its historical evolution in the post-WWII era apart from the general trends of authoritarian rule and socialist economies in the surrounding Arab states. With sectarianism emerging as a primary feature of Lebanon's modern history, questions of state formation pertaining to political economy became marginalized while those of the operation of sectarianism, at times though through state-centered mechanisms, were prioritized. As such,

¹⁷ For a critical and extensive study of Michel Chiha and his ideology, see Fawwaz Traboulsi, *Şilāt Bi-Lā Waşl: Mişhāl Shihā Wa-Al-İdiyūlijijā Al-Lubnānīyah*, al-Ṭab'ah 1 (Bayrūt: Riyāḍ al-Rayyis lil-Kutub wa-al-Nashr, 1999). For more on Chihist ideology and its tropes, see Alessandro Olsaretti and Michelle Hartman, "'The First Boat and the First Oar': Inventions of Lebanon in the Writings of Michel Chiha," *Radical History Review* 86, no. 1 (2003): 37–65. On the life of Chiha, see also Jens Hanssen, "The Birth of an Education Quarter: Zokak El-Blat as a Cradle of Cultural Revival in the Arab World," in *History, Space, and Social Conflict in Beirut: The Quarter of Zokak El-Blat* (Beirut: Orient-Institut, 2005), 146–147.

sectarianism turned into a quasi-mandatory, and I would argue fetishized, framework of analysis of contemporary Lebanese history and politics.

A sectarian framework of analysis may be useful, perhaps necessary, in order to understand important aspects of political and cultural life in contemporary Lebanon. It can also shed light on particular facets of the country's political economy such as the workings of clientalism - whether via state or civil society based institutions – which ruling elites employ to reproduce their power and prestige within their sect. But such a framework fails to adequately explain, and at times even obscures, fundamental structuralist aspects of the very operation of this sectarian system. This is especially true in relation to the question of the role of state institutions in the genesis and reproduction of the political economy writ large as opposed to its reproduction of the sectarian order among the different political communities. In fact, it is only by moving away from sectarianism as the dominant explanatory variable that sectarianism's inner workings and outward expressions are best theorized and understood. Mahdi Amil's critique of Chihism provides an insightful intervention in this regard.

In his seminal work *Fi al-Dawlah al-Taiḥiyyah* [On the Sectarian State], Amil was careful to distinguish between sect and sectarianism, and between the origins of the latter and its contemporary form. The sect (*al-ta'ifa*) is a “political relation of class dependency (*taba'iyya tabaqiyya*) that ties the proletarian or toiling classes (*al-tabaqat al-kadiha*), or parts of these classes, to the bourgeoisie in a relation of sectarian political representation.”¹⁸ Sectarianism, on the other hand, is the *political regime*, more precisely “the specific historical form of the political system (*nizam siyasi*) in which the Lebanese colonial bourgeoisie exercises its class dominance (*saytara tabaqiyya*)” under a colonial mode of production (CMOP).¹⁹

The modern and CMOP-dependent nature of sectarianism, as distinguished from a pre-capitalist and religious one, is seminal to understanding Amil's definition of sectarianism as a political

¹⁸ Mahdi Amil, *Fi al-Dawlah al-Taiḥiyyah* (Bayrūt: Dār al-Fārābī, 2003), 259–260.

¹⁹ See Ibid., 234. A CMOP is “a distinctive historical form of the capitalist mode of production, namely the capitalist form structurally dependent on imperialism in its historical formation and contemporary evolution.” See Mahdi Amil, *Muqaddimāt Nazariyyah Li-Dirāsāt Athar Al-Fikr Al-Ishtirākī Fī Ḥarakat Al-Taḥarrur Al-Waḥānī*, Sixth (Bayrūt: Dār al-Fārābī, 1990), 11.

phenomenon. Scholars who grappled with this question at length like Mas‘ud Daher, Ussama Makdisi, Waddah Sharara, and Georges Corm have also situated the sectarian in the modern but did not postulate a radical rupture with the past the same way Amil did.²⁰ Amil did not dismiss the claim that the sect, defined as an organized ideological and social configuration of different social groups (*jama‘aat*), predated the colonial social formation. But that is a very different social concept that can say little about sectarianism as a political system of contemporary Lebanon. The constant search for the historical roots of sectarianism beyond the existing colonial social formation (i.e. to some primordial or traditional one) is due to an explicit or implicit defining of the sectarian as religious.²¹ Chiha himself situated the sectarian in the political, but as the anti-thesis of Amil’s conception. Chiha portrayed the political system as a consecration of the peaceful co-existence of *already* existing sects. For Amil, the sect is not a stand-alone entity that had some ontological existence.²² Sects, Amil argued, are not sects *except* by the state. Sectarianism, meanwhile, is a political system linked to the structure of the state in its *present* reality – i.e. as part of the logic of its inner movement, not the logic of its historical formation.²³ It is the “institutional relationship” between the state and the sect that enables the latter to attain some autonomy. Sects, as institutional entities, appear as if existing by themselves when this

²⁰ Ussama Makdisi is among the few scholars of Lebanese history that situated sectarianism both as an idea and a practice in the realm of the modern. Makdisi, however, did not posit a clear epistemological break or rupture, as Amil does, between 20th century sectarianism and its historical 19th century predecessor. See Ussama Samir Makdisi, *The Culture of Sectarianism: Community, History, and Violence in Nineteenth-Century Ottoman Lebanon* (Berkeley, Calif.: University of California Press, 2000), 166.) Waddah Sharara also came to the conclusion that sectarianism was a product of the formation of the national state, as a centralized, regionalized, administrative and representative one on the ruins of the Ottoman provinces and the Sultanate order. See Waddah Sharara, *Fi Usul Lubnan al-Taifi...Khatt al-Yamin al-Jamahiri* (Beirut: Jadawel, 2011 [1975]). George Corm also stated that sectarianism is a product of modernity (*hadathah*), incorporates political structures into his account of sectarian formation, and denies the stable status of the sect but his treatment of the latter falls into the same tropes of literature treating the sect as ontologically stable. Georges Corm, *Lubnān al-mu‘āshir: tārikh wa-mujtama‘*, trans. Ḥasan Qubaysī (Bayrūt, Lubnān: al-Maktabah al-Sharqīyah, 2004).

²¹ This failure of some Lebanese Marxists to rightly situate the sectarian in the political, Amil lamented, was a form of absolving the Lebanese bourgeoisie of its historical responsibility for setting up sectarianism as a political system (Amil, *Fi al-Dawlah al-Taifiyyah*, 145.) The crisis in Lebanon Amil argued, was - and contrary to then dominant leftist or nationalist discourse - a crisis of the political system, not a crisis of Lebanon as an entity (*azmat nizam la azmat kayan*), *Ibid.*, 112.

²² Amil, *Fi al-Dawlah al-Taifiyyah*, 123.

²³ *Namat taharrukiha al dakhili, la tashakuliha al-tarikhi* *Ibid.*, 260.

very autonomy is itself a form of *institutional dependency* on the state. This is why sects need to be perpetually acknowledged by the state to survive.²⁴

The founding of the modern state then becomes the historical moment of the formation of the sects. French mandatory authorities in collaboration with elite circles, close to and including Michel Chiha, had laid the foundation of the main pillars of this (sectarian) system/state with the constitution of 1926. It was the Lebanese bourgeoisie, however, that completed the process of the system's construction and consolidation.²⁵ In the quarter century following formal independence (1943-1967), the Lebanese bourgeoisie further set up institutions linking sects to the state in order to ensure the formers' autonomy.²⁶ Some of these institutions, like the Lebanese Parliament (Chamber of Deputies) or personal status courts or religious councils, had an overtly sectarian character and tended to be the focus of general histories of Lebanon's sectarian system. Even classical oeuvres that adopt a statist approach such as Michael Hudson's *The Precarious Republic*, which offers important insights into the Chehabist era that I draw on, reproduced the same tropes about sectarianism. Hudson prefaced his study with a lengthy overview of Lebanon's religious communities as the foundation of their modern political organization.²⁷

More recent studies, including those by Michael Johnson, Max Weiss, and Paul Kingston have eschewed this cultural essentialism and asserted the role of institutions, state or otherwise, as well as class dynamics in the making of the sectarian order.²⁸ The question of the process of

²⁴ Ibid., 29.

²⁵ It is little wonder that - as I show in Chapter 3 - the anxiety of Chihists over the survival of the *laissez-faire* system following the end of French rule in 1943 was — was expressed as an anxiety over the viability of Lebanon as an independent entity.

²⁶ Amil posited the establishment of the Supreme Islamic Shi'i Council in 1967 as the last major institutional act of consolidating the sectarian political system. Amil, *Fi al-Dawlah al-Taifiyyah*, 236–237.

²⁷ The first two tables encountered in Hudson's work contain data about the distribution of Lebanese population by sect and religious community, see Michael C. Hudson, *The Precarious Republic: Political Modernization in Lebanon* (Boulder, Colorado: Westview Press, 1985), xi.

²⁸ See Michael Johnson, *Class & Client in Beirut: The Sunni Muslim Community and the Lebanese State, 1840-1985* (London ; Atlantic Highlands, NJ: Ithaca Press, 1986) and Max Weiss, *In the Shadow of Sectarianism: Law, Shi'ism, and the Making of Modern Lebanon* (Cambridge, Mass: Harvard University Press, 2010) and Paul W.T.

sectarianization, however, remained central to their worthwhile inquiries and constituted their overarching theme. This may partly be due to the type of institutions these studies examined which were in one way or another directly linked to the mechanisms of sect production. My contention, however, is to try and push this approach even further, namely to *analytically* suspend the sectarianism paradigm. This is done in the hope of unearthing some of the deeper dynamics of state formation that further expose the “pure” class and material interests of the ruling elite and better explain their behavior in less overtly political spaces. Financial institutions, such as the Central Bank or the Associations of Banks in Lebanon (ABL), constitute ideal objects of study for such a tactical move. As institutional manifestations of transnational and trans-sectarian credit relations, the BDL and the ABL are one step removed from sectarian politics. Simultaneously, they form the deep structural basis for reproducing the economic power sustaining this sectarian system and dependency relations hooking this system to the international one.

The Lebanese bourgeoisie’s construction of the Central Bank was thus one element of their construction of the country’s sectarian system. Examining the BDL’s making facilitates the posing of a host of questions about state formation that differ from those concerned with the formation of sectarian communities. BDL-related questions speak to themes of financial autonomy, economic sovereignty, and financial dependency. The role of elites is also reframed to focus more on the intra-elite business and legal activities they engaged in to build the state rather than their intra-sect ones designed to reproduce their class hegemony over their co-confessionals. Lebanese bankers feature prominently within this “non-sectarian” framework. In the case of Lebanon, and following the country’s formal independence from France in 1943, Lebanese financiers and bankers gradually took on the function of “strategic monitoring” of the Lebanese economy via the banking sector.²⁹ Along with the mercantile bourgeoisie, this financial

Kingston, *Reproducing Sectarianism: Advocacy Networks and the Politics of Civil Society in Postwar Lebanon* (Albany, NY: State University of New York Press, 2013).

²⁹ Salim Nasr and Claude Dubar, *Al-Tabaqat Al-Ijtimaiyyah Fi Lubnan: Muqarabah Susyulujiyyah Tatbiqiyyah*, trans. George Abi Saleh (Bayrut: Muassasat al-Abhath al-’rabiyyah, 1982), 134.

bourgeoisie came to form the hegemonic faction within the dominant bourgeois class.³⁰ The Lebanese banker, as I further elaborate in *Chapter 2*, was thus imbued with a distinctly political role. Throughout my narrative, he is largely rendered a state-builder in a global setting rather than a mere local businessman bent on entrepreneurial adventure. The making of the central bank is one major facet of his crisis of rule and state-building – of its conflicts, contradictions, compromises, and contingencies. This study is a first attempt at its narration.

1.3 Plan of Study: Historical Sources, Methodological Questions, and Narrative Approaches

As stated earlier, a structuralist empiricist inquiry into the formation of the *financial* apparatus of the state is a matter of looking into the *concrete* and *contextual* transformation of the banking system as a whole at the *institutional* level. Research questions to that effect include: How were banking regimes differentiated into specific configurations in Middle Eastern states in general, and in particular in Lebanon under a proto-colonial, colonial, and later neo-colonial context? What type of continuities and ruptures existed in terms of the institutional organization, monetary mandate, and economic impact of the central bank in the colonial conjuncture (Banque de Syrie et du Liban) compared to the neo-colonial one (Banque du Liban)? With the rise of the nation-state as the universal model for political organization in the 20th century, how was the role of central banking universally imagined and practically pursued? What were the actual directives and regulations imposed by International Financial Institutions (IFIs) on local ones and to what extent did the latter conform to these external pressures? What type of banking regulations – such as liquidity and reserve requirements – and administrative management structures – such as autonomy from government - were conceived as the building blocks of central banks in peripheral countries like Lebanon? Did these regulations conform or diverge from those theorized as suitable for developing countries? What was the ultimate legal and institutional configuration that emerged as the instrument of central banking and how well suited was it for the purposes of economic development? Was it designed to facilitate non-productive short term investments or long term productive ones?

³⁰ According to Nasr and Dubar, the hegemonic class in Lebanon is made up the following social groups or segments: Large landowners, industrial bourgeoisie, commercial bourgeoisie, and the financial oligarchy. It is telling that the authors were not able to secure a single interview with a member of the last group. *Ibid.*, 134–135.

The second dimension of investigating the concrete history of state apparatus formation using an institutionalist approach is pertains to the social formation of Lebanese society – *as a whole*. A historically-specific evolution of the financial apparatus does not merely exhibit itself in the realm of monetary systems and financial practices. It is manifested in broader social relations of power affecting the dialectics of state, class and nation that produce the *national economy* as a set of institutional structures, legal rules, material relations, and political practices. Research questions in this regard include: How was the new financial order rationalized as an impediment or facilitator of economic sovereignty and national independence? How was it strategically employed by competing political forces? How did ruling elites or powerful social groups, such as bankers, conceive of the role of state financial institutions such as the central bank in relation to securing their economic interests, preserving their social status and buttressing their national project? And what role did these elites themselves play in shaping these institutions? How were they in turn shaped by the latter? How did specific ideas and public debates influence this process? What was the degree to which global factors, including economic ones such as the movement of capital and political ones such as the intervention of powerful government or IFI officials, delimit this multilayered process?

Seeking some preliminary answers, I closely examine - in addition to relevant secondary literature - a wide array of archival material and primary sources, many in Arabic, related to central and private banking in Lebanon. This material included US diplomatic cables, IMF reports and directives, annual reports of the BDL and the Association of Banks in Lebanon, unpublished treatises on Lebanese central banking penned by AUB economists and state technocrats, Beirut-based newspapers and magazines, Lebanese central and private banking laws and decrees, as well as diaries and biographical accounts of Lebanese politicians and bankers. The literature on central and private banking in Lebanon, which I extensively draw on for this study, has largely remained the purview of financial experts and the banking community. These works tend to be of a technical or biographical nature. They provide a rare window into the world of Lebanese banking as perceived and narrated by its own members and the technocracy and press corps tied to it.³¹

³¹ Some of these works are of significant historical value and their language highly accessible to the general public, but are published by private banking institutions and meant for limited circulation within the banking community.

I do not impose a rigid interrogative framework on this material to make it fit into a pre-conceived and strictly chronological narrative of the making of the central bank. Instead, I deploy different analytical frameworks and narrating techniques that take into account the type and richness of sources available and the most relevant conceptual problems or factual unknowns these sources can best speak to within each historical juncture under investigation. The bulk of primary and unstudied source material surveyed pertains to the post-WWII conjuncture, which is why my original contribution to the field speaks mostly to Lebanon's state formation in this particular period.

My analytical narration commences in *Chapter 3*. Prior to that, *Chapter 2* presents some theoretical considerations on two issues. The first is the conceptualization of central banking as an institutional pillar of modern nation-state formation. After an overview of the origins of central banking as a cornerstone institution of the central political authority in general and European nation-state power in the context of imperialism, I outline how central banking was consecrated in post-WWI international conferences as an indispensable institution for the formation of modern nations and later imagined in the interwar period by British economist John M. Keynes as a key component of a stable international financial order. A slightly different arrangement, which substituted national governments for central banks as the point of interaction between the national and international economy, was agreed upon at Bretton-Woods. But as I show, central banks retained a significant role in the process. The second part of the chapter is a theoretical reflection aimed at rethinking the Lebanese banker as a state-builder rather than an entrepreneur. By drawing on Joseph Schumpeter's theory of entrepreneurship and critiquing its application to Lebanon by AUB economist Yusif Sayigh, I reorient the inquiry into the history of banking away from questions of productive and profitable investment associated with entrepreneurial activity and into the realm of shaping state institutions to control and manage the market. The conclusions drawn by these theoretical considerations are intended to open up the field of studying finance to political and historical inquiry and set the conceptual stage for the

Two prominent such works that I draw on are Georges Ashi and Ghassan Ayache, *Tarikh Al-Masarif Fi Lubnan* (Bayrut: Banque Audi SAL, 2001) and The Association of Banks in Lebanon, *The Golden Jubilee Book 1959-2009* (Beirut: The Association of Banks in Lebanon, 2009).

rest of the thesis. The emergence of central banking in colonized regions, which would speak to my empirical findings, remains undertheorized. While I don't attempt to compensate for this lacuna, the history of the BDL predecessors, the BIO and the BSL, offers an empirical model of how such an evolution was different from the European setting.

Chapter 3 examines the prehistory of the BDL. It is a commentary on the question of central banking in the periphery under two conjunctures. is thus a prehistory of the BDL and a commentary on the question of central banking in the periphery under two conjunctures, the Ottoman imperial/European proto-colonial period and direct French colonial rule. Based on a rereading of secondary literature, namely financial and general histories, *Chapter 3* highlights the role of finance in general and state banking in particular in the transformation of monetary regimes and the banking sector prior to Lebanon's monetary delinking from France in 1948. By redrawing the landscape of the political economy of this period, I try to show the role of critical junctures like wars in the consolidation of financial dependency and alteration of institutional structures. I also aim to highlight the messiness of monetary (de)colonization and stress the legal and political dimensions of this process in the service of economic ends that largely took the form of foreign capital penetration. In light of such analysis, the BSL emerges as a primary instrument of implementing this policy and of prolonging Lebanon's financial dependency on France. Given its monopoly over issuing bank notes, the bank became a site of contesting French dominance and attaining national sovereignty. Following formal political independence in 1943, Lebanon's ruling clique, of whom many members were linked to BSL interests, became increasingly confronted by the demands of the new global financial order emerging out of WWII. This was the wired-world of Bretton-Woods and its enforcer, the International Monetary Fund (IMF). By taking a closer look at the process of delinking Lebanon's monetary regime from Franc in 1948, I examine the role which this delinking process, completed through a monetary accord in 1948, played in the emergence of the Lebanese economy as separate from its Syrian counterpart.

The transition from direct French monetary control to an internationally regulated financial system was not orderly or stable. This was particularly the case in Lebanon where ruling elites in alliance with French capital interests embodied in the BSL remained hesitant to fully embrace the new order. Delinking the currency in 1948 ended a state of multi-currency regimes that persisted through the 1940s in Greater Syria. Setting up a national central bank, which would

supplant the BSL, was a more fundamental step towards monetary independence since it was conceived as the hallmark of financial autonomy of the modern nation-state. Syrian authorities quickly moved to set up such an institution. Lebanese authorities, however, did not. What caused this divergence of paths? Why did the setting up of a state-operated central bank, despite the recognition of its necessity for the construction of the nation-state in a post-independence context, take much longer to materialize in Lebanon? This is the central empirical question to which I turn my attention in the next four chapters. The historical account I provide seeks to better explain this fact and in the course of doing so to better understand the intricacies of the institutional dimension of the process of state formation in Lebanon and the Middle East.

Chapter 4 explores the ideas as well as international and scholarly institutions that played the defining role in the push for making such a transition and the resistance it faced. After examining IMF reports and directives pressuring Lebanese authorities to fix their currency practices, I highlight the role of a group of economists who tried to argue for economic reform and banking regulation that ostensibly challenged the dominant paradigm of *laissez-faire* at prestigious public fora such as the Cenacle Libanais and within the state bureaucracy. These include foreign experts such as the IMF's John Keesing and local ones such as Sa'id Himadeh, Albert Badre, Salim Hoss, and Talha Yafi. Based at the American University of Beirut (AUB), these latter economists, whom I refer to as developmental institutionalists, reflected the emergence among Lebanese elite circles of an ideology of technocratic modernization that competed with a more traditional, French-influenced one.³² These AUB economists were also emissaries of global currents of thought, namely a modified version of economic institutionalism, catered to fit the Lebanese context. Their contributions were largely channeled through institutional mechanisms rather than individual ones. I first map the institutional and intellectual infrastructure, such as the Economic Research Institute, that these scholars set up at AUB to provide leverage for their work. I then employ a detailed and comparative textual analysis to examine some of their

³²Nasr and Dubar identify such a distinct ideology of technocratic modernization as opposed to a traditional bourgeois ideology, both forming the hegemonic bourgeois ideology of the times. The former is at equidistance from Arab and Western poles of political influence and thought while the latter is more or less within the Western orbit. See Nasr and Dubar, *Al-Tabaqat Al-Ijtima'iyyah Fi Lubnan*, fig. 4-2, 349.

relevant professional writings and academic studies, including those delineating ideal central bank prototypes.³³

Chapter 4 calls for a rethinking of how Lebanon's post-WWII economic order and political organization including state formation were conceptualized and articulated in much of the literature. It sets the stage for a deeper interrogation in the three chapters that follow of the machinations of this order at the institutional and state level. This order has been largely conceived as exhibiting a sharp division between two phases of Lebanese history, the 'Merchant Republic' phase (1948-1958) and the Chehabist phase (1958-1967). Recent political economy studies of post-WWII Lebanon have made important strides towards understanding the political economy of this period and of providing a nuanced, state-centered, and globally sensitive understanding of *laissez-faire*. Toufic Gaspard highlighted how institutional factors, social groups, and global trends of economic policy shaped Lebanon's economy. He showed how *laissez-faire* was largely a product of state intervention. Carolyn Gates also addressed the political dimension of financial institutions and mapped out the circles of power and privilege of contemporary Lebanese elites with a special emphasis on the mercantile-financial class. Irene Gendzier's work made the global dimension of this economy more visible. Her extensive study of the US military intervention in Lebanon in 1958 illustrated the role of US foreign capital and policy in the integration of Lebanon's post-WWII economy into the US-dominated world order.³⁴

³³ Prominent AUB institutionalists included Sa'id Himadeh, George Hakim, Yusif Sayigh, Albert Y. Badre, Paul Klat, Elias Saba, Talha Yaffi, Yahya Mahmassani, and Salim Hoss.

³⁴ See Toufic K. Gaspard, *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-Faire* (Boston: Brill, 2004). Carolyn Gates, *The Merchant Republic of Lebanon: Rise of an Open Economy* (New York: The Centre for Lebanese Studies in association with I.B. Tauris Publishers; in the United States and Canada distributed by St Martin's Press, 1998). Irene L. Gendzier, *Notes from the Minefield: United States Intervention in Lebanon and the Middle East, 1945-1958 / Irene L. Gendzier; with a New Preface*. (New York: Columbia University Press, 2006). An important contribution to the political and economic history of Lebanon during my period of study has been recently made in Arabic, see Leila Raad, *Tarikh Lubnan Al-Siyasi Wa Al-Iqtisadi 1958-1975*, 1st ed. (Bayrut: Maktabat al-Sa'ih, 2005). Roger Owen's brief outline of the economic history of post-WWII Lebanon up to the outbreak of the civil war adopts an unconventional periodization of an independence phase (1943-1950) and one of rapid growth between 1950 and 1974. Owen highlights the role of finance and bankers but the main concern is the question of economic growth rather than the formation of state institutions, see Roger Owen, "The Economic History of Lebanon 1943-1970: Its Salient Features," in *Toward a Viable Lebanon* (Washington, D.C.: Center for Contemporary Arab Studies, 1988), 27-41. Samir Makdisi's latest study of the Lebanese economy also managed to avoid placing such a sharp division between the pre and post Chehab phase, but adopted a traditional growth model in line with the way the political economy of that period was conceived by AUB developmental institutionalists,

These studies, however, were largely concerned with how the state and/or private actors shaped the market, not vice versa. Their problematic was the question of market (de)regulation, and its corollary of *laissez-faire*, not state-building. In other words, they did not investigate the dynamic process by which the Lebanese mercantile-financial class *made* state institutions. The state was often conceptualized as an already existing apparatus. It was used by the ruling class, including the dominant mercantile financial class, for reproducing their political power and financial dominance through clientalism or policy directives that shaped the market to their advantage. In addition, central banking, whether at the BSL or BDL stage, rarely featured in their analysis outside the instrumental approach cited above. Finally, there was little conceptualization of the capacity of non-state actors, such as bankers, to act in an institutional and collective manner rather than through individual initiative and unpredictable networks of patronage. I turn their direction of inquiry around and look at how market forces or agents shaped state institutions. Adopting this reverse approach, I address this lacuna in the literature in chapters 5, 6, and 7. The institutional role of the indigenous banking community within a global setting, embodied in the formation of the Association of Banks in Lebanon (ABL), was instrumental in this process and constitutes a major original contribution of this study. Lebanon's barons of banking and their association are the main protagonists of *Chapter 5*.

In *Chapter 5*, I argue that various attempts to establish development banks with international supports were part of efforts by BSL-linked French and Lebanese capital to delay the setting up of a Central Bank that would undermine BSL influence and profit. I then examine the institutional role of the banking community and some of its prominent members, namely Pierre Edde and to a lesser degree his brother Raymond, in the rise of native banking under President Camille Chamoun and the making of the BDL under his successor Fuad Chehab. After illustrating the institutional dimension of the growth of the banking sector culminating in the creation of the ABL, I recount the conflict within the bankers' ranks and vis a vis state technocrats and government ministers over the form and mandate of the central bank. I

reconstruct the process of contestation, negotiation, and compromise that produced the final draft of the Money and Credit Law in 1963. This law was a watershed in the history of banking in Lebanon. Aside from organizing the banking profession for the first time in the country's history, it laid out the statutes establishing Banque du Liban and outlining its monetary policy mandate and management structure.

Chapter 6 analyses the making of the central bank in relation to the social reform project of President Fuad Chehab. I examine the administrative structure and monetary functions of the newly-decreed BDL. I analyze the political economy of Chehabism and situate the last stage of the BDL's founding within the Chehabist paradigm of administrative reform. Chehab presided over a six-year period of state-building, social reform and economic development. The founding of the central bank was touted as one such step. Through a careful examination of the Money and Credit law and the first few annual reports issued by the BDL, I assess the degree of rupture and/or continuity between the legal mandates of the BDL and its predecessor, the BSL. I draw on this comparative legal analysis to determine the degree to which the BDL represented a veritable instrument of financial autonomy or the mere outward trappings of economic sovereignty. Detailed coverage of the construction and inauguration of the BDL in the banking magazine of record at the time, *al-Masarif*, provided a priceless source for my reconstruction of these events and how they were interpreted by the press in relation to the question of economic independence and development. I close the chapter by assessing the ability of the BDL in the first two years of operation to implement banking regulation and to successfully handle banking crises that foreshadowed the general crisis precipitated by the Intra crash in 1967.

In *Chapter 7*, I reconstruct the story of the Intra crash which took place two years after the BDL's inauguration and led to major central banking reform. This constitutes the final critical historical juncture that I investigate. Conspiracies surrounding the motives and machinations behind the collapse of Lebanon's largest bank at the time abound. They largely revolve around the role of foreign capital and local political elites as well as the alleged complicity of the BDL. By investigating the response of the Lebanese government to the crisis on the local and international stage, I try to determine the extent to which the collapse was a result of political malevolence, banking malpractices, or central banking inefficiency. I also argue that the crisis exposed the degree to which the Lebanese state lacked economic sovereignty. Foreign governments, top among them those of the US and Kuwait, as well as private foreign capital, like

US consulting firm Kidder Peabody, played a decisive role in the recovery process. The crisis was itself a turning point in shaping the role of the BDL in regulating and monitoring Lebanon's banking sector. Major restructuring of the sector took place after the crash. The crisis was also a means of re-negotiating the relationship between foreign capital and local capital. I do not delve too much into this last process that reached its height by 1969 given that 1967, which according to one historical account the beginning of the collapse of the Lebanese state, marks the end of the period I examine.³⁵ I do, however, address how the Intra crisis was invoked to justify the "rationalization" of the banking sector via the importation of foreign expertise. I chronicle the reforms that took place regarding banking laws, regulations, and practices as part of this "rationalization". I conclude *Chapter 7* by considering the emergence of what I refer to as the banker-bureaucrat and the banker-technocrat. These signify the ideal type of banker that was a product of this "rationalization" and became a necessity in running the crisis-prone and ever-adjusting Lebanese banking system.

In the weaving of this narrative, US declassified archival records on banking in Lebanon, particularly for the period extending from the mid-50s until the late 60s, proved an invaluable resource. The majority were dispatches from Beirut to Washington. As such, they often reflected US foreign policy as perceived by Beirut-based officials and not necessarily as officially ordained in Washington. They do still give a good indication of US state department thinking regarding banking reform, the elimination of French economic influence, as well as the attitude of private US banking giants, and the state department, on how to best deal with the Intra crisis. More significantly, however, they offer a very rich account of the political dynamics that were at play on the domestic stage, namely among the banking community and Lebanon's circles of power in government and the bureaucracy. The extent to which Lebanese political and economic actors of all stripes (top government officials, mid-level bureaucrats, academics, and private bankers) reported events, relayed information, and shared their views with the US embassy in Beirut is hard to overestimate. It betrayed a total lack of care for national security concerns on part of these officials. But it made for a treasure trove of data that offered invaluable access to a formative period of Lebanon's financial history - albeit often through the interpretive lens of a

³⁵ See Farid. El-Khazen, *The Breakdown of the State in Lebanon, 1967-1976* (New York: I.B. Tauris, 2000).

third party. The historical worth of these accounts is compounded given that, unlike matters of quotidian politics, the machinations of banking and finance tend to take place discreetly and rarely make it to the daily press.

As a result, these documents were seminal in formulating my key findings and conclusions, whether on the role of the banking community in delaying the founding of the BDL or the roots of the conspiracy behind the Intra crash. The contents of these documents were assessed in comparison and conjunction with a careful reading of annual BDL reports, interviews and extensive coverage in Lebanon's Arabic press and first banking news magazine, *al-Masarif*, and biographies of bankers and politicians. Put together, these sources formed the empirical hinterland out of which I have woven a serpentine narrative and a thick description of the making of the BDL in post-WWII Lebanon. This process, as I outline in the conclusion, does not only uncover hitherto unknown dimensions of this past. It also prompts a rethinking of Lebanon's state formation process and political economy organization in the mid-20th century and opens up new avenues of inquiry into the role of finance in the building of the modern nation-state in post-Ottoman Arab lands.

2 Theoretical Considerations: Central Banking and the Lebanese Banker as Agents of State-building

The typical modern Banking System consists of a Sun, namely the Central Bank, and Planets, which, following American usage, it is convenient to call the Member Banks.¹

John M. Keynes, 1930

If finance is the fine-print of imperialism, banking is its publishing house. Karl Marx described the banking system as possessing “the form of universal book-keeping and distribution of means of production on a social scale.”² In the annals of capitalism, financial book-keeping took on a truly universal character in the half century following Marx’s remark. During the period extending from around 1870 until WWI, accelerated European conquest engulfed the entire globe and largely turned from an act of expanding frontiers into one of partition and repartition of already subjugated territory. In economic terms, this was the monopoly stage of capitalism, i.e. imperialism.³ Imperialism was the growth of capitalism “into a world system of colonial oppression and of the *financial* [my italics] strangulation of the overwhelming majority of the population of the world by a handful of ‘advanced countries.’”⁴ The emergence of finance⁵ – rather than commercial - capital as the dominant form of capital during that period was a manifestation of the increasingly dense network of relations between the banking and the

¹ See John Maynard. Keynes, *A Treatise on Money*, vol. 1 (London: Macmillan, 1930), 9.

² As quoted in Vladimir Il’ich. Lenin, *Imperialism, the Highest Stage of Capitalism* (Moscow: Progress, 1982), 36.

³ Ibid., 84.

⁴ Ibid., 11. For a tour-de-force survey of various Marxist and other theories of imperialism, see Sutcliffe and Owen’s *Studies in the Theory of Imperialism* (London: Longman, 1972) and Anthony Brewer, *Marxist Theories of Imperialism : A Critical Survey* (New York: Routledge, 1990). Rudolf Hilferding was one of the first economists to systematically study this role from a Marxist point of view. See Rudolf Hilferding [1910], *Finance Capital: A Study of the Latest Phase of Capitalist Development* (London ; Boston: Routledge & Kegan Paul, 1981). Prior to Hilferding’s study, J.A. Hobson had attempted what is believed to be the first systematic study of imperialism albeit from a liberal standpoint (J. A. Hobson [1902], *Imperialism: A Study* (New York: Gordon Press, 1975), <http://myaccess.library.utoronto.ca/login?url=http://hdl.handle.net/2027/heb.03262.>)

⁵ Simply put, finance capital is bank-controlled capital - in money form- turned into industrial capital. From a class-analysis perspective, bank functions involve collecting the money income of all other classes and making it available to the capitalist class as money capital. See Hilferding, *Finance Capital*, 90.

industrial sectors.⁶ The money market flourished. Credit reigned as a preponderant instrument of investment and increasingly became a major form of export capital, as opposed to goods, destined for the colonies in search of higher profit margins. Back in Europe, the economic logic of exporting capital became justified through a political logic of expansionist foreign policy and an ideological logic of nationalism as imperialism. As a result, nationalism became more synonymous with world domination rather than national independence and cultural autonomy.⁷

Vladimir Lenin recognized the implications of imperialism - at least in general terms – in relation to the colonial question.⁸ The process of exporting capital created an international network of “dependence on and connection of finance capital”.⁹ While relations of dependence between colonizer and colonized always existed, under imperialism, these relations were rendered into a *general system*. Even “semi-colonies” like Argentina enjoyed a mere formal type of independence. These semi-colonies were equally *enmeshed* in this net of financial and diplomatic dependency. The interpenetration between international relations and internal structures of local social formations had become dense enough to make it a *decisive* factor in the very reproduction of these local social formations.¹⁰

Nikolaï Bukharin emphasized the role of the state and its institutions in consolidating the power of finance capital and identified the central bank as the “golden head” of such control, at least in

⁶ Ibid., 180. This might be referred to in today’s parlance as a bank-industrial complex.

⁷ See Ibid., 8. Hilferding retained a somewhat romantic notion of the “old liberal ideals” of pre-imperialist times lamenting how “an oligarchic ideal of domination has replaced the democratic ideal of equality.” See Ibid., 335–336. Hobson equally lamented the demise of liberalism warning that “the spirit of poisons the spring of democracy,” see Hobson, *Imperialism*, 158.

⁸ Building on the work of Hilferding and Hobson, Lenin summarized the five basic features of imperialism as follows: The decisive role of monopolies in economic life; the merging of bank and industrial capital into finance capital; the prominence of the export of capital as distinguished from the export of commodities; the formation of monopolist capitalist associations partitioning the world; the completion of the territorial division of the entire world among major capitalist powers, see Lenin, *Imperialism, the Highest Stage of Capitalism*, 84.

⁹ Ibid., 59.

¹⁰ Nikolaï Bukharin conceived of imperialism within a world economy defined as a “*system of production relations and, correspondingly, of exchange relations on a world scale*”, (Nikolaï Bukharin, *Imperialism and World Economy.: With an Introd. by V.I. Lenin*. (London: Merlin Press, 1972), 26. For Rosa Luxemburg’s rigorous treatment of the machinations of imperialism and the notion of primitive accumulation as a necessary phenomenon of reproducing the capitalist mode of production see Rosa Luxemburg, *The Accumulation of Capital* (New York: Monthly Review Press, 1964).

Germany.¹¹ Karl Polanyi also argued that in the 19th century, high finance emerged as the main link between the economic and political organization of the world as an international system.¹² Central banks were the administrative apparatus that brought monetary policy into the sphere of politics.¹³ The emergence of central banking was thus crucial to the emergence of an (inter)national monetary space. These financial institutions acted as a building block for the consolidation of the European nation state as part of a new international order. As illustrated by these authors, this process was not restricted to events in Europe. It was borne out of the smithy of imperialism and the financial dependency links it wove between the European core and the colonized periphery.

How did this process evolve across space, i.e. in a periphery such as the Middle East, and over time, i.e. from one historical conjuncture (colonial/proto-colonial) to the next (post-independence/neocolonial)? Delineating the historical specificity of this process is a first step towards theorizing it. One critical historical juncture in this regard is the interwar period. The 1920s and 1930s witnessed the gradual transformation of the international financial order into its post-WWII Bretton Woods system and coincided with the long transition from a 19th and early 20th century colonial setting to post-WWII neo-colonialism.¹⁴ It was during this interwar period that the nation-state model became more uncontestedly seen as the universal form of the political organization of societies and the central bank as an indispensable financial institution for such a state's viability. Given the overlapping spatial (core-periphery) and temporal (across conjunctures) dimensions of the evolution of central banking, the historical inquiry may be, for analytical purposes, broken into the following two inquires:

First, how did central banking emerge in the Middle Eastern periphery under European imperialism in the period stretching from the mid-1800s to WWI? This is the history of the

¹¹ See Bukharin, *Imperialism and World Economy.*, 151.

¹² The Rothschild family and its transnational financial empire were the embodiment of the abstract principle of early modern internationalism. See Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed. (Boston: Beacon Press, 1960), 9–10.

¹³ For a discussion of the role of currency and central banking in the making of the 19th century nation-state and the international liberal order see *Ibid.*, 192–198.

¹⁴ For a precise definition of neo-colonialism, see footnote 2 in the Introduction.

making of state banks in regions of proto-colonial or colonial rule. Examples include the Banque Imperiale Ottomane (est.1863), the Imperial Bank of Persia (est.1889), The National Bank of Egypt (est.1898), and the Bank of Bengal (est.1809).¹⁵ Unlike European central banks, these banks were private enterprises largely owned by foreign capital. They were concessions obtained in non-European territories and in some cases came to act as lenders of first resort for local central authorities. They often also monopolized paper currency issue and helped spread its use while acting as a facilitator of the penetration of European capital into native economies. Their institutional structure and monetary mandate was a function of the degree of autonomy they enjoyed vis a vis the peripheral central authority which, in turn, was dependent on the extent of sovereignty this centre enjoyed in relation to European powers. A history of these banks is thus a first step towards a spatial theorization of central banking in the periphery during the colonial/imperialist conjuncture. For the purpose of this study, I restrict my inquiry to the case of the BIO, whose history I outline in *Chapter 3*, given that it was a direct ancestor of the BDL.

The second inquiry pertains to the evolution of central banking in the 20th century. i.e. across time and space. Following WWII, central banks took on the additional function of engineering and managing national planned economies as well as regulating the private banking system. This transformed them into an integral institutional apparatus of class interests, state power, and global financial control, thereby acquiring the full designation of a central banking authority. How did this change in mandate and growth of central banking authority come about? And did it lead to a differentiated central banking system in peripheral countries such as Lebanon, the same way differentiation took place in the earlier colonial conjuncture?

The arguments below are a preliminary attempt to tackle certain aspects of the two inquiries outlined above. They are intended to open up this line of historical and theoretical inquiry in relation to the rise of the Middle Eastern state. Arguments in *Section 2.1* below illustrate the degree to which central banking was a function of consolidating central political authority and

¹⁵ For a brief history of the BIO, see Chapter 3. For histories of other banks, see Geoffrey Jones, *The History of the British Bank of the Middle East*, vol. 1, Hongkong Bank Group History Series, no. 3 (Cambridge ; New York: Cambridge University Press, 1986) in relation to Iran, Abdul Munim Sayyid Ali, *Al-Tatawwur Al-Tarikhi Lil Anzima Al-Naqdiyya Fi Al-Aqtar Al-Arabiyya*, 3rd ed. (Beirut: Markaz Dirāsāt al-Waḥdah al-‘Arabīyah, 1986), 48 in relation to Egypt, and G.P. Symes Scutt, *The History of the Bank of Bengal: An Epitome of a Hundred Years of Banking in India* (The Bank of Bengal Press, 1904) in relation to colonial India. On the Reserve Bank of India established in 1935, see *History of the Reserve Bank of India, 1935-51* (Bombay: Reserve Bank of India, 1970).

how it gradually turned into a pillar of the 19th century rise of the European nation state. At the root of this historical specific process were the emergence of paper currency (fiat money) and the corollary of an ever expanding *international* monetary space. The second section traces the transformation of central banking in the interwar years into a universal instrument of state-building within an increasingly wired global financial order. I focus on how prominent British economist John Maynard Keynes reimagined the role of central banks in a world made up of distinct yet interconnected *national* monetary spaces. These transformations set the stage for the post-WWII financial order in which central banks became largely national institutions and took on two major additional functions: regulation of the banking system in its entirety, and planning and developing national economies as a whole.

A full theorization of central banking under this post-WWII neo-colonial conjuncture presents formidable challenges and is beyond the scope of this study. The task of mapping the impact of this process on the evolution of central banking in the periphery after WWII may be the most pertinent and promising inquiry in this regard. But it is rendered more complicated by the nature of the historical conjuncture under which this evolution took place. Under the definition I adopt of this neo-colonial period, nation-states in the periphery had all the “outward trappings” of sovereignty but lacked actual control of their economic system and financial policy. The question of financial dependency and central banking during the neo-colonial conjuncture was not as straightforward as was the case during colonial times. During the latter, financial dependency was hard to dismiss. Central banks in peripheral settings were owned and operated by foreign capital and local currencies were explicitly pegged to those of the colonizing force. In the neo-colonial period of national liberation, central banks took on all the appearance of national institutions. By historicizing one such instance, Lebanon’s central bank, this study indirectly speaks to this question of central banking in the periphery in the post-WWII conjuncture. At the theoretical level, however, the arguments in this chapter fall short of a full theorization of this process. Instead, I restrict my inquiry in relation to this conjuncture to rethinking the role of the Lebanese banker as a political agent of state-building rather than a purely economic actor reaping the fruits of *laissez-faire*. Resituating the banker as such sets the stage for narrating his role, both as an individual and an institution, in the making of the Lebanon’s central bank.

2.1 Central Banking and Central Authority: The Theory and Politics of Monetary Space Formation

Long before the emergence of modern central banking, centralized political or religious authorities played a salient role in the formation and management of complex currency systems, while imperial conquest and warfare contributed to their spread and consolidation over broader networks of resource extraction, commodity production, and long-distance trade. Rules outlining mechanisms of currency control, units of measurement, and methods of circulation were inscribed by law and enforced by non-economic means. Money, often billed as a “necessary” instrument of a market or exchange economy, was equally a manifestation of social power and state authority.¹⁶

The role of central authority in the creation and management of economic spaces became more decisive with the increased monetization of societies, particularly through the introduction of paper money on a massive scale. In Europe, the popularization of paper money beyond limited circuits of commercial exchange was made possible by the confluence of several interdependent factors including colonial conquest, technical innovation, and the rise of the nation-state.¹⁷

Lacking any substantial value of its own and competing to augment or replace precious metals

¹⁶ For more on the emergence of centralized currency systems and the role of warfare in their spread in ancient Mesopotamia, Ptolemaic Egypt, Hellenic Greece, the Roman and Byzantine empires as well as during the Umayyad and Abbasid Islamic Caliphates, see Sitta von. Reden, *Money in Ptolemaic Egypt : From the Macedonian Conquest to the End of the Third Century BC* (New York: Cambridge University Press, 2007) , Hishām Bsāt, *Tārīkh Al-Nuqūd Fī Nihāyat Al-‘aṣr Al-‘Abbāsī Khilāla Fatrat Badr Al-Dīn Lūlū*, al-Ṭab‘ah 1 (Bayrūt: Markaz Dirāsāt al-Waḥdah al-‘Arabīyah, 2010), Jonathan Williams et al., *Money: A History* (London: Published for the Trustees of the British Museum by British Museum Press, 1997), Glyn. Davies, *A History of Money : From Ancient Times to the Present Day* (Cardiff: University of Wales Press, 1994).

¹⁷ Starting in the 15th century, the monetization of the world economy witnessed a quantum leap in territorial and technical scope. Silver and coin bullion and the minting of metal coins surged in the wake of colonial conquests of the Americas rich in mining ore. Growing maritime networks of trade extended monetary systems into unchartered territories. Technical innovation and mechanization fueled the exponential production of bullion and ultimately introduced paper money as a feasible alternative on a massive scale. The market for money paper, however, remained limited in scope until after the emergence of banks intimately linked with central authority such as John Palmstruch’s Stockholm Banco (est.1656), the first European bank granted a royal privilege to set up free circulating banknotes, and John Law’s Bank Générale (est.1716) set up under the patronage of the Regent of France and nationalized into the Banque Royale in 1719 assisting in the colonization of the Mississippi. The British colonies also resorted to paper money to finance their expansion. In 1690, the Massachusetts Bay Colony funded its military expedition to Canada by producing the first issue of paper bills in the Americas. The most enduring of these ventures were however the Bank of England (est.in 1694 by royal decree) and the Bank of Scotland (est.1695). For more details regarding these early attempts at banknote issue under the auspices of or in partnership with the government, see Williams et al., *Money*, 179–185.

which served as a long-established medium of exchange, paper money constantly required the authentication and enforcement of the state for its survival and spread. In return, the increasing use of paper currency further inscribed state power into national – and colonial - social space. As Georg Simmel pointed out, by partially divorcing money from its metallic base and guaranteeing its value through a pledge of a central political authority, the impersonal yet social bond between this central power and its subjects became stronger since all sorts of economic and non-economic transactions among the subjects themselves were channeled through the state. With a fully developed paper-monetized economy, the functional character of money was - paradoxically - reified and the state-mediated social relation was universalized.¹⁸

Heavy reliance on paper money also transformed the very nature of capital flows and their expansion in previously unthought-of or unfeasible ways. It led to the rise of what Geoffrey Ingham described as capitalist credit money. Building on Michael Innes' credit theory of money, Ingham argued that public banks and state authority were primary instruments of innovating new forms of credit in the capitalist era. By conceptualizing banks as institutional nodes of highly concentrated networks of social relations expressed as financial flows, the entire monetary system was conceived as the product of political and social arrangements, consensual or coerced, rendering it inherently fragile. The collaboration between the sovereign and finance capital (banks) attempted to attenuate this fragility by creating stable monetary spaces, the latter defined as sovereign spaces in which economic transactions are denominated in a money of account. Within this monetary space at the national level, the degree of credit transferability, i.e. the degree to which a particular money instrument was an acceptable means of payment, signified social dominance as much as it did material wealth. The central bank, aided by state legitimacy, stood at the top of this hierarchy of promises to pay. In other words, the privileged position of the central bank should not be understood as the mere outgrowth of financial expansion but the outcome of social and political power struggles over financial control. Samuel Knafo highlighted this power relationship in his recent study of the making of modern finance. Knafo advanced the controversial preposition that central banks of 19th century Europe were not an expression of the rising power of finance capital. Rather, they were the product of the attempt by central

¹⁸ See Georg Simmel, *The Philosophy of Money* (London ; Boston: Routledge & Kegan Paul, 1978), 172–203.

authorities to regain control of financial spaces managed by private capital. Financial liberal governance was thus not as automatic and state-free as later economic historians argued. The gold standard, as both Knafo and Ingham argued, was the manifestation of this process on the international stage. It reflected the emergence of an *international* monetary space systematically sustained and institutionally reproduced by central banks.¹⁹

In late 19th century Europe, central banks became the quintessential feature of financial governance within national and later international space. Ingham and Knafo were keen to stress the historical specificity of these credit relations and the institutions, including central banks, they gave rise to. Bilateral agreements between privately-owned banks and central state authorities struck as early as the mid-17th century constituted the historic foundation of modern central banking. They expanded and legitimized paper money markets. These arrangements differed from one European country to another in terms of assignment of share capital ownership, exercise of independent decision making, and acquisition of special legal status or financial privileges. They also evolved over decades and centuries. Over time, government banks took on a more direct role in the administration of the government's finances and the coordination of relations within the private banking sphere (by becoming banks of last resort and a clearing house of all banks). These expanding functions were seminal in the 19th-century consolidation of the European nation-state as an imagined and lived community whose unity and viability was reflected in the unity and stability of its currency.²⁰

During the interwar period, central banks became increasingly conceptualized as a *universal* precondition for the modern nation-state. They would gradually acquire the function of engineering and planning the *national* economy, itself an emergent concept and political

¹⁹ For more on the state and credit theory of money and Ingham's concept of capitalist credit money, see L. Randall Wray and A. Mitchell Innes, eds., *Credit and State Theories of Money: The Contributions of A. Mitchell Innes* (Cheltenham, UK ; Northampton, MA, USA: Edward Elgar, 2004). Knafo's challenging of the liberal thesis of the function of the gold standard and central banking can be found in Samuel Knafo, *The Making of Modern Finance: Liberal Governance and the Gold Standard*, RIPE Series in Global Political Economy (New York: Routledge, 2013).

²⁰ See footnote 44 above for a list of such agreements and their impact on the expansion of monetized spaces.

reality.²¹ As I show below through a discussion of interwar international political economy developments and relevant writings of John M. Keynes, such a conceptualization was part of an attempt to revive a global system of trade and finance that had all but collapsed following WWI. During the interwar historical juncture, central banking was re-inscribed as the linchpin of a new international political economy whose rules and regulations were ultimately drawn at the Bretton Woods conference after WWII. Central banking was rendered a universal instrument of building the 20th century modern nation. Due to the scope of challenges of theorizing central banking in a neo-colonial context which I referred to above, I do not extend these considerations into how central banking was conceived within a peripheral setting in the post-WWII period. But I do make a tangential contribution in this regard in *Chapter 4* where I briefly consider how AUB economists conceptualized the ideal central bank in an “underdeveloped” setting such as Lebanon and the central banking literature they drew from.

2.2 Post-WWII State Formation: Central Banking and the Wired World of Bretton Woods

As Louis W. Pauly argued in *Who Elected the Bankers*, the creation, organization and operation of the global set of informal and formal institutions that emerged after WWII lay at the intersection of international finance and national politics. They were the outcome of the pursuit of political legitimacy rather than the mere operation of the laws of market economics. The question of political legitimacy, Pauly pointed out, arose out of the need to reconcile the demands of expanding international markets (reviving free trade) with those of national autonomy and independence. The Bretton-Woods system was thus a “rule-based form of international cooperation” that attempted to reconcile these two opposing forces by setting up a multilateral organization like the International Monetary Fund (IMF). The latter became emblematic of these institutions.²²

²¹ On the emergence of the economy as a “new discursive object” in the interwar years and its role in reimagining the nation-state, see Timothy Mitchell, “Fixing the Economy,” *Cultural Studies* 12, no. 1 (January 1, 1998): 82–101. For an examination of how the construction of the Middle Eastern national economy, including the Lebanese post-WWII one, was partly the outcome of attributing a distinct socio-economic character to the nation, see Owen, “The Middle Eastern National Economy.”

²² An expanding international market was predicated on currency stability and unrestricted foreign exchange which led to greater economic interdependence and thus made national markets more susceptible to international shocks. National governments, however, tended to prioritize internal market stability and sought to shield local markets from

IMF rule(s) sought to restore free trade by consolidating and encouraging the expansion of global markets while safeguarding some margin of autonomy for national government to cushion the impact of such an expansion on local markets. Pauly challenged the dominant historical narrative that attributed these post-WWII institutions to a *novel* American vision of a new economic order. What was novel at the time of Bretton-Woods was the generation of an international consensus backed by the political commitment of national governments to make such an arrangement a reality. In this respect, US hegemony was a binding force that consolidated the divergent political wills of various countries into a single one. The philosophy and mechanisms of multilateral oversight, however, had been intensely debated and articulated within an international framework as early as the 1920s, even earlier according to one account other than Pauly's.²³ The end of WWI had triggered a sense of urgency to restore world trade and reintegrate capital markets. This led to intense efforts by the League of Nation, which Pauly suggested foreshadowed similar IMF efforts, to chart a roadmap for such a return. International economic conferences in Brussels (1920), Genoa (1922), Geneva (1927), and London (1933) identified the need for global financial stability as key for economic stability and reconstruction. Multilateral management and interstate coordination became a mainstay of such a proposed policy. Interwar efforts to construct a new economic order were not restricted to the question of appropriate institutional arrangements. They touched upon fundamental questions of producing economic knowledge through novel methods of computation and calculation that were seen as necessary for multilateral oversight to work. The science of statistics-based macroeconomics emerged. The League of Nations' Economic and Financial Organization (EFO) acted as an important initiator and innovator in this field, eventually growing into the league's "central analytical apparatus" in the 1930s and acting, according to Pauly, as a "direct precursor" to the

such shocks and the social ills such as unemployment that they gave rise to. See Louis W. Pauly, *Who Elected the Bankers?: Surveillance and Control in the World Economy*, Cornell Studies in Political Economy (Ithaca: Cornell University Press, 1997), x.

²³ A proposal for an international bank that would provide support for the world of Christendom was put forward in the city of Geneva as early as 1675. For more on the long history of attempts at transnational monetary cooperation, including attempts to erect currency unions among European states in the 19th century and pre-WWI efforts for international monetary reform, see Henry H. Schloss, *The Bank for International Settlements* ([New York]: New York University, 1970), 7–8.

IMF.²⁴ Successive and severe economic shocks of the late 1920s and 1930s turned this paradigm of state interference and multinational economic management into a wide-spread and fundamental tenet of political culture of the times. US President F.D. Roosevelt’s New Deal policies unleashed in the 1930s entrenched the role of government in regulating the economy. Monetary management became a staple of state functions. The Second World War furnished the cooperative impulse among national political actors required to transform such ideological consensus and US-tried practices into a set of formal global institution (IFI) with the IMF at its helm.²⁵

Pauly made a passing reference to the role of central banks in the rise of multilateral oversight embodied in formal and informal institutions such as the IMF. Such a role, however, may have been no less significant as a precursor to post-WWII arrangements compared to that of the League of Nations or its EFO. As early as the Brussels conference cited above, bankers and economic experts were of the opinion that “central banks should be created in every politically independent country *without any exception* [my italics].”²⁶ The Geneva conference two years later reiterated this belief. The Great War itself had highlighted the great benefit of having a central bank in terms of financing military and other war activities. In the following years, the need to maintain financial and economic stability granted the idea of central banking further prestige and sway. At the epistemological level, central banking became “an entirely separate branch of banking as compared with commercial banking, investment banking, industrial banking, and agricultural banking” and developed “its own code of rules and practices” that

²⁴ The League’s EFO lacked political clout but garnered the patronage of big business, such as the Rockefeller foundation, which funded pioneering statistical studies that contributed to the methodological and theoretical underpinning of the nascent field of macroeconomics concerned with the concept of the national economy. The analytics of the league thus “gave states an instrument to compile reliable data across different national settings, diagnose trends, and suggest directions for mutually beneficial policy adjustments”. See Pauly, *Who Elected the Bankers?*, 67–68, 70, 76.

²⁵ For more on how the New Deal transformed monetary management, see Arthur Whipple Crawford, *Monetary Management under the New Deal: The Evolution of a Managed Currency System, Its Problems and Results*. (New York: De Capo Press, 1972).

²⁶ Pauly refers to the call for central banks to be independent and freed from political interference as part of the program of the ill-fated world economic conference held in London in 1933, see Pauly, *Who Elected the Bankers?*, 63. For excerpts from Brussels proceedings see Talha Yaffi, “The Monetary and Banking System of Lebanon with Special Reference to Monetary Reform” (PhD, The University of Wisconsin, 1959), 174.

elevated it into a “science...acknowledged by many”.²⁷ At the socio-political level, central banks were increasingly seen as centres of “moral authority in moments of crisis” and symbols of economic independence. They were also credited with the ability to develop more sound banking systems. In countries that lacked a central banking institution, there ensued “an orgy of central banking propagation based on the simple belief that it was necessary to establish a miniature replica of the Bank of England or of the Federal Reserve Bank of New York”.²⁸ Between 1920 and 1954, close to fifty such central banks were created.²⁹

This categorical imperative of emerging national economies – that they possess a central bank - was also becoming a universal law of international political economy. Central banking institutions were being seen as essential to the viability of a restored gold standard and consequently to the smooth operation of a global system of financial management. If central banks had become an essential organ of managing *national* banking systems in the late 19th century, they became indispensable tools in the interwar period for managing the global financial system. The latter was itself conceived as the sum of national banking systems. It followed that effective control was best achieved through the coordination of the managing organs of these individual systems, i.e. the central banks. In short, the latter were ideally situated at the intersection of national and international monetary space. They were conceived as the building blocks of any prospective supernational system of monetary management.

British economist John Maynard Keynes, who played a pivotal role in setting up the post-WWII financial order, articulated this interwar vision most vividly in his lesser known yet seminal work *Treatise on Money*.³⁰ Keynes defined the problem of international financial management as one about the gold standard, national autonomy, and the relationship of central banks to one another. He likened the typical modern banking system to a planetary system made up of a sun, namely

²⁷ See A. F. W. Plumptre, *Central Banking in the British Dominions* (Toronto: University of Toronto Press, 1940), 14.

²⁸ See S.N. Sen, *Central Banking in Undeveloped Money Markets* (Calcutta: Bookland, 1952), 5,6.

²⁹ For a list of central banks established between 1920 and 1954 see Yaffi, “The Monetary and Banking System of Lebanon,” 185–187.

³⁰ On Keynes most known work, see XXX

the central bank, surrounded by planets, the individual member banks. Keynes' metaphor extended to the international system, which was in turn composed of "several national systems of member banks each clustering round its central bank, with a uniform currency standard". Seen in this light, the behavior of the international system, Keynes argued, was fundamentally similar to that of a closed national system under a uniform currency standard. Given that the method of national management was the method of the control of the member banks by the central bank, it followed that international management of national systems was the management of the relations of central banks to one another. The regulation of these relations in a manner sensitive to both international stability and national autonomy provided the key to the survival and success of such an endeavour.³¹

Keynes further elevated the role of central banking into a sovereign status by designating it as the gatekeeper of a rehabilitated gold standard. Supranational financial management, Keynes argued, was ultimately about the development of a way to manage the value of gold under an international standard that assigned gold a royal status, but only a constitutionally bound one, "wholly subject to the will of Central Banks who would hold the sovereign power."³² Keynes contemplated the different institutional arrangements among central banks that would allow for such a management. At a minimum, a conference of central banks, as recommended by the Genoa convention, would consent to a set of principles of common action in relation to gold circulation and reserve requirements. A more satisfactory or ideal arrangement, Keynes proposed, would be to establish a supranational bank, a sort of central bank *of* central banks in the same way central banks acted in relation to their own member banks. A new money form, dubbed by Keynes as Supernational Bank-Money (SBM), would serve as an international standard of first instance, itself convertible into the ultimate standard, gold. A meta-central bank institution, The Bank of International Settlement (BIS), had already been set up to facilitate the

³¹ For the planetary analogy see Keynes, *A Treatise on Money*, 1930, 1:9. For his conception of the int'l system behaving as national one, see John Maynard. Keynes, *A Treatise on Money*, vol. 2 (London: Macmillan, 1930), 279.

³² In other words, the gold standard would be partially resuscitated, not as a rigid set of currency to gold exchange values preserved through an "automatic" mechanism of readjustment, but as a reference point subject to modification and manipulation by an institution of central banks acting collectively as a body of supranational management. Keynes lamented the "muddle, confusion, and division of purpose" that characterize the manner in which central banks of the time had conducted their common affairs with seemingly little regard to the resolution of the 1922 Genoa conference, See Keynes, *A Treatise on Money*, 1930, 2:389.

payment of German reparations after WWI. With US support, Keynes envisioned the possible evolution of the Bank of International Settlement into such an organ of supranational management.³³ A somewhat similar arrangement was concluded in 1944 at the Bretton Woods conference, with alterations dictated by the very US administration whose support Keynes had sought. To the dismay of Keynes and insistence of Washington, his proposed international money currency, the SBM, was replaced by the US dollar. The newly-created IMF, rather than the well-established BIS, became the watered-down version of the supranational institution or world central bank envisioned by the British economist.³⁴

Differences between the organization and operation of the IMF on one hand and the BIS on the other shed light on the evolving role of central banks in the architecture of international financial cooperation. The BIS was largely set up to tackle the problem of paying WWI debt (reparations) amid fluctuating foreign exchange rates. It was a private institution through which global financial cooperation and management took place *directly* via central banks.³⁵ Under the IMF, international cooperation became explicitly political, with governments, rather than central banks, acting as official members and contributing funds, appointing representatives on governing bodies, and assuming responsibility for abiding by IMF rules and regulations. This shift subsumed the role and function of central banks into a wider nexus of political institutions that wielded national economics together through multiple channels. But central banks remained a major point of contact between the new international system and its national component. Dealings between member governments and the IMF were explicitly restricted to the country's

³³ On the different arrangements among central banks for managing international finance see *Ibid.*, 2:395–399. The BIS promoted the cooperation of central banks and served as a meeting ground where habits of discussion and gradual collaboration among governors could be nurtured. On details of how Keynes envisioned the BIS as a prototype of a supranational bank or how the latter would look like, see *Ibid.*, 2:399–405.

³⁴ For more on the tussle between Keynes' vision and US designs championed by Harry Dexter White, who headed the US delegation at Bretton Woods, see Benn. Steil, *The Battle of Bretton Woods : John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton: Princeton University Press, 2013). Plans to scrap the BIS during WWII never materialized and US officials assumed BIS functions would be co-opted by IMF, see James Calvin Baker, *The Bank for International Settlements: Evolution and Evaluation* (Westport, Conn: Quorum Books, 2002), 7.

³⁵ Schloss, *The Bank for International Settlements*, 10.

“treasury, central bank, stabilization fund or other similar fiscal agency”.³⁶ More broadly, the IMF’s mission retained a primary role for central banks in its operations. The Fund’s objectives of promoting international cooperation and exchange stability, facilitating the balanced expansion of international trade, and the establishment of a multilateral system of payments had all become by the time of the IMF’s creation integral to the operations of existing central banks.

In order to implement the IMF scheme and to monitor whether members violated its provisions, member states were required to furnish the Fund with national data of detailed order. Other agencies such as the Federal Reserve Bank, the League’s EFO, and the BIS had attempted to collect such data in the interwar period. But their work was scattered and often spineless.³⁷ Under IMF rule(s), these efforts became formalized legally, institutionalized globally and legitimized nationally. On one hand, the Fund itself would “act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund”. At the national level, every member country of the IMF was now *officially* bound to produce and share national economic and financial statistics on a *regular* basis.³⁸ The task of producing a *complete* statistical representation of the national economy at large entailed the ability to obtain such a representation of the financial sector, including credit status and financial interactions of banks. The regulation of the banking sector at the national level was thus a

³⁶ Consult Article V section 1 of the IMF’s Articles of Agreement, see “A Decade of American Foreign Policy 1941-1949; The Bretton Woods Agreements,” *Avalon Project, Yale Law School*, accessed February 7, 2015, http://avalon.law.yale.edu/20th_century/decad047.asp.

³⁷ Over a decade earlier, Keynes had highlighted the need for the gathering and streamlining of *comprehensive* statistics, as integral to the very perfecting of the theory of supernational management and its effective application. A “complete inventory” was required to make the theory convincing. Keynes contrasted the suspicious attitude towards the “economic inquirer” held until his time of writing by British banks, including the Bank of England, to the pioneering work the US Federal Reserve Bank and other semi-private bodies and the “brave efforts” of the League’s EFO and International Labour Organization in developing the science of quantitative representation of economic transactions; see Keynes, *A Treatise on Money*, 1930, 2:407–408. The BIS also conducted research on major issues of banking, Baker, *The Bank for International Settlements*, 3.

³⁸ These included official holdings of and trade in gold and foreign exchange, values of total exports and imports of goods as well as capital investment, national income and price indices levels. Members pledged “to furnish the desired information in as detailed and accurate a manner as practicable, and, so far as possible, to avoid mere estimates” see Article VIII, Section 5, in “A Decade of American Foreign Policy 1941-1949; The Bretton Woods Agreements,” *Avalon Project, Yale Law School*, accessed February 7, 2015, http://avalon.law.yale.edu/20th_century/decad047.asp.

corollary of the new post-WWII paradigm of central banking. The Lebanese banking sector was one of the least regulated at the time. In fact, it was totally unregulated with no special law for banking. In 1956, it was further shielded from central authority by a secrecy law that criminalized access to banking information, even by the state. As a result, setting up a central bank in Lebanon had very tangible and possibly groundbreaking implications on the business of banking. The form and function of a prospective central bank turned into a primary concern for Lebanon's local banking community. *Chapter 5* examines this dimension of the making of the BDL in detail. In the following section, I address one theoretical underpinning of this dimension, namely that of conceptualizing the banker as an institution and state builder rather than an entrepreneur.

2.3 Lebanon's Banker: Elusive Entrepreneur or Parochial State-Builder?

The role of the Lebanese mercantile-financial class in building the post-independence state as a set of institutions, financial and otherwise, has often been overshadowed in the national imagination and in much of the relevant literature by its role as the *esprit national* of mercantilism in ancient and modern times. While the invocation of the Phoenician past of trade and travel served as a founding myth of Lebanese nationhood, the celebration of the modern Lebanese business man has largely served to defend the *laissez-faire* economic order and to differentiate it from its Arab and at times increasingly socialist surrounding. In the lexicon of Chihism, the ancient merchant was reinvented as the modern entrepreneur.³⁹

The conceptual leap from merchants to entrepreneurs in a Lebanese context becomes problematic after a close reading of what an entrepreneur is. Joseph Schumpeter articulated the concept of entrepreneurship most thoroughly and influentially in relation to economic development and business cycles.⁴⁰ Entrepreneurship, Schumpeter pointed out, is not a

³⁹ On the basic tenets of Chihism and Lebanese exceptionalism, see Chapter 1, Section 1.2.

⁴⁰ Schumpeter specified development as the "carrying out of new combinations" of productive means in one of the following manners: the introduction of a new good or a new quality of a good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply, or the re-organization of an industry in a novel manner. See Joseph A. Schumpeter [1911], *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* (Cambridge: Harvard University Press, 1934), 66.

profession, and entrepreneurs do not form a social class the same way landowners or capitalists or workers do.⁴¹ They are not innovators in the narrow sense of the word either.

Entrepreneurship is about leadership and authority in managing and organizing business practices and production methods by employing *existing* resources but in *new* ways.⁴²

Schumpeter recognized the pivotal role played by medium and long-term credit in the entrepreneurial cycle. Schumpeter argued that financing is a fundamentally necessary condition for the existence of an entrepreneurial economy both in practice and in theory. Credit is the solution to the problem of not being able to detach productive means from the circular flow of capital in order to supply them to novel cycles of production.⁴³ The banker, as issuer and increasingly monopolizer of credit, is thus transformed into much more than a middleman:

Since all reserve funds and savings to-day [sic] usually flow to [the banker], and the total demand for free purchasing power, whether existing or to be created, concentrates on him, he has either replaced private capitalists, or become their agent; he has himself become the capitalist par excellence. He stands between those who wish to form new combinations and the possessors of productive means. He is essentially a phenomenon of development, though only when no central authority directs the social process. He makes possible the carrying out of new combinations, authorizes people, in the name of society as it were, to form them. He is the ephor of the exchange economy.⁴⁴

In the late 1950s, Schumpeterian economics emerged as an alternative to the then dominant Keynesianism. Informed by Schumpeter's work on economic development, Palestinian economist and AUB professor Yusif Sayigh, who was a prominent member of the developmental institutionalists I discuss in *Chapter 4*, led a pioneering study of entrepreneurship in the context of a developing country like Lebanon.⁴⁵ Sayigh described his study as both theoretical and

⁴¹ Not every business person is an entrepreneur but every person – business or otherwise - can act at a certain moment in time in an entrepreneurial manner; *Ibid.*, 78.

⁴² *Ibid.*, 88.

⁴³ *Ibid.*, 70–71.

⁴⁴ *Ibid.*, 74.

⁴⁵ Yusif A. Sayigh and American University of Beirut, *Entrepreneurs of Lebanon: The Role of the Business Leader in a Developing Economy* (Cambridge: Harvard University Press, 1962). The field study involved a meticulous and arduous selection process of potential entrepreneurs among several hundred business leaders, managers, and owners in the sectors of industry, agriculture, finance, and services, see *Ibid.*, 46–47. It is telling for the purpose of my study

historical. Despite the centrality of credit to entrepreneurial success as outlined by Schumpeter and even as borne out by Sayigh's own findings, Sayigh dealt with the question of credit in a very marginal way. In line with Chihism, his study invoked the trope of the Phoenician "heritage of adventure, trade, and brisk business" as a partial explanation of the same traits exhibited today.⁴⁶ According to Sayigh, contemporary social fragmentation⁴⁷ and political competitiveness turned the Lebanese individual into a "die-hard" person and produced "entrepreneurial resilience and intense drive in economic pursuits". Material success, the study's author postulated, was seen as a compensation for the limitations and rigidity of the social-cultural-political groups. Economic sectors that required little or no partnership such as trade and services were thus preferred over other sectors.⁴⁸

Sayigh did point out the negative aspects of the system he praised. He lamented how bias in the Lebanese economy towards the trade and services sector created a business culture of "cleverness", or *shatarah*, rather than a culture of creativity and steady business relations. Short-term gains and large easy profits promoting speculative practices were valued more than long-term investment and reward. Sayigh linked this environment to the lack of an adequate institutional framework able to provide a more conducive environment for innovational enterprise. This institutional gap included the lagging behind of business legislation, the paucity of research activity, and the inadequacy of credit, normally provided by specialized and state-

that Sayigh found the extent of innovation in the finance sector to be very limited. The difficulty of determining ownership of banks, Lebanese vs. foreign, was another challenge facing the selection process. In several cases, Lebanese citizens or residents owned shares but the real authority lie with foreigners. Only one bank out of the chosen pool served as a source for medium and long term credit for non-mercantile purposes (Ibid., 43–44.)

⁴⁶ These claims seem to run contrary to the study's own findings of a dearth of entrepreneurship of the Schumpeterian type.

⁴⁷ Presumably sectarianism though Sayigh does not invoke the term.

⁴⁸ Sayigh partly attributed the "free" environment in which Lebanese economic actors operate to "an innate revolt against control and regulation and a genuine love of freedom." The socio-political constraints preventing reform and facilitating a culture of corruption in the public sector are also factored in as reasons for seeking economic "freedom" and shielding the private sector from government planning. See Sayigh and American University of Beirut, *Entrepreneurs of Lebanon*, 3–5.

sponsored banks, for agricultural and industrial development.⁴⁹ More than two-thirds of respondents to Sayigh's survey noted the shortage of credit facilities for medium and long-term loans.⁵⁰ However, rather than dig into the causes and workings of the shortage of medium and long-term credit to explain the modest presence of entrepreneurial initiative in Lebanon, Sayigh proposed a reformulation of the concept of entrepreneur itself when applied to underdeveloped countries. Sayigh argued that unless the definition of an entrepreneur – marked as a key factor of development - was relaxed to signify something less than “epoch-making innovation”, very little business activity in Lebanon and other developing countries would be identified as entrepreneurial.⁵¹ To survive as a category outside the industrialized core, Sayigh reasoned, the entrepreneur must be identified as strategic factor in development but *not* its initiator.⁵²

By contrast, dependency theorist Samir Amin sought to explain the entrepreneurial dilemma in the “third world” in the context of financial relations between core and periphery. The domination of foreign capital, Amin argued, prevented the formation of a bourgeoisie of nationalist rather than colonial entrepreneurs. It led instead to a hypertrophy in the tertiary (trade and services) sector of the economy rather than enlarge its secondary (manufacture) one.⁵³ Amin's theorization, if applied to Lebanon, transforms the Lebanese banker from Schumpeter's ephor of the economy into the capitalist core's emissary of financial dependency. According to this logic, what was celebrated as an entrepreneurial exception in Lebanon compared to other Arab countries was rather a reification of these relations of dependency that were strongest, or

⁴⁹ Ibid., 6–11.

⁵⁰ Ibid., 118.

⁵¹ Ibid., 125.

⁵² Ibid., 137.

⁵³ Samir Amin, *Unequal Development: An Essay on the Social Formations of Peripheral Capitalism* (Hassocks, Sussex, Eng.: The Harvester Press, 1976), 214. Amin's work was part of emerging literature in the mid-20th century that laid the foundations of dependency theory/world-systems theory which analyzed capitalist accumulation on a world scale through a core-periphery framework. Borne out of the tradition of Marxist writings on imperialism, dependency theory emerged as a critique to modernization theory and its notion of underdevelopment as a stage towards modernizations. See Paul A. Baran, *Monopoly Capital: An Essay on the American Economic and Social Order* (New York: Monthly Review Press, 1967). and Samir Amin, *Accumulation on a World Scale: A Critique of the Theory of Underdevelopment* (New York: Monthly Review Press, 1974). and Immanuel Maurice Wallerstein, *The Capitalist World-Economy: Essays* (Cambridge: Cambridge University Press, 1979).

most condensed, in Lebanon relative to these surroundings. Lebanon's financial oligarchy that rose to power in the post-WWII period was the embodiment of this condensation.

A state-formation approach that closely examines how financial institutions were built at the national level might demonstrate or repudiate the degree of dependency between core-and periphery as argued by Amin. At a minimum, and in relation to my inquiry, it illuminates a fundamental aspect of the Lebanese banker as a political agent and does not necessarily violate dependency theory principles as elaborated by Mahdi Amil or the notion of dependent development as articulated by Fernando Henrique Cardoso and Enzo Faletto. The latter's influential work emphasized the historical transformation of structures through conflict, social movements, and class struggle and thereby highlighted the specificity of dependence in different contexts.⁵⁴ Mahdi Amil's distinction between structural and class dependency also allows for granting the Lebanese banker political agency in the peripheral setting of Lebanon beyond the dictates of dependency on foreign powers at the capitalist core.

Amil, whose approach to the state-sect nexus I have discussed in the introduction, pointed out that structural dependency between core and periphery does not automatically translate into class dependency. It is "the dependency of a structure of relations of production to another structure of relations of production, not a dependency of one class to another."⁵⁵ The ruling class at the periphery, which Amil designated as a "renewed colonial bourgeoisie" (*burjwaziyya kulunialiyya mutajaddida*) – and of which Lebanese bankers formed a primary faction – was thus neither necessarily a protégé of its metropolitan counterpart destined to lead a similar path of development, nor merely a "comprador class" of agents doing the *direct* bidding of its master class at the imperialist centre. In fact, the "renewed colonial bourgeoisie" may find itself – at a particular historical juncture – in an antagonistic position vis-à-vis the imperialist/metropolitan bourgeoisie, but fails to sever its structural ties with the latter.⁵⁶ In other words, it may not

⁵⁴ Cardoso and Faletto developed their model in relation to Latin American economies, see Fernando Henrique Cardoso, *Dependency and Development in Latin America* (Berkeley, Calif.: University of California Press, 1979).

⁵⁵ See Amil, *Muqaddimāt Nazariyah*, 291.

⁵⁶ Under imperialism, the middle class in the periphery is produced through a process that is adaptive (*takayyuf*) rather than combative (*tanahur*) to the class dominant within the preceding mode of production, *Ibid.*, 269,285.

appear as class-dependent while remaining structurally so.⁵⁷ This structural dependence expresses itself as a main contradiction between the logic of national liberation pushing for total severing of colonial ties and the logic of class domination within the peripheral setting that is dependent on those very same ties.⁵⁸ State sovereignty in the periphery is thus constantly checked by a global hegemon. As Amil pointed out, “political independence” was a transition from non-independence (*la-istiqlal*) to dependent independence (*istiqlal taba ‘i*).⁵⁹

Structural rather than class dependence allows for class agency at the national level, something that is reflected in the narrative I recount regarding the role of the Lebanese banker in the making of the central bank. This agency might be best conceived within a framework of state-formation and the corollary question of economic sovereignty rather than economic nationalism. The meaning of sovereignty and its relation to other concepts such as statehood, nationalism, independence, and self-determination have been the subject of ongoing debate among scholars.⁶⁰ Drawing on the typology of sovereignty stated by Stephen D. Krasner, Daniel Philpott provided a well-rounded critique of attempts to dismiss the usefulness or applicability of the term in understanding state politics in a contemporary setting. The five key concepts of sovereignty catalogued by Krasner revolved around power relations in an intra-state and inter-state context. Drawing on all five concepts, it is reasonable to argue that sovereignty is largely concerned with the ability of a government of a state to exercise its authority domestically, to control and

⁵⁷ As the most differentiated social class in the colonial social formation, the petit-bourgeoisie is at one and the same time the *axis* around which the historical movement of the social formation unfolds. The assumption of this axial position is due to the increasing inability of the unproductive colonial bourgeoisie to assume historical leadership given its financial and ideological fetters of representing the imperialist bourgeoisie. It is now called a renewed colonial bourgeoisie (*burjwajiyya kulunaliyya mutajaddida*). See *ibid.*, 454–455. The embryonic middle class in 19th century Lebanon for instance, grew out of a relation of dependency on the colonial bourgeoisie rather than the latter growing out of a differentiation from within class composition of the middle class as was the case in Europe. On Amil’s theorization of the concept of middle class, see *ibid.*, 279–302.

⁵⁸ Amil, *Muqaddimāt Nazariyah*, 208.

⁵⁹ Lebanon, Amil is quick to remind his reader, is a clear example. *Ibid.*, 448–449.

⁶⁰ For an attempt to discern the relationship between these concepts, see Hurst Hannum, *Autonomy, Sovereignty, and Self-Determination: The Accommodation of Conflicting Rights*, Rev. ed (Philadelphia: University of Pennsylvania Press, 1996) and Alfred Cobban, *The Nation State and National Self-Determination* (New York: Crowell, 1970). On key concepts of sovereignty, see Robert H Jackson, *Sovereignty: Evolution of an Idea* (Cambridge; Malden, MA: Polity, 2007). On the legal dimension of the evolution and application of sovereignty, see Michael Ross Fowler, *Law, Power, and the Sovereign State: The Evolution and Application of the Concept of Sovereignty* (University Park, PA: Pennsylvania State University Press, 1995).

supervise flow of people and goods across its borders, to remain immune from external interference, and to enjoy internationally recognized legal rights and privileges vis à vis other states.⁶¹ In other words, the question of sovereignty pertains to whether a state's government was the highest power of political arbitration in various contexts. Sovereignty is thus concerned with the *degree* to which the government was able to exercise its sovereignty vis à vis internal and external actors.⁶² Sovereignty is a question of degree because it is in flux and is never absolute.⁶³ Discerning the extent of sovereign power or lack thereof becomes fraught with controversy within a US hegemonic order as it developed during the main period of my study, namely after WWII.⁶⁴ Hegemony, in the context of international relations, is the “power of a state to exercise functions of leadership and governance over a system of *sovereign states* [my italics]”.⁶⁵ The cautious conclusions I draw regarding the question of financial dependency in this period towards the end of the study are a reflection of these conceptual difficulties and of specific historical factors I outline then.

What of *economic* sovereignty and financial autonomy? How does the invocation of sovereignty shape questions of political economy? One way it does so is by distinguishing economic sovereignty from economic nationalism. The latter is largely concerned with the market-driven capacity to control the process of economic development through native ownership of capital. When applied to the state, questions of economic nationalism remain largely confined to concerns of economic development and governmental policies aimed at attaining economic self-

⁶¹ The five types of sovereignty referred to above are: domestic, interdependent, International-legal, and Westphalian. For detailed definitions, see Daniel Philpott, “Usurping the Sovereignty of Sovereignty?,” *World Politics* 53, no. 2 (2001): 300, doi:10.1353/wp.2001.0006.

⁶² On definitions, debates and theories of state sovereignty, see and Ersun N. Kurtulus, *State Sovereignty: Concept, Phenomenon and Ramifications*, 1st ed (New York: Palgrave Macmillan, 2005) and F. H. Hinsley, *Sovereignty* (New York: Basic Books, 1966).

⁶³ I borrow the term “flux” from Philpott’s critique of Krasner, see Philpott, “Usurping the Sovereignty of Sovereignty?,” 299.

⁶⁴ On post-WWII US hegemony and the making of global capitalism, see Sam Gindin, *The Making of Global Capitalism: The Political Economy of American Empire* (London ; Brooklyn, NY: Verso, 2012).

⁶⁵ Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times* (London: Verso, 2010), 28.

sufficiency.⁶⁶ Economic sovereignty, on the other hand, is largely concerned with questions of autonomous state and government decision-making in the sphere of economic policy. Financial autonomy is a primary facet of economic sovereignty. It is compromised through sovereign lending, often from a foreign source, and through a lack of control of capital flow within the domestic market. Both forms of credit relations are handled by central banks. The construction of the central bank might thus offer insight into the applicability and operation of sovereignty in Lebanon in a post-WWII setting not merely in relation to external actors, i.e. other states, but internally in relation to local actors such as bankers. As I mentioned in the introduction, the Lebanese financial bourgeoisie's construction of the Central Bank was one element of their construction of the country's sectarian system *within* a historically-specific global financial order. Framed within the paradigm of sovereignty and state building, the Lebanese banker emerges as an institutionally organized state builder in a global setting. Uncovering his role in this process vis à vis the government and other state or private actors, as I attempt to do in this study, provides a better understanding of the operation of sovereignty in the economic sphere in post-WWII Lebanon.

⁶⁶ On economic nationalism as a project of private elites, see 'Izz al-'Arab, *European Control and Egypt's Traditional Elites*. On economic sovereignty as linked to government policy and self-sufficiency, see Peter G. Franck, "Economic Nationalism in the Middle East," *Middle East Journal* 6, no. 4 (October 1, 1952): 429–54.

3 The BIO and the BSL: A Long Monetary Mandate

The country that is unable to preserve its financial independence is also unable to preserve its political independence.¹

Khaled al-‘Azm,
Former Prime Minister of Syria (b.1903-1965)

French economic historian Jacque Thobie described the Banque Imperiale Ottomane (BIO), which was the financial ancestor of Lebanon’s Central Bank, as a bank like no other. Emmanuel Monik, one of the BIO’s long-serving managers, quipped that this bank was an institution “très originale”.² The BIO was a government bank of one state owned by the citizens of two others, France and Britain. More significantly, the BIO’s creation took place during a phase of Ottoman history described by Thobie as proto-colonial. A proto-colonial social formation stood at the middle ground between the two extremes of a colonizing core (Western Europe), and a colonized periphery (such as India at the time). For the Ottoman Empire, this was a period of relative autonomy from European control, but of decline of central authority, defeat in military campaigns, disarray in fiscal and financial affairs, direct foreign intervention, and accelerated capitalist penetration. It was also a period of extensive restructuring of Ottoman society known as the *Tanzimat*. The latter were billed by the Sublime Porte and influential elements within the state bureaucracy as a response to these aforementioned ills. This proto-colonial context imparted a distinctive character to the BIO’s administrative organization, financial function, and role in shaping the political economy of the Ottoman Empire and its provinces well beyond the empire’s collapse in WWI.³ Unlike the central banks of Western European countries, the BIO

¹ Khālīd ‘Azm, *Mudhakkirāt Khālīd Al-‘Azm*, vol. 2 (Bayrut: al-Dār al-Muttaḥidah lil-Nashr, 1973), 115.

² For Monik’s remark, see André Autheman, *La Banque Impériale Ottomane*, Histoire Économique et Financière de La France (Paris: Ministère de l’économie et des finances, Comité pour l’histoire économique et financière de la France, 1996), xi. For Thobie’s designation of Ottoman reality as proto-colonial, see *Ibid.*, v.

³ The BIO’s unique arrangement may have inspired a similar one in Iran not long afterwards. The London-based Imperial Bank of Persia founded in 1889 with a Royal Charter gained a concession from the Persian government as the state bank through the midwifing of the Qajari high-ranking official and “reformer” Mirza Hoseyn Khan. Khan was Persian minister in Istanbul in the 1860s and is likely to have known all about the BIO founded in 1863. Khan was closely associated with the Imperial Bank of Persia’s founder, the wealthy European financier, Julius de Reuter. For an account of the founding of the Imperial Bank of Persia, see Jones, *The History of the British Bank of the Middle East*. The Bank of Bengal, originally The Bank of Calcutta, may be the first instance of a government bank in a non-settler colonial setting. The bank was established with the blessing of the East India Company. The latter

was not conceived and created in the context of rising national power and colonial expansion and its institutional relationship to central authority develop over the course of centuries. Yet, it was not conceived, like the Bank of Bengal I mentioned in the previous chapter, in a strictly colonial context.⁴ The imperial reign of Istanbul over Arab territories added yet another layer of political authority that shaped the development of the BIO in its own periphery, in this case the city of Beirut. A pre-history of Lebanon's Central Bank is thus the history of the specific formation of the BIO under Ottoman rule as a privately-owned state bank and of its branch in Beirut. I take stock of this phase in *Section 3.1* below. The history of its later restructuring by French authorities into the Banque de Syrie et du Liban (BSL), the key financial instrument of mandatory rule in Lebanon, is the subject of *Sections 3.2* and *3.3*.

3.1 The BIO: Proto-Colonialism and the Visible Hand of Foreign Capital

For several decades leading up to the establishment of the BIO in 1863, British officials stationed in Istanbul or engaged with Ottoman affairs lamented the failure of Ottoman authorities to “wholesomely” avail themselves of foreign capital. The latter was seen by these officials as panacea for the managerial maladies and financial ills that continued to plague the empire. By raising large sums of money in reliable West European money markets such as London and Paris, these officials argued, the Sublime Porte would accomplish several feats at once. It would stabilize and streamline government financial practices, consolidate its numerous and short-term debts, and acquire the necessary capital to generate investment that would tap into the empire's vast resources in the fields of transportation, communication, and trade. The ideal instrument for procuring foreign capital, British officials further added, would be a ‘state’ or ‘national’ bank that - unlike local banks - had the presumed probity and wherewithal to secure direly needed funds while simultaneously playing a role in reforming government financial administration. British authorities in concert with British private capital repeatedly proposed to set up such a

played an important role in the standardization of the Indian currency during the 18th and 19th centuries. See Scutt, *The History of the Bank of Bengal*. and Williams et al., *Money*, 108–111.

⁴ The Bank of Bengal was established in 1806 as a purely British affair to act as colonial government lender, note issuer and species regulator. For a concise history of the bank, see Scutt, *The History of the Bank of Bengal*.

national bank concession. But their proposals were constantly met by “obstinate reluctance” on the part of “conservative” Ottomans. The purported “ignorance” of almost all Ottoman officials at the highest levels of European knowledge and skill in matters of money and finance made matters worse. Even westernizing Reformers like Reşid Pasha were deemed no exception.⁵

Most members of the empire’s ruling elite and high-ranking bureaucrats may have been bereft of specialized knowledge in financial matters. But their persistent aversion to foreign borrowing was not merely a matter of inability to comprehend the workings and “wonders” of banking and finance capital. As a number of them expressed to their European counterparts, at times on behalf of the Sultan, foreign borrowing would undermine Ottoman sovereignty and independence, something they were painfully aware of and tried to eschew. Throughout the first half of the 19th century, the Porte prioritized domestic solutions to address its mounting financial problems, top among them an unstable and repeatedly debased currency. Confronted with dwindling government revenues and mounting expenditures in the mid-1800s, the Ottoman Treasury regularly resorted to printing unbacked paper money to finance its spending. This further contributed to the currency’s debasement and to the disturbance of commercial and productive activity associated with such debasement. The treasury increasingly turned to *local* money exchangers (*sarrafs*) – based in Istanbul’s district of Galata - to stabilize the exchange rate and borrow much-needed funds. By the early 1850s, a small group of leading Galata moneylenders had come to monopolize the financing of government debt, usually under short-term contracts and for exorbitant interest fees. A domestic concern under the title of Banque de Constantinople had been set up for this purpose. However, the amount of capital the Ottoman treasury could raise in the domestic market was limited in value. It was acquired piecemeal and often on demand, and matured in the short term. In many instances, the Galata bankers themselves acted as intermediaries supplying the Ottoman treasury with funds procured or

⁵ Frustration towards the Ottoman attitudes to foreign capital and the need for a ‘national’ bank to remedy them were expressed by then British ambassador in Istanbul Stratford Canning in a dispatch to Lord Palmerston penned in April of 1851. Another British envoy, Lord Ponsonby, lamented that Reşid Pasha ‘did not understand the business, and forgot it, and lost the paper’ while yet another Colonel Rose claimed in 1852 that only two Turks, Fuad Effendi and Safetti Pasha had an inkling of the basic European knowledge of banks, funds and bills. For all material quoted in this paragraph, See Christopher Clay, *Gold for the Sultan: Western Bankers and Ottoman Finance 1856-1881: A Contribution to Ottoman and to International Financial History*, International Library of Historical Studies 20 (London ; New York : New York, NY: I.B. Tauris ; In the U.S.A. and Canada distributed by St. Martin’s Press, 2000), 14–15.

backed via foreign money markets. This meant that the Ottoman treasury could not settle the rising balance of payments deficits or fix the deep-rooted currency disorder in the long run. The Porte however managed one way or another to refrain from external borrowing up until highly unfavorable economic conditions, thanks to war and droughts, forced it to.⁶

In 1851, following two successive poor harvests and an armed insurrection in the Ottoman-controlled region of Bosnia, Istanbul's debt crisis turned into a seriously chronic one. The Crimean war that broke out two years later was the final nail in the coffers of the empire. In the wake of mushrooming military expenditures and a ballooning deficit, the longstanding Sultanate policy of refraining from external borrowing was abandoned. The first official foreign loan was concluded in 1854.⁷ The Crimean war marked a turning point in the financial history of the Ottoman Empire. As then Grand Vizier Fuad Pasha put it while presenting the empire's first annual budget in 1862 to Sultan Abdul Aziz, it was in 1854-1855 that "financial equilibrium was broken".⁸ The empire was now *officially* open for foreign banking business. This new open climate for European investors became a *statutory* one. The 1856 Ottoman Hatt-i-Humayun, often celebrated for the promulgation of equal rights among all Ottoman subjects, also explicitly committed the Porte to the creation of banks.⁹

War impacted the question of state banking as much as it did that of foreign commercial banking. At the close of the war, the question of a national bank concession became all the more pressing. European diplomats exhorted their Ottoman counterparts to oblige while emissaries of British and French financial gurus flocked to Istanbul to win the High Porte over. The Sultan continued to express preference to grant the concession to local financiers. Presented with a wide spectrum of initiatives that included different combinations of British, French, and at times local

⁶ For more on the role of the Galata bankers and how they were seen by West European eyes as morally defective 'Greeks and Armenians', see *Ibid.*, 19–21.

⁷ Murat Birdal, *The Political Economy of Ottoman Public Debt: Insolvency and European Financial Control in the Late Nineteenth Century*, Library of Ottoman Studies 18 (London ; New York : New York: Tauris Academic Studies ; Distributed in the USA by Palgrave Macmillan, 2010), 6.

⁸ See Autheman, *La Banque Impériale Ottomane*, 1.

⁹ Official guarantees of the foreign loans by Istanbul's war allies, Britain and France, raised Istanbul's low-standing credit rating in European money markets and piqued the interest of Europe's leading financial houses, See Clay, *Gold for the Sultan*, 27.

capital, the Porte gained some leverage in the negotiating process by pitting bidding groups against each other. The Porte also drew on its trilateral alliance with Britain and France during the Crimean war to call for a similar collaboration between British and French capital lest either gains the upper hand in controlling its financial affairs in the long run. In return, British and French authorities made every effort to prevent each other from securing a unilateral agreement.¹⁰

A whole host of financial, economic, political, and social circumstances turned the negotiating process into an arduous, complicated, and unpredictable one. The roles of foreign diplomats, international financiers, Ottoman officials, French and British experts who acted as Porte advisors, and local bankers intersected and overlapped in ways that rendered, as Christopher Clay has aptly shown, any simplistic account of the coming about of the BIO untenable. In a single decade (1853-1863), three national concessions prior to the BIO's had been granted, only to be stillborn or promptly scuttled thereafter. The *Tanzimat* triumvirate Pashas, Reşid, Ali, and Fuat were all involved at one point or another in negotiating various schemes of a national bank concession and in lobbying more reluctant elements within the Ottoman ruling class for approval. Only Fuat scored success. Buoyed by the growing influence he acquired within Ottoman corridors of power following his handling of the 1860 civil disturbances in Mount Lebanon and Damascus, and aided by a confluence of economic and political forces to his advantage, Fuat sealed the final deal that established the BIO. He did so initially as Grand Vizier and later by orchestrating negotiations behind the scenes. On February 4, 1863, following last-minute haggling, the concession received the Sultan's stamp of approval through an imperial *firman*. On June 1 of the same year, La Banque Imperiale Ottomane (BIO) opened for business.¹¹

¹⁰ When it came to matters of finance and banking, the Porte's public and private European interlocutors held the same contempt towards the Galata "clique" as the one they did for Ottoman officials. Pursuing a long term remedy to the financial woes required taking the empire's overall interest at heart rather than the narrow ones of personal profit, something these 'natives' were not capable of. In the eyes of their West European counterparts and officials, the Galata financiers belonged to a "tradition of banking and commercial morality" very different from the one prevalent in London and France, see *Ibid.*, 19.

¹¹ For details on the seminal role of Fuat Pasha in setting up the BIO see *Ibid.*, 70–73. Fuat's other restructuring measures included the "introduction of effective systems of departmental accounting, reductions in expenditure, a final end to tax farming, new taxes to increase revenue... [and] a road-building program to encourage economic activity". See *Ibid.*, 62.

One of the sticky issues that threatened to break down negotiations in their advanced stage was the question of managerial control in relation to political authority. The Porte insisted that unlike its unsuccessful progenitor, The Ottoman Bank, the BIO should not simply amount to a foreign bank with branches scattered across its territory. As a national institution, the BIO had to be placed under the control of the government. The would-be concessionaries, meanwhile, were adamant that in order to sustain confidence in European money markets and ensure the bank serve the state in a sound and sustainable manner, management must rest with them. Ultimately, the convention agreed to by both parties and brokered by British and French government advice reflected the proto-colonial context discussed earlier and the precarious balance of power between the trilateral parties such a context produced. On the one hand, Ottoman authorities had enough clout to ensure that the bank was not granted capitulatory status. They did so by granting Ottoman courts full jurisdiction over the bank's affairs and over the settlement of disputes arising thereof. On the other hand, the independence of decision making and day-to-day running of the bank was fully granted to the concessionary powers. In a save-facing move, Istanbul was chosen as the seat of the bank's headquarters and the Ottoman government was accorded a nominal supervisory role to give "the *appearance* [my italics] of an official Ottoman element in the hierarchy of the country's state bank".¹² Actual control, however, lay with the bank's general committee in London and Paris and its appointed managerial arm operating in Istanbul.¹³

The precarious balance of power of this proto-colonial conjuncture that brought about the BIO was also reflected in the type of functions assigned to the bank and the ensuing struggle over the interpretation of the statutes outlining these functions. Under the convention of 1863, the bank was assigned four main tasks. The first was the printing of notes as an exclusive privilege. The second was to handle all the fiscal operations of the Ottoman treasury, including the receipt of revenues and the discharge of all claims on them drawn by the Ministry of Finance. Thirdly, the bank was expected to act as a substitute lender whose "orderly system of short-term credit"

¹² See Clay, *Gold for the Sultan*, 74.

¹³ See *Ibid.* The political significance of the bank's headquarters as a state-linked institution with a prestigious standing among West European capitals was not lost on armed members of the Armenian party, the Dashnaks, who stormed it on August 26, 1896 as an act of protest against Ottoman policies towards Armenians; see Peter Balakian, *The Burning Tigris: The Armenian Genocide and America's Response*, 1st ed (New York: HarperCollins, 2003), 103–115.

would replace, it was hoped, the disorderly and chaotic dealings with Galata bankers. Lastly, the bank was designated as the Porte's official financial agent in its local and international dealings.¹⁴

For over a decade following its creation, the BIO's relationship with the Ottoman government remained under dispute and subject to court contestation. While the Porte expected the bank to act as a paymaster of sorts ready to serve the empire's needs as Ottoman authorities saw fit, the concessionaries conceived of it first and foremost as a business venture motivated and driven in its decisions, like any other business, by the pursuit of profit. The high expectations pinned on the bank's role in overhauling the empire's financial administrative systems failed to fully materialize. Despite the bank's monopoly of currency issue, for example, attempts to get paper money into heavy use beyond Istanbul were more difficult than anticipated. Currency unification in Ottoman lands did not take place until 1916. In addition, the empire's debt continued to snowball and its budget deficits to grow. The bank failed to stem the tide of financial collapse that hit the empire in the 1870s. As the debt crisis reached its zenith in 1874, the bank adopted a policy of refraining, in a diplomatic manner, from advancing new loans to the government. . The government called on its Galata agents for immediate relief.¹⁵

In a last-ditch attempt to restore confidence in its credit standing, the Porte expanded the BIO's financial base and vastly enlarged its function as the general paymaster of the treasury, effectively surrendering the control of its finances to foreign capital. But the empire's declaration of bankruptcy shortly after in 1875 would further reduce the direct role of the BIO in the restructuring of Ottoman finances and the supervision budgetary operations. Faced with a serious threat of a total takeover of its finances by foreign powers, the Porte eventually acceded in 1881

¹⁴ While the first of these tasks – money printing – was an exclusive privilege, the convention did not explicitly grant a monopoly to the bank in performing the other functions, the most hotly debated among them being the question of a monopoly of government borrowing via the bank. The circulation of notes was seen as the most lucrative, but placing banknotes in circulation proved harder than anticipated, as public trust in them was low, especially after the 1875 bankruptcy. In terms of bankrolling government finances, one of the effects of the treaty with the bank was to streamline borrowing as it now had to be issued through the ministry of finance alone, rather than via the difference industries. See Clay, *Gold for the Sultan*, 74–75.

¹⁵ During the second financial term of 1873, short term advances to the state treasury continued to grow beyond 1.7 million, and the international financial crisis in which the Turkish government found itself embroiled brought the role of the BIO back to the forefront, see Autheman, *La Banque Impériale Ottomane*, 42. For estimate of debt service at time of crisis, see Birdal, *The Political Economy of Ottoman Public Debt*, 6.

to setting up the Ottoman Public Debt Administration (OPDA). Acting as a “state within a state”, the OPDA, *inter alia*, took over direct control of the government’s finances. It partially replaced the BIO as a much more powerful and independent agent of foreign intervention and an architect of capital penetration and economic planning.¹⁶ The BIO was also facing competition as lender of first choice to the government by other European rivals.¹⁷

Gradually, the BIO’s role as a state bank relatively shrank in favour of its commercial activity. At the time, the BIO’s newly-appointed director general Edgar Vincent, who had served as president of the Foreign Council of Public Debt (in charge of the OPDA) and as financial advisor to the Egyptian government, opined that the bank’s future lay primarily in its commercial operations. To that end, the bank’s adopted plan was to recruit “new men that can break with the traditions of the past” to head the company’s top agencies set up across the Empire. By the end of the 1880s, the bank’s credit relations were extended well beyond those it wove with the Ottoman treasury. Years of commerce-based financial expansion followed. The BIO played an important role, alone or as part of larger consortia, in the financing, creation and operation of large scale projects in infrastructure (railways, ports), resource extraction (mining), cash crop production and distribution (tobacco), and maritime trade (silk). Increasingly, the BIO became a bank of all trades: a merchant bank, a deposit bank, an investment bank, and as originally planned a government bank with monopoly over note issue. The BIO’s growing role in restructuring the Ottoman economy at large – as opposed to public finance only - was one manifestation of the larger transformation in the financial and banking sector that was brought about by foreign lending. In the case of the BIO and its operations in Ottoman territories of Greater Syria, the foreign capital that took the lead had a French flag attached to it, and Beirut was its major gateway.¹⁸

¹⁶ Unlike the BIO, disputes between the OPDA and the Porte were not referred to Ottoman courts but a mixed arbitration panel composed of two members appointed by the council and another two by the government, with a fifth selected by the arbitrators if needed, see Birdal, *The Political Economy of Ottoman Public Debt*, 6–7. On the expansion of the BIO functions in 1874, see Clay, *Gold for the Sultan*, 12–13, 240–241.

¹⁷ In 1888, Germany’s Deutsche Bank granted Istanbul a loan in the amount of 30 million marks to finance the purchase of German arms, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 33.

¹⁸ Similar advice to that of Vincent, seeking purely commercial business independent of the government, was given over a decade earlier by marquis de Plouec, who throughout the late 1800s served as European envoy, French financial advisor to the Porte, and the first director general of the BIO, see Clay, *Gold for the Sultan*, 78. On the plan

3.1.1 French Finance Capital in the Levant: Beirut as a Gateway and the BIO as a Bridgehead

Throughout the second half of the 19th century, the gradual easing of foreign capital restrictions in the Ottoman empire, such as those set up in the aftermath of the Crimean war, led to a boom in the creation and operation of foreign banks, including the BIO, across Ottoman territories.

European colonial powers and leading financial houses vied for a larger share of the Ottoman money market. French capital acquired a lion's share in the Syrian provinces including Mount Lebanon, where banking houses facilitated the silk trade between the Syrian provinces and France.¹⁹ As a capital intensive and horticultural industry affected by seasonal cycles of harvest, silk production was highly dependent on credit. Historically, it was common for silk traders, particularly exporters, to act as moneylenders or bankers. This was the case in Beirut where the local banking sector owed much of its origins and later prosperity to the silk trade. Local banking houses acted as financial intermediaries between foreign banks and local merchants or producers who sought to secure capital sums too large to be raised in the local money market.²⁰

to reorganize the top management of the bank during the tenure of Vincent, see Autheman, *La Banque Impériale Ottomane*, 124. Vincent's own managerial skills became suspect when fraudulent speculation in South African gold finance by the BIO under his supervision was exposed, see Jens Hanssen, "Malhamé—Malfamé': Levantine Elites and Transimperial Networks on the Eve of the Young Turk Revolution," *International Journal of Middle East Studies* 43, no. 1 (February 1, 2011): 40.

¹⁹ French financial groups that set up shop in the empire outside of Istanbul included Société Générale which set up in 1869 Le Crédit Générale Ottomane with a share capital of 50 million Francs. The mother bank also bought Salonica Bank that was established in 1888 by the Rothschild Group. Earlier in 1875, Crédit Lyonnais opened two branches in Beirut and Jerusalem and in addition to commercial business relating to silk exports to Lyon, took part in financing public debt through the issuing of diversified loans. German capital was a later comer to this bank rush, setting up Deutsche-Palestina Bank in 1889 and the Deutsche-Orient Bank in 1906, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 37–40.

²⁰ Several money exchange houses in Beirut that financed the silk trade engaged in commercial banking. In Beirut, these included Elias and Ibrahim Sabbagh, Hakim Bros., Jirjy Trad & Sons, Rabbat & Co., Faroun and Chiha, Musa de Freij, Michael Trad and Nakhle Tueni. In Saida south of Beirut, Hannah Audi set up a money lending and exchange house in 1830 that mostly financed agricultural activity and later acted as an agent of foreign banks. Bank Audi, established by Hannah's descendants in the 20th century, would become one of Lebanon's largest and most powerful banks with international presence, see *Ibid.*, 51–53. On the rise of the silk industry in the 19th century and its role in linking Mount Lebanon to French capital, see Dominique Chevallier, *Mujtama' Jabal Lubnan fi "Asr al-Thawrah al-Sina" iyyah al-Awrubiyyah* (Bayrut: Dar al-Haqiqah, 1993).

French financial influence in the Ottoman hinterland including Beirut would also be effectively exercised through the BIO itself. The BIO's Beirut branch was the first to open in the empire's Arab territories and served as its central office in the region and as an instrument of French and British influence.²¹ It was set up in 1856 as a branch of the Ottoman Bank that later became the BIO's provincial headquarters.²² When assigning management posts as part of boosting commercial operations discussed earlier, the BIO's general director Edgar Vincent took British and French colonial spheres of influence into account. The manager of the Beirut branch had to be French given that the city "will become the seat of a great number of enterprises in which French capital is interested".²³ Greater French control of the BIO's affairs had already taken place at the very top of its ownership and management hierarchy. While the BIO venture was initiated by British investors, French capital eventually held the majority of shares of the bank. The imbalance between British and French influence was also reflected in the make-up and expertise of the General Committee entrusted with devising the bank's policies and overseeing its operations. The general committee was composed of two subcommittees, one based in London and the other in Paris. While most British members were veteran politicians with business interest but meagre financial expertise, the French committee boasted longtime financiers of reputable standing. By the turn of the century, decision-making increasingly became the prerogative of the French committee. Once it was wrested from Ottoman control in

²¹ On the role of the BIO in financing capital penetration projects like the Port company and the railway company, see Jens Hanssen, *Fin de Siècle Beirut : The Making of an Ottoman Provincial Capital* (New York: Oxford University Press, 2005), 89,96.

²² In 1905, the BIO's Beirut branch was relocated to an imposing building erected on the first quay of the city's port, see *Ibid.*, 254.

²³ Following the inauguration of the BIO in 1863, dozens of BIO branches were set up across the empire in its European and Asian territories. Eight bank chapters were opened in Syrian territories following the one in Beirut. These were: Damascus (1875), Aleppo (1893), Tripoli (1904), Homs (1908), Saida (1911), Alexandretta (1913), Zahle (1914), Hama (1919). For a comprehensive list of all chapters and agencies and the date of their establishment, see Appendix II in Autheman, *La Banque Impériale Ottomane*, 274–275. According to the restructuring plan to be implemented by Edgar Vincent in the 1890s, the nationality of regional managers was made to correspond to that of the country whose finance capital dominated in the region concerned: A Frenchman in Beirut, an Austria in Salonika, a British in Smyrna; see *Ibid.*, 124.

WWI, French capital's dominating share facilitated the transformation of the bank into a French financial outpost in Greater Syria.²⁴

The bank's ultimate loyalty to French and British interests was reflected in how it responded differently to Ottoman borrowing needs during the Crimean war compared to requests during WWI. During the Crimean war, the Anglo-French alliance with Istanbul prompted London and Paris to facilitate the financing of Ottoman military expenditures via BIO-issued loan guarantees. The siding of Istanbul with Germany in the WWI had the opposite effect. Allied powers sought to deprive Istanbul of any such assistance. Despite its designation as the government's bank, the BIO adhered to this policy and declined the request of the Ottoman government for much needed loans. The Porte stopped short of insisting that the money be dispensed, fearing that such a step would lead to the confiscation or freezing of its assets in London and Paris. The fallout between the bank and the Porte exposed the fragility of the relationship between foreign capital on one hand and imperial or national interest on the other. It was a reflection of the inner contradictions of the bank's foundational mandate that had managed to remain largely latent for so long. At the close of WWI, the BIO's allegiance to French capital and interests became absolute as the Allies defeated Istanbul and took over its Arab provinces. In Ottoman territories occupied by the French, such as Syria, the BIO's assets and operations turned into a political and economic windfall. They served as a well-established platform on which to graft the infrastructure of a new monetary regime, a process significantly shaped by the BIO's scion and successor, the Banque de Syrie et du Liban (BSL).²⁵

²⁴ Many of the reputable British company's such London's Glyn Mills and Co. that were stakeholders in the BIO's predecessor, the Ottoman Bank, did not end up investing in the BIO concern and the London committee was largely populated by bankers of lesser caliber. The French co-founders of the BIO, on the other hand, included the most prestigious and wealthy elements of France's *haute-banque* consortia, including Crédit Mobilier, Hottinguer, and Fould (See Clay, *Gold for the Sultan*, 78–83.) For a comprehensive list of committee members and bank directors, see appendix I, Autheman, *La Banque Impériale Ottomane*, 271–273.

²⁵ The Ottoman government requested a loan from the BIO shortly before it entered the war, and raised the cap on note issue by 100% (from £T2 M to £T4 M) to expand the bank's lending capacity. When the BIO refused to oblige, the Ottomans resorted to their war allies, Germany and Austria-Hungary for financial assistance. Loans granted by the latter had to be deposited with the Reichsbank and the Austro-Hungarian bank and could not be withdrawn by Istanbul but could be used as guarantee for government paper money issue. See Sa'id Himadah, *Monetary and Banking System of Syria* (Beirut: The American Press, 1935), 35–36.

3.2 Banque de Syrie et du Liban: Central Bank Improper

WWI marked the end of four centuries of Ottoman rule in Greater Syria. While the Ottoman imperial centre was spared foreign occupation, its hinterland, including the Syrian provinces, fell under European control. Major transformations in political, social, and cultural discourses, practices, norms, and expressions had already taken place in the late phase of the Ottoman period. They included the fall and rise of certain social classes, the readjusting of power relations between periphery and centre, the restructuring of economic relations between urban and rural, and a fundamental alteration in the imagining of social time, social space, and national sentiment. What was new about the Mandate period was the introduction of a new frame of reference - that of a mandatory power entrusted with building a nation state. Imperial logic was replaced by that of a nation-state, albeit of a new colonial variety. As Philip Khoury pointed out, mandate rule was transitory by definition, premised on the idea of *eventual* independence.²⁶ This meant that the authority of the mandate power, such as the French, was presumed temporary and open to constant contestation. The fact that French rule lacked the historical, religious, and cultural legitimacy of the Ottomans compounded this sense of transience, made their task more difficult, and contributed to the instability that plagued the mandate period. A primary facet of this instability was expressed in financial terms and reflected in the precarious relationship that existed between emerging native political authorities and colonially imposed monetary one as embodied in the successive state banking institutions, including Banque de Syrie and du Liban (BSL), which constituted the evolutionary link between the BIO and Banque du Liban (BDL). Before discussing the BSL in detail, I briefly outline the process of monetary space formation that took place under French rule and of which the BSL was part.

3.2.1 The Failed Franc Exchange Standard: Militarized Currency Circulation and the Legal Monetization of Native Economies

In line with official mandatory objectives, and as mentioned above, French and British authorities that took control of Syrian provinces following WWI tried to reconstitute political, social and economic relations in ways that appeared independence-oriented but aimed at

²⁶ Philip S. Khoury, *Syria and the French Mandate: The Politics of Arab Nationalism, 1920-1945*, Princeton Studies on the Near East (Princeton, N.J: Princeton University Press, 1987).

prolonging colonial control. Monetary policy was a primary instrument of establishing this fragile political system. As was the case with the establishment of the BIO decades earlier, the role of war economies and financial interests of the metropole colonizing power lay at the roots of this transformation. It is notable that the first step towards a new monetary regime took place less than a month after allied forces invaded Syria in October 1918 and was linked to military spending. A British directive introduced the Egyptian pound as legal tender and later threatened to imprison those who refused to accept it as payment. A close reading of the relevant decree shows that the primary concern at this stage was the caretaking of military expenditures rather than the establishment of a new currency system. The decree did not designate acceptable currencies as such, but those that must be accepted as means of payment to and by the navy and armed forces. In addition to Egyptian paper money, silver and golden Turkish coins, the French Franc, the British pound, and the Indian rupee were designated as acceptable means for such payments. Turkish paper money was not acceptable *for the purposes* of payments and receipts of navy and army transactions.²⁷

When French authorities took over the administration of Syria in the fall of 1919, their search for an alternative currency to the Egyptian pound was also initially motivated by military concerns. With an estimated 70,000 French troops stationed in Syria, it was “extremely inconvenient and expensive”, explained high-ranking mandate administrator Robert de Caix, to have to continually buy Egyptian pounds in order to meet expenditures. Monetary restructuring in Syria also took place in the context of easing budgetary pressures on the metropole as the Franc continued to depreciate.²⁸ A Franc exchange standard mediated by a new local currency, dubbed the Syrian

²⁷ Decree no. 11 listed the different currencies acceptable for the purpose of military payments. It was promulgated on November 1, 1918 by chief commander of the north zone of occupied enemy territories colonel de Piépage and based on orders from the British general headquarters issued on October 22 1918. A supplementary decree, no.31, was issued three weeks later (November 24) asserting that Egyptian paper money was legal tender, forbidding its rigging, with those who refuse to accept it liable to imprisonment for up to six months. For the full text of decrees 11 and 31, see Joseph Oughourlian, *Histoire de La Monnaie Libanaise: Une Monnaie, Un État* (Toulouse: Editions Erès, 1982), 18–19,23.

²⁸ A financial crisis beset France in March 1919 when British war credit was terminated and German reparations were far from collectable. de Caix’s comments were addressed to the Permanent Mandates Commission in 1926. He was accredited representative of the French government at the time; See Himadah, *Monetary and Banking System of Syria*, 61–63.

lira and issued by the BSL, was thus introduced.²⁹ This monetary switch, however, was not merely an expedient one, as it reflected the new complex arrangement of mandatory rule discussed earlier. On one hand, the newly created Syrian Lira had the *aura* of a local national currency. On the other hand, it was entirely dependent on colonial currency. The new currency was pegged to the French Franc at a fixed rate of 1 Syrian Lira to 20 Francs. This rendered the Syrian Lira a denomination of the Franc in disguise.³⁰

The repercussions of instituting a Franc exchange standard would plague the relationship between Paris and local governments for the rest of the mandate period and beyond. Tying the Lira to a weak, fluctuating, and unstable Franc made no sense from the point of view of the local population's economic interests. It bound the local economy in greater measure to the struggling French one rather than pave the way for local financial autonomy. The attempt by French authorities to legitimize mandate rule through the issuing of this "local" currency was thus met with stiff resistance by the local population and by segments of the Arab nationalist urban elites based in Damascus. Opposition by the latter took on a pronounced political character during the short-lived post-WWI Arab national government headed by Faisal Ibn Hussein. The Damascus government issued its own national currency, dubbed the *dinar*, and refused to acknowledge the Syrian paper money as "official exchange".³¹ French authorities cited monetary disobedience as a *casus belli*. In the ultimatum he issued to Faisal on July 14 1920, French Military Commander Henri Gouraud explicitly demanded that Damascus accept the new currency and provide facilities for its circulation.³² Two weeks after the fall of Damascus, Gouraud declared the Syrian Lira official money of the "East Zone" after an earlier decree, no. 129, had rendered it so in the "West Zone". The new currency had cast its net of legitimacy further into the Syrian interior by

²⁹ The Syrian lira became the "official money" in the "West Zone" of allied-controlled territory through a unilateral decree (No. 129) issued on 31 March 1920 by the newly appointed French High Commissioner General Henri Gouraud., see Appendix I, *Ibid.*, 317–318.

³⁰ See *Ibid.*, 61–63.

³¹ On the issuance of the *dinar* as a national currency, see Khoury, *Syria and the French Mandate*, 40.

³² Other demands in Gouraud's ultimatum included: unconditional recognition of the French mandate, a reduction in the size of the Syrian army, the abolishment of conscription, punishing those who attacked French detachments, and French military control of Aleppo and the Rayaq-Aleppo railway, see Albert Hourani, *Syria and Lebanon, a Political Essay*. (London: Oxford University Press, 1946), 54.

way of arms not commerce. The stage was set for the declaration, two years later, of all Syrian territories under French rule, including Greater Lebanon, as a “single territory from the monetary and customs point of view”.³³

The monetary victory, however, was a lot less tangible than the military one. The formal recognition of the Syrian Lira did not lead to its swift transformation into a dominant currency of exchange. The road to a single currency system was long and legally-winded. The financial regime introduced by the French was constituted through a labyrinth of decrees and edicts over a number of years, instituting certain denominations while annulling others, but gradually reducing the number of economic spheres in which other currencies were deemed legal tender.³⁴ This gradual and unstable process of introducing a new currency was exacerbated by the nature of credit relations. Certain debts contracted prior to the promulgation of decree 129 under different currencies, such as the Egyptian pound, were due at a later date, and had to be accommodated. Additional decrees prescribing grace periods and exchange rates to settle these debts had to be issued, further complicating the nascent monetary system. Finally, it was not until 1928 that all public accounting and pricing was required to be, once and for all, in Syrian paper money.³⁵

Even when this regime of currency control managed to settle into a well-defined *juridical* structure, it was persistently undermined by the economic and social forces beyond the control of the mandatory powers. Socially, paper money remained largely confined to urban centers, specifically those in coastal areas, whereas much of the interior retained its mistrust of bank

³³ The Syrian Lira was declared official money in the east zone on August 9, 1920 by decree no.302. Two years later, on 28 June, 1922, decree 1459 rendered the Syrian territories under French rule a single monetary and customs unit, see Oughourlian, *Histoire de La Monnaie Libanaise*, 28.

³⁴ Gouraud’s decree 129, for instance, had ordained that all persons within the prescribed territory must accept the Syrian Lira as payment “for all operations, whatever may be the cause or object [of such payment]”. All banking and credit institutions, as well as public and private administrations and commercial businesses, had to set prices and draft contracts in Syrian Liras. Offenders were subject to imprisonment or fines. On the labyrinth of decrees: In addition to decrees 11, 31, 129, 302, and 1459 discussed so far, decrees 653 and 956 of September 28, 1926 and April 11 of 1927 established the Lebano-Syrian gold piaster as a money of account. But the high commissioner annulled those with his decree no. 2094 that required “all budgets, taxes, fees, contracts, and in general all public finances and prices of all private establishments under public control, beginning September 1, 1928, must be established in Syrian paper money”, see Himadah, *Monetary and Banking System of Syria*, 96.

³⁵ For transitional provisions to settle older debts in Egyptian currency, see articles 8 and 9 of decree 129, Appendix I, *Ibid.*, 318.

notes and dealt in precious metals. Economically, the extreme fluctuation and overall depreciation of the French Franc for much of the 1920s made the Syrian pound – which was pegged to the Franc- an extremely unattractive currency to hold. Coastal cities with strong links to external economies like Beirut suffered from these fluctuations the most. The complexity of the currency system made it unintelligible to the majority of the population. Merchants were no longer able to properly assess their financial standing based on registered prices. With multiple and unstable exchange rates and market unit pricing, it took more than ordinary bookkeeping skills to keep proper tabs on costs, revenue, and net profit. Tax and fee calculations in Syrian currency turned into a burdensome accounting process. By 1926, even the Permanent Mandate Commission, in its report to the League of Nations, came to the conclusion that France’s currency policy hindered the independence of the mandated states, given that such independence “would be inconceivable without autonomy in financial and monetary matters.”³⁶

In short, efforts by French authorities to normalize the Franc exchange standard through the creation and circulation of a nominal local currency were largely met with failure. Under threat of punishment, the mandatory authorities were able to force the adoption of the Syrian Lira as a unit of account publicly quoted in budgetary books and commercial contracts. But these authorities could not impose the Lira as a universal medium of exchange or a unit of value beyond government-related business transactions. As late as the mid-1930s, Syro-Lebanese paper money remained a minor part of the region’s monetary stock, with Turkish coins of gold and silver, mostly in use in Damascus and Aleppo, constituting the larger part. Syrian and Lebanese citizens were obliged to use paper money for dealing with the state, but for private transactions and transmittances, including deferred payments, Turkish currency was often preferred. Even in Beirut, where banknotes were the principal currency, many people continued to express an attachment to Turkish gold money and preferred it as denomination of choice for writing up commercial contracts.³⁷

³⁶ For details concerning the unpopularity of the Franc exchange standard among the native population, see *Ibid.*, 84–87. The Permanent Mandates Commission filed its report to the Council of the League of Nations on the work of the 8th (extraordinary) session held in Rome from February 16 to March 6, 1926, see *Ibid.*, 120–121.

³⁷ The more a city, like Beirut, adopted Syrian paper money, the more it was affected by currency fluctuations. On the preference for Turkish gold money and the presence of a dual currency regime, see Himadah, *Monetary and*

The full integration of the currency system was thus more of a legal chimera than an existing practice. On the ground, there were two unconnected major standards of money and pricing. The first was official, designated by the Syrian Lira, while the other was customary, predicated on the Turkish gold pound. With different standards adopted by different people in different places, credit became a lot less mobile, and the economy a lot more disarticulated. The only beneficiary of this Franc-based system was French capital and its local affiliates, top among them was Banque de Syrie et du Liban (BSL) and its mandatory progenitor, Banque de Syrie et du Grand Liban (BSGL). The BSL/BSGL, as both a state institution and a private economic actor, played a definitive role in the consolidation and preservation of this colonial arrangement. It eventually turned into a major site of conflict between an increasingly illegitimate colonial ruler and increasingly assertive local governments.

3.2.2 The BSGL: Local Legitimacy, Colonial Financial Administration, and Market Mechanisms of Disarticulated Development

The creation of Banque de Syrie et du Liban (BSL), which was the primary instrument of French attempts at monetary control outlined above, was a hastily-arranged but a long-lasting and influential affair in relation to the formation of the monetary system of Lebanon and Syria. In early January of 1919, few months after the fall of Syrian territories into allied control, the BIO's management, now concentrated in Paris, set up the Banque de Syrie (the BSL progenitor) as a subsidiary of the BIO to manage the parent company's operations in the Syrian provinces. The BIO's branch in Beirut was designated as the new bank's regional headquarters in Greater Syria. From the outset, the Banque de Syrie was conceived as the inheritor of the financial role of the BIO albeit in strict accordance with French interests. The "familial" relationship between the BIO and the Banque de Syrie highlighted the continuities between Ottoman and mandatory times and provided the BSL with much needed leverage for commencing its operations and securing a dominant role in the Syrian money market. But there were also serious differences in the constitution and operation of the Banque de Syrie signifying an institutional rupture of sorts. While the BIO was the outcome of a proto-colonial context animated by three types of actors

Banking System of Syria, 102–112. Al-Azm confirms Himadeh's assertion that the Turkish gold coin remained the primary medium of exchange, at least until 1928, see 'Azm, *Mudhakkirāt Khālid Al-'Azm*, 2:80.

(European colonial governments, Ottoman imperial authority, and European financial capital), the Banque de Syrie as a Syrian bank of issue was the exclusive product of French design, a bilateral deal between the French state and French-dominated capital with no local say. Its privileges and powers vis à vis the local government were much more in favour of the core (France) rather than the periphery (Syria and Lebanon) compared to those of the BIO vis à vis Istanbul.³⁸

In its first incarnation, the Banque de Syrie's financial mandate in Syria, unlike that of the BIO, was a purely French affair. The statutes of the Banque de Syrie were outlined via an accord struck in Paris in April 1919 between the newly-constituted bank and the French ministry of finance - with the approval of the ministry of foreign affairs. Under this accord, the bank was split into an issue department and a commercial one, each independent of the other. All operations of currency printing and circulation were entrusted to the former. In the midst of the uncertainty surrounding the political future of the region under French control and following the formation of different Syrian "states", Banque de Syrie officials were keen to legitimate its status beyond the issue of notes. They sought to formally affirm the bank's takeover of the BIO in all regards including the transfer of all rights and privileges granted to the BIO and its function as a *government* bank. In a series of written correspondences between Banque de Syria officials and the French ministry of finance in the early 1920s, the bank tried to get some assurances in this regard. French authorities obliged with little regard to native political rights or international obligations. The then French finance minister cited the "uncertain political situation in Syria" for not having "permitted" the Syrian states to take part in the convention that had granted the bank its monopoly of note issue. Given that local governments were not to take part in such an

³⁸ On January 2, 1919, at 11:30 a.m., shareholders of the newly-established Banque de Syrie held their constituent general assembly in Paris, at 7 Meyerbeer Street and declared the starting share capital at 10M Francs. The capital was raised to 20M in March of the following year, and reached 25M Francs on December 13, 1921, after the BIO officially transferred its agencies and assets, valued for 5.5M Francs, to the Banque de Syrie 11 days earlier. The transferred branches were those in Beirut, Tripoli, Said, Zahle, Aleppo, Alexandretta, Damascus, Hama, and Homs. See Oughourlian, *Histoire de La Monnaie Libanaise*, 62–63. By 1935, the bank had opened additional branches in Deir-e-Zor, Latakia, Idlib, Tartous, and Soueida, an office in Marseilles. The bank's headquarters in Paris was 16, rue Le Peletier. See Himadah, *Monetary and Banking System of Syria*, 138.

agreement, the minister's colonial logic led him to conclude that these governments were thus in no position to "receive a legitimate share in the profits derived from the issuance [of notes]".³⁹

Despite such unequivocal assurances by French authorities, the bank felt the need to further legitimize and consolidate its status in Greater Syria through wresting some form of institutional recognition by the newly-formed Syrian states, albeit one mediated by the colonial power. In a letter dated August, 22, 1922, the bank asked the French finance ministry whether the latter thought that the "moment has arrived" to "fix the links that unite [the bank] to the new states". To justify granting it such a status, the bank invoked the authority of international law and of private contractual obligations. The treaty of Sèvres, the bank argued, had decreed that concessions by the Ottoman government would be readapted by the mandatory power to the new political and economic situation that arose in the areas detached from Turkey. The BIO, the letter pointed out, had transferred the concession granted by Ottoman authorities to the Banque de Syrie, and the Turkish government had not, as of the writing of the letter, withdrawn the concession. It followed, the bank told the ministry, that the "most rational" course of action would be for the French government to confirm these privileges and rights (presumably *in toto*). As for the role of native governments, the bank did not wish to suggest through its reasoning that newly-formed states should be excluded from negotiations, but that the bank "cannot be too concerned...with their respective points of view".⁴⁰

French-approved local governments ended up taking a token part in the final arrangement. On January 23, 1924, following four months of negotiations, a convention stating the rights and duties of the bank and outlining its relationship to the native governments was signed between the bank and representatives of the newly formed Syrian states, including Greater Lebanon. The deal was approved by the French High Commissioner on the same day. The 1924 convention

³⁹ In one of these letters dated 23 May 1921, the French finance minister acknowledged receipt of confirmation by the Banque de Syrie that its parent bank, the BIO, had completely transferred its assets and agencies in Syrian territories in which "France exerts its mandate" to the Banque de Syrie. The letter was penned one year before France was officially granted mandatory power over Syria and two years before the mandate came into effect, see Oughourlian, *Histoire de La Monnaie Libanaise*, 63–65.

⁴⁰ As Joseph Oughourlian pointed out, the treaty of Sèvres, signed on August 10, 1920, was never ratified by the Turkish government, indicating the selective and misleading invocation of international law by bank authorities. In its appeal to the French finance ministry, the bank also recommended keeping the Franc as the base currency of circulation. For all correspondence references, see *Ibid.*, 64.

secured the Banque de Syrie's monopoly over banknote issuing for the next 15 years and settled its privileged standing as the official government bank of the Syrian states. Its new name, Banque de Syrie et du Grand Liban (BSGL), was designed to reflect the latest political arrangement of these states, given the establishment of Greater Lebanon. During negotiations, local representatives demanded a greater share in the bank's ownership and management. The bank's administration and organization, however, was ultimately drawn along traditional colonial administrative lines. Unlike the BIO which was subject to Ottoman law, the BSGL was governed by French, rather than native, law. Local government oversight was largely cosmetic, wielding little to no authority over the bank's conduct and policy. Natives were granted advisory or assistant rather than leading management posts, kept in the minority among decision making bodies, and offered a token share of the bank's capital.⁴¹

While Decree no. 129 of 1920 confined the bank's public role to note issuing, the convention of 1924 explicitly rendered the principle objective of the bank to be "the promotion of the economic development of Syria and Greater Lebanon." There is little evidence, however, that the bank's vision or policies were designed to fulfill that purpose.⁴² The bank's role in the development of the local economies, if any, as well as its relation to other banks and the regulation of credit expansion and contraction, was not part of its duties and obligations towards the state. . Instead, the BSGL's developmental and monetary role was determined by the bank's own economic

⁴¹ Signatories to the 1924 Banque de Syrie et du Grand Liban convention were: President of the Federation of Syrian States Soubhy Barakat, representative of the state of Jabal Druze colonel Toufic Bey el Atrache, and French governor of Greater Lebanon, Privat Aubouard assisted by secretary general Auguste Adib Pasha. Management and ownership-wise, local governments demanded that they exercise a supervisory role over the bank while Syrians should participate in ownership and management of the bank. In response, the bank placed a non-controlling 16% of shares for purchase in the local market (8 thousand shares out of fifty one thousand). Only half, according to de Caix, were bought. Four members, two from the Syrian Federation and two from Greater Lebanon, were added to the 10 member Board of Directors. An 8 member committee of indigenous shareholders was also formed, but it's functioned was a consultative not executive one, largely confined to advice regarding credit extension queries. Great powers are entrusted with general managing director, a Frenchman, who delegates the day-to-day carrying out of business to his assistant, usually a native. See Himadah, *Monetary and Banking System of Syria*, 69–72, 139, 319.

⁴² Under the 1924 convention, the bank retained a monopoly over issuing notes, while securing two additional ones: the housing of public fund deposits and the floating of public loans by third parties. It also became the government's lender of first resort. The government would also place its gendarmerie at the bank's disposal to secure its assets and operations for no fee, adding to its aura of a state bank. In return for these privileges, the Lebanese and Syrian governments were granted a share of the profits accrued from the note issuing process and were offered a free advance of relatively small value redeemable at the time of expiry of the convention. The bank would also safe-keep public securities and transfer public funds without charge. For the full text of the 1924 convention detailing the duties and privileges of the BSGL, see Appendix II, *Ibid.*, 319–329.

vision and business practices, which were largely implemented through credit policy towards three main actors: the government, other banks, and private capital. These policies, including the setting of its discount rates that affected the expansion and contraction of credit, did not flow in conventional central bank fashion, mitigating business cycle fluctuations. Rather, credit policy was motivated by profit, and it earned high margins in that respect.⁴³

The mandate period was one of expansion for the bank, with seven of its 15 branches in Syria established in less than 15 years of its operation. Thanks to minimal reserve ratio requirements, a monopoly over note issue, and a long history of financial dealings in the region, the bank maintained a leading position in the banking sector. Economic planning and organization on a national scale was a marginal element of the bank's operations. The BSGL organized a number of economic missions of study that attempted to map out the various resources of the Levant states in the fields of agriculture, irrigation, livestock, energy, and urban trade. But these studies largely served to facilitate the infiltration of French capital with little investment in building the capacity of local syndicates and companies. By 1932, close to half the bank's holdings in deposits were siphoned off into investments abroad, namely in French government bills and securities. Investing in the French treasury was an unsolicited loan by the Syrian people to the French government at a time when, as economist Edmund Asfour later argued, Syria "needed them badly for its own economic development."⁴⁴

The BSGL's contribution to the disarticulation of Lebanese and Syrian economies towards greater dependency on France was thus exercised through market-based operations favoured by state-granted privileges. It served as a primary portal for accelerated French capital penetration

⁴³ Above analysis based on charter of the BSGL, see the full text of the 1924 convention detailing the duties and privileges of the BSGL, see Appendix II, Ibid.

⁴⁴ Between 1925 and 1932, the bank's net annual earnings as a percentage of paid capital stock ranged between 17.3 and 26.5 % (2.6 and 3.7 million Francs), see table XXIX Ibid., 161. For a list of dates and names of various missions and studies, see footnote no.43 in Ibid., 153. The sum of BSGL deposited funds invested in French government securities or other foreign obligations guaranteed by the Bank of France amounted in 1932 to 149,606,904.87 Francs, i.e. about half of the BSGL's deposit liability, see Ibid., 163. For number of BSL branches established during the mandate period, see Ibid., 165. Asfour pointed out that what was particularly harmful was that due to constant currency fluctuations precipitated by pegging the Lira to the Franc, the building up of exchange reserves was mainly aimed at providing for the population's need for currency transaction and liquidity purposes rather than for the import of capital goods, see Edmond Y. Asfour, *Syria: Development and Monetary Policy*. (Cambridge: Distributed for the Center for Middle Eastern Studies of Harvard University by Harvard University Press, 1959), 52.

of Syria and Lebanon during the interwar years, *three quarters* of which went to the banking sector.⁴⁵ This penetration took place through financial practices and business networks that extended well beyond the state-affiliated two-way channel of the BSGL connecting metropolis to colony. It encompassed the larger colonial space of French imperialism over North Africa. Banking institutions with a history in colonial banking were encouraged to invest in France's eastern Arab colonies. Starting in 1919, these banks began to set up branches in Lebanon and Syria. By 1934, four out of the five major foreign banks doing business in Syria and Greater Lebanon were French. They were: the BSGL, the Banque Française de Syrie, Crédit Foncier d'Algérie et de Tunisie, and the Compagnie Algérienne.⁴⁶ Major legislative and administrative "reforms" decreed by the French, namely relating to land-tenure and land registration, and the introduction of a "modern mortgage regime", enabled these banks to engage in new forms of private banking, such as mortgage lending, that were unavailable prior to WWI.⁴⁷

Large banks, such as Crédit Foncier d'Algérie et de Tunisie, were involved in the establishment and financing of public utilities industries and infrastructure projects. The bulk of operations of

⁴⁵ In 1914, France was already the largest single investor in Syria, her investment estimated at around 200M Francs and concentrated in public utilities, transportation infrastructure such as railways, as well as tobacco and silk production. In the interwar period alone, an additional one billion Francs were invested in the region. The bulk of this investment went to financing foreign trade with France, see Khoury, *Syria and the French Mandate*, 49–50. Khoury explicitly argued that France's financial policy in the Levant was designed to serve two long-term goals: "perpetuate her political domination...and, whenever possible, to promote her economic interests there" see *Ibid.*, 85. France was the top creditor nation to the Ottoman empire on the eve of WWI, Himadah, *Monetary and Banking System of Syria*, 40.

⁴⁶ Banque Française de Syrie (est. 1919) was a commercial bank with a capital of 10M (25% paid) and believed to be wholly owned by Société Générale. Its Syrian branches were located in Beirut, Aleppo, Damascus, and Tripoli. Crédit Foncier d'Algérie et de Tunisie was a much larger corporation whose head office was in Algiers and central one in Paris. In 1932, the bank boasted 132 branches worldwide. They included four in Syria, with the first one opened in Beirut in 1921. The bank conducted all sorts of financial business, ranging from commercial to large scale mortgage and investment banking. The Compagnie Algérienne was a major bank that expanded its business into Syria later than the other two (1931) by opening a branch in Beirut. It dealt with both commercial and investment operations. Other non-French banks included the Banco di Roma the opened three branches in 1919 at Beirut, Damascus, and Aleppo. The Anglo-Palestine bank, the bank of the Zionist movement, closed shop in 1933. Himadeh laments the difficulty of evaluating the extent of business of these banks in the Levant, as at the time, their annual statements were consolidated with no specification of the share occupied by the Levant; see Himadah, *Monetary and Banking System of Syria*, 165–168.

⁴⁷ Mortgage banks were subject to the control and authorization of the mandatory power. Mortgage loans in the agricultural sector were subject to direct agreements between the bank and the state under which the latter acted as guarantor or lender of last resort. The new mortgage laws, such as the land-credit company law, derived from Ottoman law with modifications that largely favoured creditors. For more on these reforms *Ibid.*, 220–223.; for estimates of mortgage credit granted in Lebanon and the Syrian states in 1932, see *Ibid.*, 229.

these banks, however, remained in the realm of commercial banking with a special focus on financing foreign commerce and trading in foreign exchange. Investment bank credit for industry and agriculture, which was associated with entrepreneurial growth and national economic development, received little to no attention from these banks or the BSGL. When local governments tried to compensate for the lack of such credit by setting up an industrial bank to support existing manufacturers and stimulate the creation of new enterprises, the project was stalled by French authorities. Private initiatives by native banks were equally unsuccessful.⁴⁸ Meanwhile, agricultural credit, while available, remained the privy of state institutions. The five agricultural state banks (three in each of the Syrian states, a fourth in Lebanon, and a fifth in the Sanjak of Alexandretta) were heirs to the Ottoman Agricultural Bank, the latter having fallen under the authority of the various Syrian states. Government ministers and bureaucrats in solicitation with banking managers administered these institutions, whose source of capital was partially drawn from foreign banks, government loans, or BSL guarantees. Their net effect was largely to further introduce formal credit relations into the countryside. Many farmers, however, remained largely linked to informal networks of moneylending and borrowing with usurious rates but more lax conditions on borrowing and repayment.⁴⁹

In addition to the network of informal moneylenders that remained active across the region, local bankers and discount houses were able to survive despite the clear advantages enjoyed by foreign banks during the mandate period. While foreign banks operated through a system of branch banking and were linked to wider networks of foreign capital via their home offices, native

⁴⁸ Large-scale projects financed by *Crédit Foncier d'Algérie et de Tunisie* included *Eléctricité d'Alep* and *Société des Grand Hotels du Levant* as well as the co-founding of *Compagnie Libano-Syrienne des Tabacs* that succeeded the *Régie des Tabacs*. Native joint ventures, like *Banque Misr-Syrie-Liban*, were more explicitly dedicated to finance industrial enterprise. The bank was the first native joint stock bank. It was co-founded by Tripoli business man Wasif 'Izzidine, Irshad Yacoub, and Egypt's financier Talaat Harb. It received its license on June 4 1929 and opened branches in Tripoli and Damascus in addition to its head office in Beirut with 51% of shares Egyptian-owned and the rest split between Lebanese and Syrian investors. Although the bank was modelled after *Banque Misr*, it failed to reproduce similar successes in the Levant in the field of industry. The Syrian government attempted to establish an industrial bank dedicated to economic development and issued a decree to this end in 1929, and sought the approval of the High Commissariat, but six years later, the project was yet to bear fruit, see Himadah, *Monetary and Banking System of Syria*, 129–130. On the finance methods of indigenous industries, see *Ibid.*, 202–204. On the share capital and founding history of *Banque Misr-Syrie-Liban*, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 111.

⁴⁹ For more on the organization, administration, and operations of state agricultural banks, see Himadah, *Monetary and Banking System of Syria*, 233–239.

banking was a decentralized system of “unit” banks. Each local bank operated in a confined geographical space and served the direct interest of its community. As a result, native banking capital was largely immobile, of limited value, and dependent on the banker’s own resources. Corporate organization was virtually absent among these financial houses. The vast majority of houses were individual or family owned, or at most partnership-based. They lacked specialization, with bankers often acting as merchants, industrial agents, or real estate owners. Their business was highly concentrated on financing domestic trade, foreign imports, and foreign exchange dealings. Several factors, however, managed to keep these banks running amid the encroachment of foreign capital. The branching out by foreign banks was relatively limited compared to the spread of local bankers and moneylenders over much of Syria. Banking culture also played a role in the survival of native banking. Local bankers tended to be less formal and strict in their dealings with their customers. They maintained the practice of open-accounting, by which the credit relation was a long-term one, subject to adjustment, and based on community reputation and trust rather than strict calculations of collateral and credit history. The intimate knowledge of credit ratings of customers was also another factor, turning native bankers into intermediaries between risk-averse foreign capital and local borrowers. Some of these advantages turned into structural weaknesses during times of crises. The great depression and the global financial crisis of the early 1930s took its toll, with many native banks declaring bankruptcy. The crisis in local banking triggered calls for major legislative reforms and internal restructuring of the sector. Small-scale initiatives to organize the profession, which I discuss in *Chapter 5*, were launched in this regard. But they were eventually drowned by the groundswell in mass mobilization politics that defined much of the 1930s and reconfigured the relationship between colonial authority and local elites. The financial linchpin of this relationship, the BSL, was in for another round of contestation.⁵⁰

⁵⁰ One of the main bankruptcies that triggered calls for regulating the banking professions was that of Kiryakos and Zuheir that took place on March 10, 1932. For details, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 117.119. For more on the activities and areas of specialization of foreign vs. native banks, see Himadah, *Monetary and Banking System of Syria*, 131–134. On why local discount houses, moneylenders, and banking operators survived amid fierce foreign competition, see *Ibid.*, 186–189.

3.2.3 The BSL and Monetary De-colonization: Institutional War Economics, Multiple Financial Regimes, and the Syro-Lebanese Split

In the 1930s, a new civic order that governed state-society relations began to take shape in mandatory Syria and Lebanon. Mass forms of political organization among marginalized groups such as women and workers forced local elites allied to French colonial rule to rethink their political posture. The legitimacy of these traditional elites increasingly rested on their ability to speak to the demands of these groups for their inclusion in the political process on one hand and to draw on these groups' support for wresting greater autonomy from French authorities on the other. The three key components of this new civic order were the French-controlled state apparatus, the mediating networks and agents of this colonial state, and the political opposition. Administration of state institutions and control of national resources became an active site of contestation between colonial power and urban elites not merely as a means of access to resources, but as a concrete actualization of national independence.⁵¹

In its attempt to keep the new civic order from fully undermining the mandatory regime in place, France sought to conclude treaties of “friendship” with both countries in 1936. In effect, the treaties were a 25-year lease of renewal of the mandatory relationship by other means. They sought to bind the two states to the *status-quo* in anticipation of any fallout or alteration in the global and local balance of political power that sustained the mandate in the event of an impending war in Europe. French colonial policy specific to Lebanon and Syria complicated this process of restructuring. Economically, Lebanon and Syria were treated as a single administrative unit. Politically however, the two states were separate. This permitted France to cultivate a largely loyal Lebanese bourgeoisie while seeking to isolate and antagonize a more intransigent one in Damascus. As a result, the urban bourgeoisie of each country developed divergent attitudes towards French rule and the path to national independence. While those of Syria gradually espoused a more radical nationalist stance, their Lebanese counterparts were much more conciliatory. This was evidenced by the conduct of each elite towards the custom

⁵¹ On the new “civic order” and its three key components, see Elizabeth. Thompson, “The Colonial Welfare State in Syria and Lebanon,” in *War, Institutions, and Social Change in the Middle East*, ed. Steven Heydemann (Berkeley: University of California Press, 2000), 62.

union split, the 1948 monetary treaty between France and each country respectively, as well as in the divergent fate of the BSL in each, all of which I discuss below.

In instances where French state authorities held direct control of centralized administrative bodies such as the Common Interests Department that governed the single customs union, the divergence of political attitude – fueled by the French - forestalled any real devolution of power up until the early 1940s.⁵² In cases where centralized administration was mediated between colonizer and colonized by contractual agreements between private actors such as the BSGL and local governments, the Lebanese and Syrian elites were less bound to work in unison. The divergence in their respective attitudes towards delinking from France directly played out in the outcome of renegotiating these relations during the interwar years and afterwards. This was the case pertaining to devolving the power to issue currency to local governments as a way of wresting economic independence.

The main mechanism of colonial control of currency was the Franc exchange standard discussed in *Section 3.2.1* above. This standard tied the local currency to the French franc. An addendum to the 1936 treaties explicitly renewed this monetary peg. Syria's main political coalition, the National Bloc, tried to modify the arrangement in the face of increasing popular discontent towards continued French control of the economy. Renewal of the BSGL concession under the new name of BSL, which granted the BSGL monopoly of note issue and was due to expire in April of 1939, was also much dreaded by National Bloc leaders lest it be interpreted by the Syrian public as a further capitulation to French dictates. As a result, negotiations between Damascus and the BSGL were long, arduous, and unpopular. The draft convention produced in 1938 led to the resignation of then Syrian Prime Minister Jamil Mardam. The agreement never got ratified by the Syrian Parliament. In contrast, Lebanon's political establishment was quick to extend the concession in 1937 for another 25 years starting in 1939. Lebanon's finance minister Hamid Frangieh was hailed by the local French daily, *Le Jour*, for his "systematic and

⁵² The Common Interests Department, formed in 1928, fell under the direct control of the French High Commissioner. A transfer to local governments did eventually take place on January 4, 1944. A new Syro-Lebanese administrative body was established to take over. The Higher Council for the Common Interests (HCCI) embodied the promise of institutional cooperation of the two countries in the age of independence. Such high hopes evaporated as the HCCI turned into the primary instrument of discord and ultimate economic separation. See Youssef Chaitani, *Post-Colonial Syria and Lebanon the Decline of Arab Nationalism and the Triumph of the State* (London; New York; New York: I.B. Tauris ; Distributed in the USA by Palgrave Macmillan, 2007), 18–21.

enlightened mind”. Frangieh, who at the time chaired the finance and justice parliamentary committees, billed the 1937 renewal as a “taken for granted” measure and described the 25 year extension of the BSL’s monopoly over note issue as a “necessary” one in order for it to coincide with the length of the Franco-Lebanese friendship accord.⁵³

The Lebanese 1937 convention failed to alter the institutional relationship between the government and the BSGL in any significant way. Lebanon and Syria both remained under the Franc exchange standard and part of a single customs unit. There were, however, nominal changes that reconfigured the socio-political space through which the Lebanese ruling elite further inscribed Lebanon in the public imagination as a national entity independent of Syria. Greater Lebanon had been declared as the Republic of Lebanon in 1926. Under the renewed concession, The Banque de Syrie et du Grand Liban (BSGL) became the Banque de Syrie et du Liban (BSL). The new convention introduced a new insignia on paper notes destined for Lebanon. These notes were of a “form special to Lebanon”, with the word “Lebanon” inscribed on them, and they were declared as the sole currency of legal tender in Lebanon. This nominal differentiation of the Lebanese pound was invoked by Lebanese elites to justify the unilateral signing of the convention, imparting a political significance to their action as another step towards independence.⁵⁴

Attempts by Lebanese authorities to seek monetary differentiation from Syria were short-lived. As the expiry date of the 1924 concession in April 1939 approached and the drums of war began beating in Europe, French authorities sought to return to the *status-quo ante* under which gains by local elites were rolled back and colonial policy was enforced in a top-down manner. The

⁵³ Frangieh’s defense of the 1937 treaty was detailed in a report prepared for its ratification in parliament and published by the mouthpiece of Lebanon’s constitutionalist bloc *Le Jour* in July 1937, issue #3. Frangieh’s fellow constitutionalist Habib Abi Shahla considered the report a “wonder among the wonders of the science of money and law”, see Nabil Frangieh and Zeina Frangieh, *Hamid Frangieh: Lubnan al-Akhar* (Bayrut: Dar al-Arz, 1993), 119–125.

⁵⁴ The agreement was ratified on June 2, 1937. There were slight improvements in the terms of the concession to the benefit of the Lebanese state. The gold cover was raised from 5% to 10% of the money supply, and seigniorage profits that accrued to the government were linked to the bank’s profit. The ceiling on amount of note issue, however, was removed; for more details, see *Ibid.* The concession’s extension was slated to begin starting from the date of expiry of the 1924 concession, i.e. 1st April 1 1939. Syrian renewal on the other hand, triggered the resignation of the Quwwatli government as rumours spread that Jamil Mardam, who had negotiated the deal in Paris, agreed to secret clauses; see Khoury, *Syria and the French Mandate*, 489,568,572.

monetary arrangement was among the first casualties of this approach. Two days before the 1924 accord expired on April 1, 1939, the French high commissioner issued a decree unilaterally renewing the BSL convention in Syria. Four months later, locally elected governing bodies were suspended in both countries. In December of the same year, an *Office des changes* attached to the BSL was established to control and regulate capital flows, especially outside the Franc bloc. Syria and Lebanon became, as was the case in the wake of WWI, ruled by French decree/whim. The outbreak of WWII furnished the high commissioner with the justification to rescind, amend, or selectively apply monetary laws, including BSL provisions, as he saw fit. Banknote reserve requirements, for example, were altered to facilitate the printing of larger amounts of paper money to finance war expenditures. The Vichy government depleted official gold reserves by shipping six million Liras worth of gold to France in June 1941.⁵⁵

During WWII, the return to highly-centralized forms of governance and systematized practices of social control extended well beyond the monetary realm. In addition to the curtailment of foreign exchange activity and the transfer of finance capital which became subject to the license of the newly created exchange office, wartime economic regulation encompassed the collection and distribution of food stuffs, the introduction of price controls, and the restriction of foreign trade and commerce for non-military purposes. This regulatory regime, whose institutional embodiment was the Middle East Supply Centre (MESC), was engineered and spearheaded by British authorities in collaboration with their US ally. MESC activities were a critical factor in the re-organization of state-market relations as well as colonial-native ones. While official authority resided squarely with colonial powers, the enlarged bureaucratic machinery developed the institutional capacities of native cadres that populated it and strengthened the logic of economic planning among certain segments of the ruling elite. The new war order left its mark on intra-colonialist relations as well. In order to regain its mandatory territories that fell under

⁵⁵ On the failure to reach an agreement with the Syrian government and the unilateral decision by France to renew the concession, as well as regarding monetary measures taken by French authorities following the outbreak of WWII, see Georges Achi, *Al-Nizam Al-Naqdi Fi Suriya*, 3rd ed. (Matba'at Jamiaat Dimashq, 1959), 8,9,27. These measures included bans or restrictions on contracting financial obligations in gold or any derivatives (such as gold currencies or jewelry). As late as March 1943, General Catroux forbade banks, financial corporations, and any other legal persons from issuing loans backed by bullion or gold-made material, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 81. On the Vichy theft of gold reserves, see Chaitani, *Post-Colonial Syria and Lebanon the Decline of Arab Nationalism and the Triumph of the State*, 95. The office des changes was nominally handed over to local government under the 1944 accord; see Gates, *The Merchant Republic of Lebanon*, 42–43.

Vichy control, De Gaulle's France had to increasingly rely on British support, with the latter expanding its sphere of influence into its ally's mandatory strongholds in Lebanon and Syria. The fate of the Greater Syria's mandatory monetary regime became tied to the fate of a new yet short-lived Anglo-French monetary space.⁵⁶

News of a prospective Anglo-French monetary order in Greater Syria fell from the sky on June 8 1941. In a bid to sway the populace of the region in favor of the allied camp, pamphlets dropped from French fighter planes on that day carried general Catroux's promise, among other things, to incorporate the Syro-Lebanese Lira into the sterling bloc. Following the successful ouster of the Axis powers from the Greater Syria, France tried to renege on its commitment to honor a sterling-based currency cover. But the odds were stacked against it. By 1943, both Lebanon and Syria had attained formal political independence. The Syrian government opposed the move and invoked the "Catroux declaration" of June 8. Public opinion, distrustful of the Franc exchange standard and its fluctuating legacy, was equally unsympathetic. War developments reinforced these sentiments. A sharp increase in money circulation due to high military and other war expenditures placed extreme inflationary pressures on the local currency and the Franc, further galvanizing public opinion against a reinstatement of the Franc exchange standard. Faced with persistent depreciation of the Franc, the French succumbed to mounting pressure from all sides. On 25 January, 1944, an Anglo-Franco-Syro-Lebanese monetary accord was signed in Damascus suspending the French exchange standard. For the first time since its creation, the Syro-Lebanese Lira ceased to be a masked denomination of the French Franc, but only by attaching itself to another currency, the Sterling.⁵⁷

⁵⁶ On the role of MESC in the reshaping of state-market relations in Syria and Lebanon and the institutional impact they had on local governance, see Steven Heydemann, ed., "War, Keynesianism, and Colonialism: Explaining State-Market Relations in the Postwar Middle East," in *War, Institutions, and Social Change in the Middle East* (University of California Press, 2000).

⁵⁷ The final deal kept on French francs as the currency of choice for BSL reserves, thereby ensuring that there were no mass selling of Francs and that future reserves continue to be invested in French treasury bonds, which had a stabilizing psychological effect on the Franc money markets. The difference now was that whenever the Franc lost value relative to the sterling, the French government had to deposit extra Francs at the BSL as banknote cover so that the new total amount of Francs corresponded to the same amount of sterling they were equivalent to prior to the depreciation, thereby preserving the Lira to sterling ratio. According to then Syrian minister of finance Khalid al-Azm, he came up with this compromise settlement while attending a banquet held by then foreign minister Jamil Mardam in honor of general Catroux one day prior to the latter's departure for Algeria where the Anglo-French monetary accord was signed; see 'Azm, *Mudhakkirāt Khālid Al-'Azm*, 2:85–87.

The 1944 monetary arrangement was a precarious one, with no specified time limit. This reflected the unstable nature of the transition from a colonial order to a national or neo-colonial one. The agreement aimed at shielding the local currency from the tribulations of the French Franc by *indirectly* linking the local currency, via the Franc, to the Sterling. When the war ended, the stability of the lira was threatened by the French state's decision to unilaterally stop honoring its obligations under the agreement. Paris relayed its intention to the Lebanese government in a memo delivered on 15 March 1946. Nine months later, an adjunct memo issued by France's financial attaché informed the Lebanese government matter-of-factly that the issue was settled with the BSL. The French ministry of finance had concluded a separate agreement with the bank. A currency crisis ensued paving the way for the 1948 Monetary Accord that delinked, once and for all, the Lebanese Lira from the French Franc.⁵⁸

The French unilateral termination of the sterling arrangement was reminiscent of Paris's side dealings with the bank in 1919. It re-inscribed the relationship between the newly independent colony and the home country as a subordinate one prioritizing the interest of the latter over the former. The fact that it took place as late as 1946 exposed the degree to which monetary de-colonization was far from complete and a lot messier than a political or military one. It also revealed the full autonomy that the BSL enjoyed vis à vis Lebanon. Lebanon's formal political independence had been attained in 1943. The withdrawal of French troops two years later was billed as the end of the final vestige of French rule. Monetary disentanglement, however, required the renegotiation of the entire economic relations between colonizer and colonized. In the process, political and social relations were themselves reconfigured. These relations included structural state-market and institutional government-bank relations within Lebanon, political inter-state relations among Lebanon, Syria, France, Britain and the United States, as well as intra-elite relations of social power and political hegemony between the ruling classes of Lebanon and those of Syria.

⁵⁸ Translated excerpts from the French memos (March and December 1946) abrogating the sterling accords of 1944 can be found in Frangieh and Frangieh, *Hamid Frangieh*, 278–280. The agreement with the BSL would see the transfer of close to 16.6 Million Francs to the bank as a final measure of revaluating the bank's holdings in Francs that had lost value after the latter's depreciation. The BSL deal was ratified by the French national assembly on 23 August 1947.

The currency crisis that erupted in the wake of the French decision – its origin, evolution, and rationalization by France - also revealed the deep-rooted links between financial dependency and war economies in a colonial context. As was the case during the Crimean war and in the wake of WWI, military expenditures stood at the centre of the currency crisis and the institutional transformations it precipitated. Allied military expenditures in Greater Syria during WWII lay at the root of the great monetary inflation during that period that created new debt relations with local governments via state banks like the BSL. Much of these expenditures were financed by borrowing from the BSL in the Syro-Lebanese Lira – in effect a debt drawn by French authorities against Lebanese and Syrian state accounts. The dramatic surge in the money supply precipitated by this loan led to hyperinflation. More significantly, the loan had to be backed by increasing the BSL's reserves, which were overwhelmingly secured via holdings by the bank in French Francs drawn on the French treasury. These in turn were guaranteed against the Sterling under the understanding of 1944. In short, military relations during the war congealed into unsolicited and elaborate debt relations subject to dispute.⁵⁹

For its part, France invoked the very same military relations that exacerbated the crisis to rationalize its unwillingness to honor the 1944 treaty. Citing military expenditures as the origin of currency instability, the French delegation in Beirut argued that the reduction of military operations after the war eliminated the need for sustaining the Sterling monetary order. The Lebanese government, however, considered the move a form of “illicit gain for the French treasury”. Unlike the termination of French political authority and military presence in Greater Syria in 1943 and 1946 respectively, the responses of third parties like the US and Britain to Lebanese calls for intervention in the monetary debacle were lukewarm. Appeals by Lebanese officials to gain currency coverage from US, Britain, Egypt, and Saudi Arabia were turned down. Lebanon and Syria were left to face off this institutional form of colonial control on their own.⁶⁰

⁵⁹ The money paper supply more than quadrupled in one year surging from around 30 million Lira in 1939 to 142 million in 1940, see *Ibid.*, 279.

⁶⁰ The Lebanese government lamented the disorder brought by France's action to the economy at large and the state's budget in specific in a memo it sent to the US delegation in Beirut in early 1947. In response, the US state department opined that France is only “morally” obliged to fulfill its commitment of currency coverage and linked any backing of Lebanon's position to the latter's accession to the IMF. Similar appeals by Lebanese officials for foreign support were made to the British government, but conversations with British and US officials convinced the Lebanese that the Paris negotiations were of no concern to London. A summary of the positions of these foreign

The absence of international patronage and the lack of a clear political or legal framework to handle the fallout with Paris induced the Lebanese government to seek the advice of international and local financial expert, top among them former Belgian Prime Minister Paul Van Zeeland. The latter opined that they could either seek direct confrontation by contesting France's unilateral abrogation of the 1944 accords at the newly-formed International Court of Justice, or opt for a French-favoured compromise and enter into direct negotiations of a new treaty that would settle the matter. They opted for the latter as recommended by Van Zeeland.⁶¹

The need for experts like Van Zeeland was compounded by France's insistence during the negotiation to link the termination of the Franc exchange standard to settling the overall debt – a liability of France's own military making. Syrian delegates opposed this omnibus approach. The Lebanese conceded to it.⁶² French authorities introduced statistical computation and macro-scale accounting as a primary weapon of haggling. Detailed estimates of military equipment and French property left behind as well as the cost of maintaining the *Troupes Speciale* were incorporated into the balance sheet by the French as a means of reducing the total amount

governments was provided in a consultative memo dated 30 January, 1947 and titled "Report on the Currency Question". It was prepared by Lebanese foreign ministry official Fuad 'Ammoun; see Ibid., 284–286. For claim by Frangieh that Egypt and Saudi Arabia had also turned down requests for currency coverage see Gates, *The Merchant Republic of Lebanon*, 97.

⁶¹ Van Zeeland was invited to Beirut by the Khoury administration for consultation in April of 1947. While in Lebanon, he received a similar invite to Damascus. On the content of his advice as recounted by then Lebanese President Bsharah Khoury, Bsharah Khoury, *Haqa'iq Lubnaniyyah*, vol. 3 (Bayrut: al-Dar al-Lubnaniyyah lil Nashr al-Jami'i, 1983), 86. Van Zeeland was also invited to meet with the Lebanese delegation in Paris during negotiations. Frangieh consulted other international legal experts during the talks (a professor Jaz and a professor Amieux); see Frangieh and Frangieh, *Hamid Frangieh*, 286,287,304,305. Upon his return to Beirut in April 1948 to assess the deal reached, Van Zeeland reportedly told delegation member and presidential economic consultant Joseph Oughourlian that the treaty was "really bad". For more detailed minutes of the Van Zeeland meetings in Beirut, see Oughourlian, *Histoire de La Monnaie Libanaise*, 117–122. In Lebanese historiography, Van Zeeland's claim to fame is his alleged remark in praise of Lebanon's *laissez-faire* economy: "I don't know what makes the economy work, but it's doing very well and I won't advise you to touch it"; see Gates, *The Merchant Republic of Lebanon*, xv.

⁶² The Paris negotiations kicked off at 5:30 pm on Wednesday, October 1, 1947 at the Quay d'Orsay (salon de l'Horloge) with the presence of France's deputy prime minister and acting minister of foreign affairs M. Teitgan, and the attendance of the three delegations of France, Syria, and Lebanon headed by Armand Gazal, Khalid al-'Azm, and Hamid Frangieh respectively. Joseph Oughourlian, who was a member of the Lebanese delegation, recounted the different approach of each delegation and the proceedings that took place, see Oughourlian, *Histoire de La Monnaie Libanaise*, 110–115.

owed.⁶³ Seeking professional foreign advice marked the further consolidation of formal and informal consultative practices involving foreign experts. These networks substituted for the uncontested authority of French administrative expertise under the mandate and reflected the consolidation of transnational mechanisms of resolving inter-state conflicts within the multi-polar post-WWII global order.

Reliance on financial expertise took on an ambivalent nature in the person of the BSL's General Director René Busson, whose role reflected the problematic relationship between emerging national governments and state-linked institutions still tied to the former colonial power. In his capacity as head of the BSL, the powerful Busson occupied the simultaneous role of a guardian of the interests of French capital and the arbiter of Lebanon and Syria's monetary policy. Busson's dual loyalties and his clear conflict of interest did not seem to raise alarm bells among members of the Lebanese ruling elite who shared the veteran banker's economic vision and in some cases private financial interests. While Frangieh sought to keep Busson at his side in Paris for consultation, Lebanese president Bishara Khoury (r.1943-1952) recalled the head of the BSL to Beirut and involved him with all steps of planning and formulation of policy vis-a-vis Damascus and Paris.⁶⁴ In sharp contrast, there was no love lost between Busson and Syrian officials, particularly with veteran politician and Damascene businessman Khaled al-'Azm, who at one point had private links with the BSL.⁶⁵ Like Frangieh, al-'Azm was intimately involved

⁶³ The French placed the value of *Troupes Speciale* expenses at 184 million Liras, which would have reduced the total debt owing to Lebanon and Syria by no less than 40% (Total debt at the time was estimated at 420 million Liras). Another sticky point was the cost of French military gear left behind in Lebanon. While France put the value at 7 million Liras, counter-estimates sent to Frangieh from Beirut did not exceed a meagre 500 thousand. In his dispatches to Beirut, Frangieh, who headed the Lebanese delegation, expressed his frustration with the tardiness of the Lebanese government in providing him with detailed and "reliable" counter-estimates, some of which varied drastically from those quoted by the French, see Frangieh and Frangieh, *Hamid Frangieh*, 290–296.

⁶⁴ When Khoury cabled Frangieh informing the latter that a Syro-Lebanese summit was planned and asked the Busson return to Beirut, Frangieh cabled back seeking further details and describing Busson's presence in Paris as "necessary"; *Ibid.*, 298. When Busson was in Beirut, Khoury delegated the hammering out of draft agreements with Damascus to Busson while the president was on a trip to Iraq in late November 1947, brought him – and Michel Chiha – along for meetings held with Syrian officials at the Bekaa valley town of Chtaura for consultation, and when the French Franc collapsed on the 24th of January 1948, Khoury spent the "entire night" with Busson considering all the option available to avoid a subsequent collapse of the Lebanese Lira; see Khoury, *Haqa'iq Lubnaniyyah*, 3:87–90. The relationship of Busson to Lebanon's mercantile-financial class and its governing families is discussed in more detail in the following chapter.

⁶⁵ According to the Lebanese periodical *Le Commerce du Levant*, al-'Azm attended a meeting of the BSL's consultative committee on credit policy in 1940; see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 85–87.

with his country's monetary affairs since the pre-WWI mandate period. In 1947, the Damascene notable headed the Syrian delegation to France to negotiate a final currency settlement. During the WWII years, al-'Azm and Busson had engaged with one another. The BSL top manager acted as a representative of the French government in both official and unofficial capacity in the run-up to the 1944 quadrilateral accord. He also took part in the actual drafting of memos of understandings between the Syrian and French sides. According to al-'Azm, Busson at the time feigned loyalty to Damascus, declaring that despite his French nationality and his position as head of a French bank, he considered himself Syrian and favoured the interest of the country he worked in. But Busson would "show his true colors" a few years later, maneuvering to destabilize the Syrian currency in 1948 and colluding to renew the BSL Syrian concession in illicit ways the year after during the short presidency of Husni Za'im.⁶⁶

The estrangement of Syrian officials with Busson was not simply a matter of his personal role as mediator with French authorities. It had an institutional dimension. As mentioned earlier, and contrary to the Lebanese case, the Syrian government never renewed the 1924 BSL concession in 1937, with the French unilaterally extending it in 1939. The legal status of the bank in Syria was thus in limbo during the Paris negotiations of 1948 and emerged as a bargaining chip between the two sides.⁶⁷ The fallout between the BSL and the Syrian government was exasperated after the Lebanese delegation in France signed a unilateral agreement with the French to the deep dismay of its Syrian counterpart. The Lebanese signing of the 1948 monetary accords with France placed the two countries, Syria and Lebanon, on a speedy collision course, with the BSL playing an active role in accelerating the crash. In the days leading up to the official signing of the Franco-Lebanese treaty that took place on February 6, confidence in the Syrian currency fell, with Syrian merchants seeking to exchange it for gold in Beirut. The BSL issued a communique "in its capacity as the issuing institution" declaring that "no currency but the Lebanese will have purchasing power" and set February 2 as the deadline to exchange Syrian banknotes for Lebanese ones. The BSL measure caused capital flight from Syria, with gold

⁶⁶ For details on exchanges between al-Azm and Busson in relation to the 1944 accord and five years later pertaining to the Zaim decree and the renewal of the BSL concession, see 'Azm, *Mudhakkirāt Khālīd Al-'Azm*, 2:86–95.

⁶⁷ Several meetings between al-'Azm and Busson to settle the matter failed to produce an agreement, see *Ibid.*

smuggled into Lebanon and large numbers of Lebanese rushing to exchange uncovered Syrian Liras for Lebanese ones. Damascus called on Beirut to fix the exchange rate to avoid further depreciation of the Syrian Lira but to no avail. Instead, and under French influence, the BSL froze Syrian funds it had accumulated from the withdrawal process to vouchsafe against an unbacked Syrian Lira. This prompted public opinion calls in Damascus for the creation of a new currency and the establishment of a Syrian national central bank. The Syrian government took several measures to stem the collapse of its currency including the closure of BSL branches outside Damascus.⁶⁸

The Franco-Lebanese 1948 accord was the final straw that broke the back of economic unity between the two countries. It also created an irreconcilable wedge between Syria's ruling nationalists and their Lebanese primary ally, Riad Solh. During WWII and in the run-up to Lebanon's political independence in 1943, the nationalist ruling blocs in Beirut and Damascus forged an alliance that tried to reconcile political independence with joint administration of economic affairs embodied in the Higher Council for Common Interests (HCCI). This institutional framework, however, remained highly controversial and provisional, constantly subject to criticism and re-adjustment.⁶⁹ Following the 1948 Franco-Lebanese monetary accord, Syrian authorities accused their Lebanese counterparts of conspiring with the French to pressure Syria into remaining bound to French monetary tutelage. Lebanese officials tried to downplay the impact of decoupling the currencies on the ability to sustain economic cooperation between the two countries. But it was too little too late.⁷⁰

⁶⁸ Amid news of the imminent signing of a Franco-Lebanese monetary to the exclusion of Syria, the Sursuk market in central Beirut where gold and hard currency exchange shops were located went calm with Syrian merchants roaming around with puzzled faces. Even small shopkeepers reportedly refused to accept Syrian Liras as payment for personal use items like cigarettes. See Chaitani, *Post-Colonial Syria and Lebanon the Decline of Arab Nationalism and the Triumph of the State*, 101–103.

⁶⁹ Lebanon's Maronite Patriarch Antoine Arida, who had little qualms with the entire colonial apparatus of French control, issued a memorandum objecting to the HCCI as a body whose legislative powers allegedly infringed on the sovereignty and independence of Lebanon. To assuage his eminence's concerns, a bill was sent by Lebanese President Bsharah Khoury to parliament to remove any such "vagueness" and Riad Solh paid a cordial visit to the patriarchate's seat in Bkirki; see *Ibid.*, 21–22.

⁷⁰ On attempts by Lebanese nationalist circles to underplay impact of monetary separation on the customs union, see *Ibid.*, 103.

At the heart of the temporal and volatile nature of economic union between the two nascent states lay the divergent national economic visions that the ruling bourgeoisies in both countries held. While Damascus opted for a state-centered-planned-economy approach that favoured agricultural production and industrial development, Beirut pushed for the reinstatement of *laissez-faire* economics that prioritized free trade and the services sector. Agreeing to fiscal policies such as taxation and custom dues that reconciled these two approaches proved impossible, and by 1948, economic unity was hanging by the thread of a common currency. The Franco-Lebanese monetary treaty cut that thread. As a result, the knotty credit relations between colonizer and colonized were transferred into ones among the colonized. Economic cooperation was turned into a practical nightmare. Complicated plans were devised to set up separate BSL accounts in different denominations for each country, varying estimates emerged of debt owed by Damascus in favour of Beirut due to the withdrawal of the Syrian pound from circulation, and disputes arose over acceptable forms of payment and revenue collection and redistribution within joint agencies like the HCCI. A joint-committee of experts from both countries was struck. According to al-‘Azm, the Lebanese government ignored the committee’s findings and recommendations. Damascus called for the declaration of both currencies as legal tender in both countries, which was turned down by Beirut. The use of economic sanctions by Damascus in retaliation and the political mudslinging that ensued culminated in the dissolution of the joint customs union, thereby dashing any hopes of economic unity harboured by Arab nationalists on both sides of the border.⁷¹

Not only did the parting of ways between the Syrian and Lebanese Liras spell the end of economic cooperation and political partnership between the two countries. It also charted a divergent path of institutional organization in relation to central banking within each country. Bad blood between the BSL and Damascus in the aftermath of the 1948 Franco-Lebanese monetary accord was not washed away by the subsequent signing of a monetary agreement

⁷¹ Two financial experts, the Syrian Husni Sawwaf and the Lebanese Georges Hakim, were entrusted with devising measures to reduce the growing gap in the Syro-Lebanese exchange rate. A joint report was issued on September 1949 in which achieving parity between the two currencies was deemed in the interest of both countries. The recommendation by Syria to create a currency stabilization fund was supplanted by one entrusting the BSL with the task while Syrians call for declaring both currencies legal tender in both countries was deemed unrealistic by Hakim. For details on the recommendations of the two experts and subsequent correspondence between Beirut and Syria, see ‘Azm, *Mudhakkirāt Khālid Al-‘Azm*, 2:105–106.

between Syria and France the following year. Under the February 1949 Franco-Syrian arrangement, the BSL concession became subject to Syrian law. As Khalid al-‘Azm gleefully pointed out in his memoirs, renewing or revoking the BSL’s concessionary status, or any of its provisions, became - for the first time since its creation - the sole prerogative of the Syrian legislature, not the subject of mutual consent by concerned parties. He wrote many years later:

Up to this day, I do not know how Monsieur Busson agreed to a text rendering his bank subject - immediately and in the future - to Syrian legislation. Gaining his approval and the approval of his government was a manifest victory, since any provision of the bank concession or those of other French companies, after it had been conditional on the consent of the bank or the company in question, became subject to amendment the moment a Syrian piece of legislation is passed.⁷²

A few months after the conclusion of the Syro-BSL treaty, Busson tried to bypass the legislative process by getting the coup leader, Husni Za‘im, to renew - via decree - the BSL’s concessionary status under more favorable terms to the bank. But a counter-coup in August of the same year scuttled Busson’s plans. The BSL top banker’s nemesis, al-‘Azm, was back in power – this time as prime minister - and was determined to use legislative powers granted to him to alter the concession in order to terminate the BSL’s monopoly over bank note issue.⁷³ Full delinking Syria’s economy from the last vestige of financial dependency on France required a series of legislative maneuvers and practical administrative measures that gradually stripped the BSL of its powers. A note issue department at the Syrian ministry of finance was created and furnished with the legal powers and material instruments it needed, such as newly minted paper money, to effect a smooth transition with little disruption to money markets.⁷⁴

⁷² Ibid., 2:92.

⁷³ As fate would have it, the counter-coup by Sami Hinnawi against Husni Zaim took place on 14 August, 1949, the same day the latter’s legislative decree renewing the BSL concession was slated for publication in the Official Gazette, which was the final step needed to turn the decree into law. The al-‘Azm government that was formed under Hinnawi halted the publication in its tracks. A legal argument over whether the decree had gone into effect ensued between Busson and the French government on one hand, and al-Azm on the other. When Busson had consented earlier to rendering the concession wholly subject to Syrian law, he had likely counted on divisions among parliamentary blocs to forestall any legislation terminating the concession. The Hinnawi coup, hardly envisioned by Busson, invested legislative powers in the executive council it established and headed by al-Azm. The latter pounced on the opportunity and passed legislation to that effect; for more details on the unraveling of Busson’s scheme with Zaim, see Ibid., 2:95–96.

⁷⁴ A series of consequent decrees were issued to smoothen out the transition while depriving the BSL from the ability to sabotage the process. Legally, this included a provision that rendered the right to note issuance as the sole

Switching to a fully sovereign monetary regime, however, required more than legal and logistical measures that transferred administrative control from a private institution of issue, the BSL, to the state. Without guarantees from France or other financial powers, long-term currency stability and financial independence could only be sustained through a strong economy that would generate its *own* gold and hard currency reserves through a positive balance of payments. In short, it required a leap of financial faith in the future potential of the national economy, and the taking of *concrete* steps to develop its infrastructure and productive sectors. Syrian officials exhibited such confidence not only towards the country's own economy, but even towards the Lebanese one. They argued – in the course of dissuading their Lebanese counterparts from signing the Syro-Lebanese monetary accord - that Lebanon's economy, with Syrian assistance, could absorb the shock of weaning the Lebanese Lira off the French Franc. Their Lebanese counterparts were not convinced, or saw their interests elsewhere. For the Syrian government, removing the French exchange standard was a matter of untying “a knot in the series of chains of the French mandate” and refusing to commit a “new monetary mandate” after it had cast off the political and military ones. This economic sovereignty stance contrasted with the currency-centric one clung to by Lebanese officials. The mercantile-financial class in Lebanon gave priority to the “value and stability of the Lebanese currency” and sought foreign financial guarantees as opposed to relying on economic levers like local development. The Lebanese obsession with stabilizing the currency as opposed to gaining economic independence fit well with the narrow interests of the mercantile-financial class whose fortunes derived from import-trade and capital flows.⁷⁵

prerogative of the state (vested in the newly-created note issuance department), but allowed for its contracting out to a third private institution, thereby permitting the Syrian government during the transition period to fend off criticism by the BSL that it is effectively depriving the latter from its role. Materially, the Syrian government arranged for the printing of paper money that had no BSL insignia on it so it may circulate it to avoid a currency collapse in case the BSL decided to abruptly withhold issuance as a punitive measure in retaliation for ending its concession. After seven months of planning the design and printing arrangements secured in England, the government kept the new banknotes in safekeeping at the BSL but held the keys to the vaults where they were kept pending their eventual circulation. For more details on the mechanisms of gradually divesting the BSL of its monetary functions, see *Ibid.*, 2:109–115.

⁷⁵ The key to Syrian long term financial independence was the ability to provide sufficient alternative coverage of the new Syrian Lira to the one previously supplied by Francs largely drawn on the French treasury, namely in the

Another key exogenous element that contributed to the viability of the Syrian delinking scheme was the emergence of a new global monetary order, that of Bretton Woods, which provided an internationally sanctioned currency exchange system for Syria to fall back on. Damascus had become a signatory to the IMF and the IBRD Articles of Agreement in April of 1947, i.e. two years prior to settling its monetary and credit relations with France. During this two-year period, Syria, and Lebanon, were in effect under three regimes of currency control: the mandate-instituted Franc exchange standard, the war-driven and sterling-guaranteed exchange system, and the US dollar-mediated but IMF-regulated financial order. The overlap of these monetary systems reflected the complicated and intertwined nature of financial de-colonization. But it also presented the de-colonizing governments with the possibility of charting, at least in the short run, different post-colonial financial arrangements. The divergent paths of Lebanon and Syria are a case in point. In both instances, financial de-colonization through a negotiated settlement led to a structural re-configuration of the monetary system as a set of relations of exchange standards and mechanisms of paper money circulation and coverage. But in the case of Syria, change was both structural and institutional, in the sense that the institutional apparatus in charge of regulating the very monetary system (the structural dimension), the bank of issue, was altered from a foreign-owned private corporation into a state-controlled public bank.⁷⁶

This institutional transformation eliminated the BSL as an instrument of financial dependency and control in Syria, but breathed new life into its authoritative role in neighbouring Lebanon. Rendered a *persona non-grata* in Syria, Busson lost a prized colonial privilege in one zone of the influence while consolidating it in another. His allies among the Lebanese mercantile-financial

form of gold and hard currency. The latter, Syrian officials hoped, would be secured through boosting agricultural exports, paid for in hard currencies and placing strict controls on foreign exchange market transactions. For more on Syria's long list of measures to develop its economy towards weaning itself off the Lebanese one and securing hard currency, such as the construction of a seaport in Latakia, see *Ibid.*, 2:100–103. On the Syrian economic and political establishment expressing confidence in the Lebanese economy to weather the transition to full financial independence, see Chaitani, *Post-Colonial Syria and Lebanon the Decline of Arab Nationalism and the Triumph of the State*, 100. On Syria's economic sovereignty stances, see 'Azm, *Mudhakkirāt Khālīd Al-'Azam*, 2:28,86,91. On the role of the currency-centric approach among Lebanon's ruling clique, see Khoury, *Haqa'iq Lubnaniyyah*, 3:83,88. See also Frangieh and Frangieh, *Hamid Frangieh*, 282.

⁷⁶ In one of two draft agreements proposed by the Syrian government to settle the economic and financial dispute with Lebanon triggered by the latter's signing of the 1948 accord, the Syrian government invoked the Syro-Lebanese exchange rate of parity declared by the International Monetary Fund as an authoritative reference.

bourgeoisie were much freer now to pursue their *laissez-faire* policies unencumbered by pressures from the “big brother” next door. As they tightened their grip on the state apparatus, the BSL found in them an ally rather than a rival or regulator. The waning threat from the Syrian east, however, would soon be supplanted by an unexpected one coming from the Atlantic west and its emerging local allies. If Syrian pressure emanated from the conventional quarters of a decolonizing periphery eager to assert its own sovereignty and localize its finance capital, the Western winds of change sprang from the new global monetary order of Bretton Woods and the rise of oil-generated Gulf capital. As this new order cast its net more widely and firmly across the world, the concessionary privilege of the BSL came under increasing criticism from various stakeholders. Calls for institutional reform and the creation of a central bank “proper” in Lebanon became more pressing. These calls were not restricted to international actors, such as IMF regulatory instructions and expert advice, or US diplomatic pressure and political influence. They were simultaneously voiced in the fields of scholarship and public opinion-making in Lebanon as part of an emerging discourse on national economic planning and reform, and the role of central banking in such a process. These ideas were articulated by a new circle of AUB-trained local economists who challenged the dogmatic *laissez-faire* paradigm that served as the ideological foundation of the currency-centered monetary regime upon which the BSL’s *modus operandi* rested, and through which it was reproduced. I now turn to a more detailed examination of the institutional and intellectual dimension of this order.

4 Post-WWII Monetary Discipline and Central Bank Reform: Ideas and Institutions

La dernière faute à commettre ici et de vouloir prendre modèle, pour la fiscalité et finances, sur des pays ou le cas exceptionnel du Liban est inconnu: ou faudrait-il commencer à l'usage du «technicien » étranger par un cours de géographie et de l'histoire ?

Michel Chiha¹

In the first decade of Lebanon's formal political independence, René Busson's policies of promoting, protecting, and consolidating French capital interests in Lebanon arguably turned him into the country's single most powerful financial figure. Prior to independence, French director of the the Banque de Syrie et du Liban (BSL) had served as representative of and advisor to French high commissioners on matters of finance. After 1943 and with the collaboration of a small beneficiary circle of Lebanese merchants and financiers close to Lebanon's first post-independence President Bishara Khoury, Busson exerted significant control on Lebanon's post-war economy through the BSL and SERIAC, the state-favoured business consortium he helped establish.² Dubbed the "economic dictator of Lebanon", Busson used his BSL position to direct funds in favour of French capital and its local partners.³ But his willingness to employ the BSL as a primary tool of serving the interest of French-linked capital turned the BSL into a highly politicized organization and an object of vociferous criticism by American officials and local anti-Khoury forces. The "bombshell" resignation of Busson in 1951 emboldened BSL opponents. US officials foresaw the decline of French influence in Lebanon in the wake of Busson's exit and hoped that Lebanon's Ministry of Finance would become more autonomous vis à vis the "[French] controlled, semi-monopolistic, unregulated" BSL.⁴ Busson's allies among

¹ See, Michel. Chiha, *Propos D'économie Libanaise* (Beyrouth: Éditions du Trident, 1965), 10.

² SERIAC stood for Société d'études et de réalisations industrielle, agricoles et commerciales.

³ On Busson economic influence and political clout, see Gates, *The Merchant Republic of Lebanon*, 93.

⁴ US embassy officials in Beirut were not able to confirm cause of resignation, but speculated that the BSL board in Paris was critical of Busson's alleged backroom deals at the bank to favour his allies. Busson was replaced by Emile Oudet, see Telegram 758, Beirut to Secretary of State, June 14, 1951; File 883a.14/6-1451; Central Decimal File 1950-54; RG 59; NAB.

the mercantile-financial class were themselves seeking to adapt to a new political order. The foundations of their ‘Merchant Republic’ had been laid during Busson’s tenure, but with the absence of surrogate France, there was no guarantee of its viability and survival. Their professed Franco-philial notwithstanding, these ruling elites were not hesitant to seek US patronage and shift their business ties further westward.⁵

The history of making of the ‘Merchant Republic’ during this period has been well documented elsewhere.⁶ As I mentioned in the introduction, these studies documenting the rise of the ‘Merchant Republic’, were largely focused on the informal and corporate networks woven by these elites with French and later US capital under a regime of unfettered economic freedom. The narrative that emerged was that of a ‘Merchant Republic’ which stood as an isolated island of economic liberalism in relation to the Arab world and in which the ideology of *laissez-faire* reigned uncontested during a sharply defined period (1948-1958). According to this narrative, Chehabism (1958-1964) was the “only ‘developmental’ period in the history of Lebanon” that had “explicit objectives of building and consolidating state institutions in order to promote economic and social development”, and it was a failure at that. Prior to the rise of Chehabism, the Lebanese political leadership, Carolyn Gates claimed, rarely if ever debated economic theory.⁷ The making of Lebanon’s Central Bank, both as an idea and an institution, challenges some of these now-taken-for-granted assumptions about the political economy of the ‘Merchant Republic’. The very assumptions underlying the concept of a ‘Merchant Republic’ already render some of these claims implausible. At its core, an open economy or outward looking one,

⁵ Despite the air of haughty confidence and brazen boastfulness of Chiha’s praise of the Lebanese system of *laissez-faire*, the viability of Lebanon as an independent entity was always called into question by Chiha and his clique. These fears were clearly expressed by La Société Libanaise d’Économie Politique (SLEP) whose president, Gabriel Menassa, wondered whether Lebanon risked falling into anarchy following WWII and the end of French rule, see Gabriel Menassa, *Plan de Reconstruction de L’économie Libanaise et de Reforme de l’État* (Beyrouth: Éditions de la Société libanaise d’Économie politique, 1948), 86, http://link.library.utoronto.ca/eir/EIRdetail.cfm?Resources__ID=724441&T=F.

⁶ See following footnote for a non-exhaustive list of such works in English

⁷ For authoritative and extensive accounts of the political economy of the ‘Merchant Republic’, see Gates, *The Merchant Republic of Lebanon* and Gaspard, *A Political Economy of Lebanon, 1948-2002*. On Gates doubting that Lebanese leadership debated theory, see Gates, *The Merchant Republic of Lebanon*, 7. On Chehabism as the only developmental phase and its brevity and failure see Gaspard, *A Political Economy of Lebanon, 1948-2002*, 62 and Nadim Shehadi, *The Idea of Lebanon: Economy and State in the Cénacle Libanais 1946-54* (Oxford: Centre for Lebanese Studies, 1987).

as the Lebanese economy is depicted during this period, is highly susceptible to foreign influence, both at the structural/institutional level *and* the ideological one. From the early rise of the ‘Merchant Republic’ in the late 1940s to its relative demise under Chehabism in the late 1950s, US influence was quite prominent. US development projects were well underway and the ideology of development behind them was a force that could not be easily reconciled with *laissez-faire*. Governing elites had to grapple with this reality, theoretically and practically, on a regular basis. Central banking reform was at the centre of this new ideology of development. The fate of the BSL, whose policy constituted a pillar of sustaining *laissez-faire*, hung in the balance.⁸

The historical record surrounding the creation of Lebanon’s central bank confirms this critical view regarding the paradigm of the ‘Merchant Republic’. As early as 1953 and throughout the years of the ‘Merchant Republic’, the question of economic development and of central bank reform was high up on the agenda of Lebanese officials and had deeply penetrated public discourse and intellectual circles concerned with public policy. *Chapter 5* zooms in on the national stage to examine the conflicts over the making of the BDL among domestic forces including the Lebanese banking community. This chapter, however, exposes the array of global forces, including IFIs and international networks of policymaking, which shaped the larger context of economic development that emerged after WWII. This context in turn framed the political struggles and economic debates over the question of financial and central banking reform that took place at the local level.

In what follows, I thus show that the formation of the Banque du Liban (BDL) was far from a purely local affair. It was thickly enmeshed within the unfolding of a new politico-economic international order including a thirst for, and dependence on, the constant generation of national statistics, the enthusiastic adoption of economic development as an alternative to communism, and the rise of third world nationalism. It was also delimited by constraints of local specific

⁸ On post-WWII US developmental projects in the region and Lebanon, including their ideological and political underpinnings as well as their role in consolidating US economic interests in Lebanon, see Paul W.T. Kingston, “The ‘Ambassador for the Arabs’: The Locke Mission and the Unmaking of U.S. Development Diplomacy in the Near East, 1952-1953,” in *The Middle East and the United States: A Historical and Political Reassessment*, 3rd ed. (Colorado: Westview Press, 2003), 30–50. On the growing political and economic influence of the US during the Merchant Republic, largely thanks to the rise of an Oil economy in the Gulf region, see Gendzier, *Notes from the Minefield*.

histories of *previous* global orders: Any agreed-upon template of the new institutional arrangement of a central bank had to confront and possibly be superimposed on a pre-existing institutional framework of financial and economic management (or lack thereof) that was itself a product of the colonial confrontation as embodied in the Banque du Liban's predecessors, the BIO and the BSL. The making of the BDL was thus subject to and molded by a variety of ideological influences, social forces, and political interests concerned with the final outcome, all of which overlapped and intersected. The 'Merchant Republic' narrative and *laissez-faire* paradigm overshadow the intensity and complexity of this process.

Institutionally, as I illustrate in *Section 4.1* below, tracing the making of the central bank in relation to the emergence of the international financial system acting in a local setting reveals that as a state institution, central banks at the time were 'wired' to the global system which in turn influenced their institutional configuration within the local system, namely their relation to the state and to the domestic banking sector. The speed and historical setting of this process significantly affected its outcome. In the case of well-established central banks such as European ones that had already consolidated their control over national banking systems and enjoyed a more robustly articulated national economy, the process of restructuring the central bank to incorporate new functions was gradual and *a posteriori*. In the case of central banks such as Lebanon's which were established *alongside* the emergence of the new order embodied in IMF rule(s), the extent to which the central bank assumed this or that role was not a matter of trial and error over long periods of time. The question of the bank's dual role both as manager of national banking systems and as mediator of international financial oversight was posed prior to setting up the bank. It was extensively debated *a priori*. In a neo-colonial context such as the one prevailing in the post-WWII period, the answers proposed by different actors as to ideal central banking arrangement were fiercely contested and highly complicated.

Ideologically, the paradigm of *laissez-faire* was faced by a competing, but not contradictory, bourgeois ideology of technocratic and state-managed modernization as early as the late 1940s and throughout the 1950s. At the centre of this movement lie a group of professional economists based at the American University of Beirut (AUB) whose names and works populate the footnotes and figures of most political economy studies of the period, but rarely figure in the grand narrative of the 'Merchant Republic' that drew on their very work for its construction. These AUB scholars, or developmental institutionalists as I refer to them, played a pioneering

role, which I elaborate in *Section 4.2*, in the diffusion and circulation of ideas on the national economy that challenged dominant paradigms but equally contributed to the idea of Lebanon no less than the ideology of Chihism by giving the latter a hardwired statistical existence. The influence and outreach of these economists, individually and institutionally through the Economic Research Institute (ERI) they set up in 1953, went well beyond academic and scholarly circles. They had wide access to Lebanese elite public opinion, penetrated the bureaucratic apparatus of the state well before the rise of Chehabism, and wove a wide web of professional and informal relationships with international institutions of governance and research as well as in some cases foreign governments, namely the US. Their impact on the imagined ideal central bank arrangement and its implementation was no less pivotal.

These scholars, I argue, fused the teachings of the institutionalist school of economic thought that emerged in the US in the early 20th century to Keynesian tenets of economic development. Presenting institutionalism as an empirically-oriented economic philosophy capable of providing solutions adaptable to changing conditions without making ideological claims allowed this doctrine advanced by the AUB scholars to survive and be influential both under the ‘Merchant Republic’ and later under Chehabism. But it also reduced the question of social control to developing the statistical machinery of the state and its administrative and bureaucratic apparatus in order to understand rather than radically change the economic structure. Under such a configuration, local development was more easily geared towards the interest of global capital and its local agents rather than the benefit of the broader domestic population. The AUB institutionalists had thus struck a Faustian bargain with the West. Their “deal” began with aiding the implementation of international financial rules and regulations, and ended with the confrontation of local financial interests and institutions with little in the realm of economic development and independence to show for it. Before laying out their contribution to the making of the central bank, I examine the larger international financial order that informed their work and had its own independent role to play in BDL history.

4.1 Multicurrency Practices and BSL Intransigence: The Limits of *Laissez-faire* Logic

In addition to its impact on the formation of national monetary regimes in the interwar period, colonialism was also a major force in the development of statistical methods of economic

knowledge production at the League of Nations and beyond. As then AUB economist Said Himadeh pointed out, increased attention to the gathering and publication of data during the interwar years was mainly due to the requirement that mandatory powers submit annual reports to the League. In terms of central banking, one of the most authoritative definitions of the duties of such an institution was provided in the context of attempts to investigate and develop colonial currency systems in accordance with the needs of the international financial order.⁹

In the case of Lebanon, the French-installed BSL would prove highly inadequate as a modern central banking institution, particularly in terms of acting as a conduit of linking the Lebanese economy to the post-WWII financial order. When Lebanon applied for International Monetary Fund (IMF) membership in 1946, IMF officials sought to construct a satisfactory statistical representation of the Lebanese economy and complained of its unavailability. Such data would have enabled them to estimate Lebanon's quota in the Fund, evaluate its currency's par value, as well as determine whether Lebanon's foreign exchange policies were justified or not. Up until the previously discussed Syro-Lebanese customs union split in 1950, this task was rendered near impossible with the absence of reliable Lebanese data separate from those of Syria. During the first two years of Lebanon's IMF membership from 1946 until 1948, the same was equally true of the currency systems, whose management was vital to the regulation of the international financial system overseen by the IMF. Research personnel at the Fund pointed out that the BSL acted as a bank of issue and fiscal agent of the government, but with "no central banking functions."¹⁰ Data from its balance sheets did not treat Lebanon and Syria separately.¹¹ Balance of payments figures published by the BSL were seen as "tentative estimates" and differed substantially from those given by IMF reports. Other sources, in addition to the BSL's annual

⁹ The authoritative definition of these duties was provided by then-governor of Bank of England Montagu Norman in the course of him giving evidence before the Royal Commission on Indian Currency, see Yaffi, "The Monetary and Banking System of Lebanon," 181. For Himadeh's remarks, see Sa'id Himadeh, *Economic Organization of Syria*, (Beirut: The American Press, 1936), vii.

¹⁰ See memorandum on Monetary Systems by the Fund's research department, Secretary to Executive Board, August, 29, 1946, IMF/RD/46/16; EBD Collection; Ref. 273410.

¹¹ IMF officials pointed out that "no balance of payments figures are available for Lebanon. The only official information on the subject is a passage in the Annual Report of the Banque de Syrie et du Liban which states that although the balance of trade of Lebanon showed a considerable deficit in 1948, the overall balance of payment in that year was 'substantially favorable'", See Sec. to EB, August 28, 1950, IMF/SM/50/521; EBD Collection; Ref. 287697.

reports, were sought. These included UN national income estimates, reports by Syria's Ministry of National Economy, the monthly bulletin published by the joint Syro-Lebanese High Commission of Common Interests (HCCI), older reports issued by French mandatory powers, Lebanese press publications, and US economic missions to Syria.¹² Despite the issuance of Syrian and Lebanese currencies by the same bank (BSL) and the absence of separate economic data for Syria and Lebanon, IMF staff recommended that separate Fund quotas for Syria and Lebanon be implemented and devised their own formula to calculate such quotas.¹³

The delinking of the Lebanese currency from the French and Syrian one in 1948 and the promulgation of the Lebanon's first monetary law in 1949 paved the way towards the conceptualization of the Lebanese monetary system as a separate entity within IMF books. But it also gave rise to new dilemmas. New note issue reserve requirements were set in place. Gold and hard foreign currencies would replace the Franc as backup reserves for the Lebanese Lira. In the four years that followed, a series of Lebanese government decrees and legislative acts officially recognized the free exchange market, and then gradually lifted any restrictions on market sales and purchases of gold and foreign exchange. Meanwhile, the BSL pursued an aggressive policy of gold purchases raising gold reserves to nearly 100 per cent of note cover. These measures embodied the full liberalization of the Lebanese economy and the triumph of *laissez-faire* and its national manifestation, the 'Merchant Republic'. Much attention, and for good reason, has been given to the liberalizing nature of these measures which have been matter-of-factly attributed to the dictates of *laissez-faire*. In this context, IMF objections might be construed as objections to Lebanon's *laissez-faire* policy in a global age of government control and planned development. But IMF records suggest that internationally, the Fund's main concern was not the liberalizing dimension of these measures. The IMF was opposed to the Lebanese government currency

¹² See report on balance of payments, by research department prepared by A.E. Kaissouni and titled "Balance of Payments of Syria and Lebanon", July 29, 1947, IMF/RD/47/334; EBD Collection; Ref. 271573. See also survey of the Economy of Syria and Lebanon, Sec. to EB, March 12, 1948, IMF/RD/48/554; EBD Collection; Ref. 294769.

¹³ Portions were to be calculated on the basis of population ratios or national income ratios of the two countries, with the former leading to a lower quota than the latter; see IMF's Research Department's "Analysis of Quota for Lebanon" prepared by a Mr. Friedman, August 8, 1946, IMF/RD/46/6. The Fund struck an informal understanding with Lebanon (and Syria) that that two country would not make use of the Fund's resources "for the time being" once their par values were accepted, see Sec. to EB, March 12, 1948, IMF/RD/48/554; EBD Collection; Ref. 294769.

policy which in turn went against rather than supported the *laissez-faire* doctrine. This government policy, objected to by the IMF, consisted of maintaining of an overvalued *official* rate of the Lebanese Lira which, as I elaborate below, created *multiple* currency practices, or exchange rates. These practices violated IMF rule(s) and undermined the fragile foreign exchange system these rules tried to establish. The adoption of such multiple rates by Lebanese authorities and their reluctance to eliminate them in favour of a single market-determined rate suggest that domestically, the *path* towards full liberalization was tailored to serve particular state and private interests that did not necessarily follow from the logic of *laissez-faire*.¹⁴

The ‘Merchant Republic’ master-narrative has consistently pointed out that an overvalued Lira benefited importers, who constituted the majority of Beirut’s merchant class. That was one half of the story. The existence of *multiple* exchange rates as a result of the gap between the official and the market rate, as the IMF report prepared by AUB economist Paul Klat explained, maximized government revenues that accrued to the treasury from receipts of foreign investment companies, namely US oil corporations.¹⁵ Multiple rates flew in the face of currency stability celebrated by Lebanese authorities but Lebanese representatives repeatedly resisted revaluation under the pretext of being unable to stabilize markets should they do so. They invoked the lack of statistics regarding balance of payments and market conditions. This was ironically exacerbated by the government’s liberalization measures which eliminated the government’s ability to tally the volume and nature of foreign exchange transactions. Lebanese officials also raised concerns over having to bring down import duties should such a devaluation occur, citing this as a bookkeeping problem when it was presupposed that any loss had to be borne by the state not the importers. Lebanese representatives to the IMF argued that in Beirut, cross rates, i.e. exchange rates between two currencies calculated in reference to the US dollar, followed international free market rates and as such instability, given Lebanon’s small size, must be

¹⁴ IMF executives *debated* whether the extremely high levels of gold cover decreed by the Lebanese government and its purchase of gold in the local market for that purpose violated IMF rule(s). Lebanese government purchases amounted to an estimated \$US15M bought in local market and an additional \$US3M from the US Federal Reserve bank, see Sec. to EB, May 8, 1950, Supplement 1, IMF/SM/50/472; EBD Collection; Ref. 288575.

¹⁵ See Secretary to EB, January 3, 1950, IMF/SM/50/425; EBD Collection; Ref. 289627.

blamed on foreign forces not local ones. With no reliable statistics available, the Fund had difficulty asserting many of these claims.¹⁶

The Fund's criticism of Lebanese monetary policy was not directed solely at the Lebanese government. By 1952, the BSL's reluctance to interfere in Beirut's exchange rate market prompted Fund officials during consultations with their Lebanese counterparts to ponder the country's lack of central bank powers and to make an explicit reference to the BSL's foreign identity, something that US embassy officials pointed out in their dispatches to Washington.¹⁷ Government intervention, as a *general* policy, also became an explicit topic of discussion among IMF officials. In 1953, questions of how to finance large-scale economic development planned by the Lebanese government and how to gauge capital inflows into the country pushed the subject of regulating the banking sector *as a whole* to the fore. Fund officials lamented the "paucity of information in regard to banking and money". Private banks, they pointed out, neither published statements of their activities on a regular basis nor were they required to supply such information to a central monetary agency. The absence of such an agency, they argued, posed a "considerable problem" for the collection of banking and monetary statistics.¹⁸

Despite the Fund's concern regarding Lebanon's exchange system and gold purchase, the Fund's authority in its first decade of operation was advisory at best, with the Fund weary of making any sweeping judgments about the actions of the Lebanese government.¹⁹ Deference to the Fund did

¹⁶ Lebanese representatives were also unable to provide statistics on balance of payments, transit trade, and banking requested by the IMF. Consultations took place in Mexico City in 1952 and Washington in 1953 during the course of the annual governors' conference of the Fund. Lebanon was represented by Director General of the Ministry of Finance Andre Tueni. Joseph Oughourlian accompanied him as assistant in the first year when IMF representatives included F.A.G. Keesing; see Staff Recommendation to EB, October 1, 1952, IMF/SM/52/66; EBD Collection; Ref. 283011 and Sec. to EB, October 30, 1953, IMF/SM/53/87; EBD Collection; Ref. 281063.

¹⁷ US officials sent a detailed report on French control of banking in Lebanon, including that of Busson via the BSL, see Despatch 669, Beirut to Department of State, June 13, 1951; File 883a.14/6-1351; Central Decimal files 1950-54; RG 59; NAB.

¹⁸ BSL was regarded as banker's bank but clearly no substitute for a central bank proper, see Sec. to EBM, October 30, 1953, IMF/SM/53/87; EBD Collection; Ref. 281063.

¹⁹ The Lebanese government, like many other governments at the time, invoked the transitional period clause (Article XIV of IMF statutes) to delay exchange rate reform. The Fund doubted the applicability of the article in the case of Lebanon but abstained from deeming such invocation unreasonable. IMF Executive Director A. Z. Saad lamented that a lot of members thought that they were at liberty to act as they wish under transitional arrangements outlined by Art. XIV (See EB minutes, October 15, 1952, IMF/EBM/52/60; EBD Collection; Ref. 282945.). When

grow over time. But with the Fund lacking an enforceable mechanism of disciplining member countries like Lebanon, IMF officials sought to provide Lebanon with the “technical assistance” necessary to effect a speedy transition. The Lebanese government initially turned down such offers.²⁰ The tide turned in 1954. The IMF’s executive board approved sending a technical mission to Lebanon in order to assist reforming the banking system. Unlike previous visits by IMF officials that were of a low-key and short-term nature, the new mission’s head, F.A.G. Keesing, was a high-ranking member and spent several months in Lebanon. With the assistance of an IMF legal expert, Keesing was expected to produce a detailed roadmap, including legislative measures and institutional restructuring, towards regulating banking activities. Keesing was advisor at the exchange restrictions department of the IMF. His name failed to attain the stardom that Belgian expert Van Zeeland acquired among Lebanon’s ruling elite at the time and in future historiography on Lebanon’s political economy.²¹ But the impact of Keesing’s mission, along with supporting studies by AUB economists on the evolution of the country’s monetary system and on the birth of its central banking institutions, was arguably more tangible and long-lasting than Van Zeeland’s.²²

Lebanon’s dereliction of duties, however, were clearly not exempted by this article and not contested by Lebanon, as was the case with the obligation to restock its quota with gold subscriptions, Lebanese officials invoked cultural and financially flimsy excuses to delay shipments of gold to the IMF. Lebanese officials told their IMF counterparts that the Lebanese people are “extremely gold conscious and distrust instinctively paper money” and any such transfer would undermine public confidence. They also complained of lack of US dollar reserves pending receipts from oil companies given the absence of exchange controls. Lastly, they suggested that the gold be set aside for the IMF at the BSL and as US dollars are received by the Lebanese government, they are used to purchase the equivalent amount at the Federal Reserve Bank and be placed at the IMF’s disposal; see Sec. to EBM, March 29, 1951, IMF/SM/51/574; EBD Collection; Ref. 286457 and Ibid, Sup.1 (Ref. 286455) and Ibid, Sup.2 (Ref. 286453).

²⁰ Fund representatives at the consultation meeting in Mexico suggested that technical experts be sent to Lebanon to help deal with the issue of exchange rates and balance of payments, but their Lebanese counterparts did not wish for such a mission and said the problem would be discussed with the Lebanese authorities upon their return, see Sec. to EB, October 1, 1952, IMF/SM/52/66; EBD Collection; Ref. 283011. Regarding deference to the Fund, Lebanon did not seek the Fund’s approval in 1948 when it set exchange rate policy (See Sec. to EB, December 10, 1948, IMF/EBD/48/386, Sup. 1; EBD Collection; Ref. 293019), but did so four years later as it sought to liberalize it (See from Sec. to EB, March 11, 1952, IMF/SM/52/15; EBD Collection; Ref. 284143).

²¹ On the prevalence of the Van Zeeand reference in literature on Lebanese history, see Gates, *The Merchant Republic of Lebanon*, xv.

²² For full text of the Keesing report, see Acting Sec. to EB, May 13, 1955, IMF/SM/55/33. As I discuss below, Lebanon’s Economic Planning and Development Board (EPDB) requested the mission, estimated by the IMF board

4.2 Merchant Republic Reconsidered: Beyond the Binary of *Laissez-faire* and Dirigisme

Keesing submitted his report titled “The Monetary and Banking System of Lebanon” on May 10, 1955. His recommendation for a comprehensive reform of the banking sector ran contrary to the basic interests of the ruling mercantile-financial class standing guard at the gates of the ‘Merchant Republic’. Joseph Oughourlian, who at the time was a highly influential BSL official and longtime government financial consultant - and later played a pivotal role in the making of the BDL, riled contemptuously against the content of the report by Keesing. The two had met in 1952 at IMF consultations in Mexico. Commenting on the Keesing mission, Oughourlian wrote in Beirut’s French daily *Le Jour*:

ANOTHER EXPERT![sic]

ANOTHER REPORT![sic]

MEDIOCRE, this report by Mr. F.K. of the IMF on the banking and monetary system of Lebanon.

First, it is unnecessarily long. Did Mr. K. not have the time to make it shorter?

What is more serious...is that it is disappointing.

We are well aware that it was not possible to acquire, within weeks, sufficient experience of the country. But that is no excuse for the inexactitude regarding simple facts; erroneous, indeed tendentious, interpretations of texts; hasty and hazardous conclusions. Much less [is it an excuse] for its gratuitously insulting and childish assumptions.

We speak our mind in a straightforward manner because the matter at hand is serious...it is regarding currency, in other words regarding the fortune and the fate of this country.²³

At the heart of Oughourlian’s disdain for Keesing lay the latter’s critique of “dogmatic” *laissez-faire* which he argued stood in the way of devising a sound monetary policy and measured government control. Keesing’s call for a middle path between extreme liberalism and dirigisme, or planned economy, was dismissed by Oughourlian as an instance of what John Stuart Mill

to last from 3 to 4 months, see Acting Sec. to EB, October 21, 1954, IMF/EBD/54/132; EBD Collection; Ref. 279243.

²³ Oughourlian’s disdain for foreign experts with whom he disagreed was not restricted to Keesing. Commenting on the level of experts serving on the IRFED mission during the Chehab era, Oughourlian marveled how IRFED’s financial advisor confessed to him at the time that he was a firefighter, see Oughourlian, *Histoire de La Monnaie Libanaise*, 177. The excerpt quoted above was part of article published by Oughourlian on November 1, 1955 in the mouthpiece of Chihism, *Le Jour*, see *Ibid.*, 171. I have translated the original French text into English.

termed ‘sophisms of observation’.²⁴ According to Oughourlian, Keesing’s claim that some form of state intervention is required was an evident one. What were less evident were the methods of intervention one must adopt and whether they aligned with the politics of liberalism or planned economy. Keesing did neither, argued Oughourlian.

Keesing’s lamentation of the absence of statistics regarding the balance of payments and the economy at large was equally derided by Oughourlian. The BSL advisor ostensibly shared Keesing’s “keenness”, as he put it, for data. But Oughourlian pointed out that the very structure of *laissez-faire*, with the preponderance of invisibles among economic transactions, posed difficulties in this regard that may only be overcome with time. Keesing had argued that the inability to take stock of invisibles, i.e. services transactions, meant that any attempt to devise appropriate economy policy was doomed to fail. But Oughourlian pontificated that the ability to comprehend reality in its specificity and complex totality, something Keesing purportedly lacked, was more important than transforming economic activity into “battalions” of “precise figures”. Oughourlian’s ultimate scorn, however, was reserved for Keesing’s specific recommendations regarding monetary reform. Keesing’s account of augmenting Lebanon’s gold reserves and his praise of the overall stability of the Lebanese pound made one think, exclaimed Oughourlian, that it was a phenomenon spontaneously generated rather than the product of a *liberal* monetary policy. To add insult to Oughourlian’s injured pride, Keesing cited the Syrian monetary system as a “ready-made” model to emulate with some modifications. Despite praising the good reputation of Lebanon’s banking system, Keesing, to the horror of Oughourlian, extolled Syria’s regulation of banks, both quantitatively and qualitatively, and proposed what Oughourlian sarcastically described as the “solemn device” of setting up a Council of Money and Credit for that purpose. In the eyes of Oughourlian, Keesing’s “summary” analysis and “fragile” conclusions were “useless” and reflected the IMF official’s lack of confidence in his own recommendations. Such recommendations, Oughourlian proclaimed, are bound to lead to misfortune. This was because Keesing wanted to have it both ways. He was committing a *faux-*

²⁴ This and all future quotations in the remainder of this section of Oughourlian’s commentary on the Keesing report are from Oughourlian’s Oughourlian, *Histoire de La Monnaie Libanaise*, 171–175.

pas: Dealing out liberalism with the cards of dirigisme. And herein, Oughourlian asserted, lay the whole debate.²⁵

Oughourlian had hoped the debate would end then and there. “For the love of Lebanon and the renowned intelligence of the Lebanese,” he pleaded at the closing of his *Le Jour* diatribe, “Mr. K.’s report must be shelved.” And so it was, Oughourlian boasted decades later. But that was not entirely accurate. Keesing’s recommendations would become part of the debate between proponents of *laissez-faire* and those of planned economy that lasted well into the early 1960s. The IMF official’s major recommendation of setting up a currency board was implemented a few years following his visit and as I show in *Chapter 5*, constituted a pivotal stage in the making of the central bank. In short, as early as the mid-50s, the genie of government planning and monetary system reform was out of the bottle, and Keesing wasn’t the only one rubbing it. An inter-generational group of economists at the American University of Beirut (AUB) were at the forefront of this debate. By the time of the Keesing report, developmental institutionalists at AUB had become increasingly associated, formally and informally, with international institutions and Lebanese state bureaucracy. The latter included the Economic Development and Planning Board (EDPB) where, as I show below, the request for IMF assistance for comprehensive banking reform and regulation that led to the Keesing mission had actually originated.

4.2.1 Fixing the Lebanese Economy: The Early Inroads of AUB Institutionalists into State Policy and Public Discourse

In addition to the difference in scope and mandate compared to previous IMF missions, Keesing’s mission was solicited by the Lebanese government rather than initiated by the Fund. According to an IMF executive board memo dated Oct 21, 1954, it was Lebanon’s then newly-created Economic Planning and Development Board (EPDB) that requested assistance in drafting comprehensive legislature to regulate banking activities in the country.²⁶ The EPDB

²⁵ On quotations by Oughourlian in this paragraph and the next, see preceding footnote.

²⁶ The Fund’s findings were relayed *after* they were approved by the Fund’s Executive Board; see Oughourlian, *Histoire de La Monnaie Libanaise*, 171. For claim that EPDB was contemplating “comprehensive legislation to regulate banking activities” and its request for IMF assistance, see Acting Sec. to EB, October 21, 1954 IMF/EBD/54/132; EBD Collection; Ref. 279243. One IMF board members thought that technical cooperation with

itself had been set up in 1953 as an arm of the Ministry of National Economy which was headed at the time by AUB institutionalist and then national economy minister George Hakim. The fact that calls for banking reform emanated from the Lebanese state during the heydays of the ‘Merchant Republic’ may not alter the prevalence of *laissez-faire* as the underlying philosophy of state economic policy. It indicates, however, that other counter-currents were not merely present but also managed at times to gain a foothold within the apparatus of the state and as such were able to direct policy. One of the main sources of this current was AUB where Hakim had taught during the interwar years. By the time of his appointment as Minister of National Economy in 1953, he was one among several AUB economists who eventually left their mark on public discourse and policy including the one leading up to the creation of a central bank.

The relationship between the ideas and activities of these economists and the restructuring of the Lebanese economy via state policy, including the making of the central bank, may be best theorized and investigated along the lines adopted by the contributors of several comparative studies published in *The Political Power of Economic Ideas: Keynesianism across Nations*.²⁷ The studies examine how economic theory, in this case Keynesianism, influenced policy and why such influence varied among different countries and during different periods of time. Contributors to the volume adopted three different approaches to this question. The first was an economist-centered one. According to this approach, the degree of acceptance of Keynesian ideas was measured by the degree to which these ideas prevailed among economists of the country concerned. The effect that expert advice by professional economists had on policy was highlighted through the examination of the institutional factors that structured this communication between professional academic experts and policy makers.²⁸ The second approach was a state-centered one. It placed more emphasis on the institutional configuration of

Lebanon had positive implications on the IMF’s work in general. Board member de Largentaye opined that reforming the Lebanon banking system would be “a test of the Fund’s ability in that field”, see EB minutes, October 29, 1954, IMF/EBM/54/55; Ref. 279163.

²⁷ Such a theorization fits within an historical institutionalist approach, see *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton, N.J.: Princeton University Press, 1989).

²⁸ For a list of such factors such as the degree of influence of younger economists on well-established administrators, see *Ibid.*, 9.

the state apparatus itself and on the degree to which such a configuration was receptive to novel policy recommendations and was capable of promptly implementing a favoured policy. The third approach, termed the coalition-centered one, shifted the attention back to the broader political system and argued that broad coalitions of economic and social groups need to be on board before economic ideas are able to mobilize state action and translate into policy. Politicians and social groups, rather than professors and bureaucrats, took centre stage in this approach. The first two approaches can best shed light on the way the AUB group of intellectuals contributed in the post-WWII period to the consolidation of the idea of a Lebanese national economy and more specifically to the discursive construction of the ideal central bank. The third might explain the limits of their influence among political actors like the banking community. These approaches allow for a better understanding of the relationship between the AUB developmental institutionalists on one hand, and local rival ideological formations as well as state bureaucracy and international organizations on the other. The key question posed through these approaches is how ideas, such as those propounded by the AUB institutionalists, “transformed the intellectual environment of economics, and...altered the terms of political discourse in such a way as to legitimate a variety of policies and make new combinations of political forces possible”.²⁹

The dissemination of knowledge from the AUB group into Lebanon’s public sphere and state apparatus along these lines took place through three generations of scholars. Each successive generation built on the work of the preceding one in constructing a fuller representation of Lebanon’s national economy, refining its theses on development and reform including that of central banking, and advocating its adoption by state officials and the political elite. At the base of this three-tiered edifice of knowledge lay the work of Lebanese economist and AUB professor Sa’id Himadeh who was later dubbed the “dean of economic studies in Lebanon”.³⁰ Two decades before Keesing broached the question of economic organization and monetary reform in Lebanon, Himadeh explicitly called for financial and central banking reform. The University of Columbia graduate also headed several “pathfinder” studies in the interwar years aimed at

²⁹ The third approach is best suited to explain the contestation and negotiation surrounding the setting of the BDL among bankers and politicians that I address in the next chapter. For quote by Hall, see *Ibid.*, 7.

³⁰ The term was coined by another famed Lebanese economist and technocrat, Georges Corm, see Georges Corm, “Al-Itqtisad Fi Muhadarat Al-Nadwah Al-Lubnaniyyah,” in *Ahd Al-Nadwah Al-Lubnaniyyah* (Beirut: Dar al-Nahar, 1997), 577.

mapping the economic organization of Arab countries. The surveys served as a foundation, at this stage an informal one, of a collaborative effort that would eventually draw in sharp relief the contours of Arab economies within a national framework.³¹ Among the eager students and admirers of Himadeh at the time was business administration student Yusif Sayigh, who grew to become one of the principal second generation members of the AUB group and whose work on entrepreneurship I discussed in *Chapter 2*. In his autobiography, Sayigh described Himadeh as an upright but difficult-to-please instructor and an avid researcher who tried to instill a similar work ethic into his students.³² Himadeh was an adherent to the “structural theory of economics and politics” and privileged the role of institutions in his writings. Another important contemporary of Himadeh who left his mark on Sayigh was the economic department’s “sharpest wit” George Hakim, later minister of national economy, who was the only self-professed Marxist among the handful of intellectuals that influenced Sayigh.³³

The duo, Himadeh and Hakim, constituted the nucleus of the first generation of AUB institutionalists whose influence extended well beyond the confines of the classroom into Lebanese state policy, public discourse, and regional as well as international diplomacy. Himadeh was a longtime member of the Lebanese economic delegation handling economic relations with Syria after independence. The local Arabic press solicited and published his expert opinion on controversial monetary questions of the day while US treasury officials lent him their ear.³⁴ Even Gabriel Menassa, the head of the Chiha-backed research lobby La Société Libanaise d’Économie Politique (SLEP), referred to his intellectual rival Himadeh as “*notre ami*”. Menassa quoted the latter’s advice when it fit the *laissez-faire* paradigm and opposed him when

³¹ Participants in these studies included graduating and post-graduate students of economics and commerce of the class of 1932-1933, see Himadeh, *Economic Organization of Syria*, vii.

³² See Yusif Abdallah Sayigh, *Yusif Sayigh: An Incomplete Autobiography*, trans. Majid Al-Barghouti (Beirut: Riad El-Rayyes Books, 2009), 152.

³³ Hakim taught courses on commercial law and the history of economic ideologies, including one on Marx, and shared books on political economy with Sayigh outside the classroom. These included the work of post-Keynesian Joan Robinson whose theories of imperfect markets posed a serious challenge to classical economics. For Sayigh’s account on Hakim, see *Ibid.*, 144, 152, 174.

³⁴ The daily *Bayrut al-Masa’* solicited Himadeh’s opinion on the best course of backing the note cover following the 1948 monetary treaty with France and published his view, see Menassa, *Plan de Reconstruction de L’économie Libanaise et de Reforme de l’État*, 258.

such advice ran contrary to *laissez-faire*.³⁵ In 1947, it was Himadeh, not Menassa, who delivered the first lecture on fixing the postwar Lebanese economy at the prestigious intellectual forum, the Cenacle Libanais, whose influence on public opinion I discuss in the following section.³⁶ Hakim would grace the stage at the Cenacle forum twice to sing the praises of economic development.³⁷ Despite his self-declared Marxist leanings, Hakim was also closely involved in planning and executing Lebanon's monetary and economic policy during the height of power of the 'Merchant Republic'.³⁸ From 1949 till 1952, he was appointed Lebanon's governor at the IMF, with BSL official Joseph Oughourlian as his deputy.³⁹ With the rise of Anglo-American political influence under President Camille Chamoun (r.1952-1958) and Prime Minister Saeb Salam in the early 50s, Hakim held several prestigious ministerial portfolios including those of national economy, finance, foreign affairs, and agriculture.⁴⁰

Himadeh's and Hakim's interventions in Lebanon's public discourse on economic development and their efforts to shape state policy in this regard experienced a major *institutional* leap with the second generation of the AUB group, whose most influential members were Albert Badre,

³⁵ For "notre ami" reference, see *Ibid.*, 92.

³⁶ Himadeh delivered his Cenacle lecture on January 6, 1947. Sa'īd Himādah, "Mushkilaatunah al-Iqtisadiyyah wa Kayfa Nu'alijuha," in *'Ahd al-Nadwah al-Lubnaniyyah* (Beirut, 1997), 101–11.

³⁷ Hakim delivered his Cenacle lecture on January 5, 1953. See George Hakim, "Tanzim Al-Inma' Al-Iqtisadi Wa Al-Isjtima'i Fi Lubnan," in *'Ahd Al-Nadwah Al-Lubnaniyyah* (Beirut: Dar al-Nahar, 1997), 227–33.

³⁸ While expressing his misgivings against the Lebanese government, Khalid al-'Azm looked favourably upon the report produced by the two-member committee of Hakim (representing the Lebanese side) and Husni Sawwaf representing the Syrian side, 'Azm, *Mudhakkirāt Khālid Al-'Azm*, 2:105. Sawwaf was a colleague of Hakim at AUB, indicating that the influence of AUB economists extended to shaping Syro-Lebanese economic relations on both sides of the border; see Sayigh, *Yusif Sayigh*, 152.

³⁹ Hakim and Oughourlian were replaced by Andre Tueni and Farid Solh respectively in 1952. See Sec. to EB, September 1, 1949, IMF/EBD/49/509; EBD Collection; Ref. 290789 and Sec. to EB, April 29, 1952, IMF/EBD/52/79; EBD Collection; Ref. 283915.

⁴⁰ Hakim served as Minister of Finance, Economy and Agriculture in the government of Khalid Shihab from September 30, 1952 till April 30, 1953 and as Minister of National Economy and Foreign Affairs in the government head by Saeb Salam from April 30, 1953 till August 16 1954. During his first appointment, fellow minister Musa Mubarak resigned reportedly due to Hakim's support for economic union with Syria, see Majid Majid, *Tarikh al-Hukumat al-Lubnaniyyah 1926-1996: al-Ta'lif - al-Thiqah, al-Istiqlalah* (Beirut: Muassasat "Kalimat" Computer, 1997), 93,96.

Paul Klat, and Yusif Sayigh.⁴¹ The professional careers of these second generation policy-advisors straddled the world of higher education, private business, and state bureaucracy. Badre and Klat occupied high-ranking posts within international institutions such as the UN and the IMF as well as the Lebanese civil service. Klat prepared at least one detailed report for the IMF on the country's economic background and problems. Along with Badre, he served on Lebanon's EPDB board for several years during the 50s and into the 60s.⁴² As I point out in *Chapter 5*, Klat was also close to Lebanon's top bankers. When he was appointed in 1961 to the country's first Keesing-style Credit and Money Council, Klat played a significant role, along with Oughourlian, in the drafting of the Law of Money and Credit that created the Central Bank.

Under the tenure of this second generation, AUB's Economic Research Institute (ERI) was founded in 1953 and its annual peer-reviewed journal *The Middle East Economic Papers* (MEEP) launched the following year. Badre, who was a seasoned AUB affiliate - first as a student of business administration and later as a professor of economics - took a leading role in the founding of ERI. Backed by Harvard economist and then visiting professor at AUB, A.J. Meyer, Badre secured a grant from the Ford Foundation that made possible the establishment of ERI and the funding of many of its studies.⁴³ The institute sought to address the long-felt need for "an organization which devoted itself to a *systematic* [my italics] study of the economic problems of the Middle East". In addition to carrying out quantitative studies on national income, balance of payments, and capital formation, Badre hoped that ERI would also weave "close

⁴¹ Badre was both mentor and colleague to Sayigh. Upon the encouragement of Badre and his mentorship, Sayigh had returned to academia in the early 50s to teach at AUB and later pursue a PhD in economics in the US, a path similar to Badre, see Sayigh, *Yusif Sayigh*, 296–297.

⁴² The report prepared by Klat was titled "Report on Economic and Financial Conditions in Syria and Lebanon" and submitted after approval on December 15, 1949. Following reports did not have names of agents and some may have also been prepared by him. See Sec. to EB, January 30, 1950, IMF/SM/50/425; EBD Collection; Ref.289625. Based on the biographies attached to their contributions to MEEP that I surveyed, Klat and Badre served on Lebanon's EPDB at least from 1956 to 1962 and 1955 to 1956 respectively.

⁴³ Badre and Himadeh clashed over which department at AUB should house the institute. Himadeh argued that it should be affiliated to both, his home department of Business Administration and Badre's of Economics. Badre, however lobbied to house it exclusively at the Economics department and eventually got his way. Both took Sayigh on campus walks and tried to sway him to support their respective proposals but Sayigh was neutral lest he upset either; Sayigh, *Yusif Sayigh*, 294–299. This rivalry might explain the total absence of any contribution by Himadeh to MEEP.

professional ties among scholars residing in the different countries of the region”. Regional economic conferences were arranged and MEEP served as a publication of record. MEEP facilitated the production, analysis, dissemination, and preservation of accumulated knowledge in the field. Submissions were diverse but had to relate in some manner to the question of economic development in the Middle East.⁴⁴

The Ford-AUB partnership proved quite efficient in disseminating developmental doctrine and serving the needs of US-dominated oil interests. Based in Beirut, MEEP acted as a catalyst for the creation of inter-national currents of intellectual exchange and influence within the Arab and Muslim Middle East that spanned Karachi, Tehran, Baghdad, Istanbul, Cairo, and Khartoum.⁴⁵ It also acted as an intermediary between this regional network and US academic circles through the publishing of collaborative studies which mapped the economies and human resources of the region with the aim of developing the oil sector dominated by American companies. ERI was also involved in training over a hundred junior government officials from across the Arab world in statistical methods as part of a multi-national effort based in Beirut.⁴⁶

The impact of establishing ERI on the construction of Lebanon’s national economy both as a concept and an organized set of state and market relations was palpable. Under the direction of Badre, the second generation of AUB institutionalists at ERI managed to produce the most comprehensive and authoritative quantitative study of Lebanon’s national income.⁴⁷ This was

⁴⁴ See Foreword by Albert Badre to the first issue of the *Middle East Economic Papers*, 1954, p.v.

⁴⁵ I deduced the outreach of these networks upon a systematic examination of all the contributions to MEEP between 1954 and 1964.

⁴⁶ Badre co-edited a major study on the Middle East labour market in the oil sector, see Albert Badre, *Manpower and Oil in Arab Countries* (Beirut: Economic Research Institute, American University of Beirut, 1959). ERI staff taught these junior officials at Beirut’s International Statistics Education Centre, which was established by the International Statistics Institute with the collaboration of Lebanese, American, British, and French authorities. Instruction was of a practical and applied nature. Courses began in November of 1954, see Robert S. Porter, “Statistical Services in the Middle East,” *Middle East Economic Papers*, no. 2 (1955): 103–104.

⁴⁷ Earlier local attempts, including a major one by Menassa’s SLEP where Badre had worked as a rapporteur, had failed to produce convincing or authoritative results, see Menassa, *Plan de Reconstruction de L’économie Libanaise et de Reforme de l’État*, 2, Arabic Insert. Badre’s stint as rapporteur at SLEP’s Research Council had exposed him to diverse views of economists, businessmen, financiers, and government officials on the thorny subject of “invisibles”, see Albert Badre, “The Economic Development of Lebanon with Special Emphasis on Finance” (PhD, State University of Iowa, 1950), 52 (footnote 41),95. An IMF research department study aimed at determining

Badre's main claim to fame. The ERI study catapulted the centre onto the international stage and earned Badre the moniker of "founder of national accounting".⁴⁸ Beirut-based U.S. officials who had been independently and persistently trying to generate data on the Lebanese economy described the monographs as possibly "the most careful national income estimates ever attempted in the Near East" next to those conducted by mandatory powers in Palestine.⁴⁹ Future research on Lebanon's political economy, including the one conducted by the French-based IRFED mission under President Chehab, relied on AUB generated figures of employment.⁵⁰ The significance of computing a national income went beyond its advancement of the study of the Lebanese economy. It consolidated the very idea of Lebanon. One of the obstacles to national accounting in Lebanon had been the lack of statistics specific to Lebanon under the economic union with Syria. By creating a distinct numerical representation of the Lebanese economy, the notion of separateness of Lebanon was reinforced at the epistemological and psychological level by these second generation economists in ways more subtle and perhaps more effective than the anti-Syrian rhetoric of radical Lebanese nationalists.

The third generation of AUB institutionalists carried on charting the specificity of Lebanon's economic configuration but with more specialized studies that zoomed in on particular problems dealing with underdeveloped countries like Lebanon. The question of finance in general and central banking in particular took on a salient character and a sense of urgency in the works of

Lebanon's quota cited a national income figure for the year 1940 (\$US100M), but does not source it, see "Analysis of Quota for Lebanon", August 8, 1946, IMF/RD/46/6; EBD Collection; Ref. 273457.

⁴⁸ Lebanese economist Georges Corm referred to Badre as the "founder" in the course of his commentary on economic debates at the Cenacle Libanais, see Corm, "Al-Itqtisad Fi Muhadarat Al-Nadwah Al-Lubnaniyyah," 577.

⁴⁹ By the end of the 50s, two series of national income had been generated. One by Badre at ERI spanning the years 1950 to 1958 and another by the Economic Division of the US embassy in Beirut for the years 1954 to 1957. The numbers varied widely, but Badre's estimates were more widely adopted, featuring in the UN's Yearbook of National Accounts of Statistics and the Food and Agriculture Organization (FAO) country reports, the IMF's International Financial Statistics, and quoted by the Lebanese government, see Despatch 502, Beirut to the Department of State, March 31, 1952; File 883a.10/3-3152; 1950-54 Central Decimal File; RG59; NAB. US embassy numbers were quoted by Benjamin Higgin's authoritative study "Financing Lebanese Development, A Report on Fiscal Policy" issued in 1960 in Beirut; see Salim Hoss, "The Roles of Central Banking in Lebanon" (PhD, Indiana University, 1962), 7-9.

⁵⁰ See Gaspard, *A Political Economy of Lebanon, 1948-2002*, 242.

this generation. Leading intellectuals of this group included Salim Hoss, Talha Yaffi, and Elias Saba. Like their predecessors, these economists made important interventions in public discourse and government policy beyond their academic circles. In the 1950s, Yaffi received his first professional training at the IMF while Hoss began his career as an accountant at the US oil company, TAPLINE. The following decade, Hoss and to a lesser extent Saba took on leading roles in restructuring and regulating the banking sector precipitated by the crash of Bank Intra. Hoss was appointed as the first head of the newly-created Banking Control Commission which I discuss in more detail in *Chapter 7*. These roles helped propel the duo into high government office. Saba served as minister of finance under President Suleiman Frangieh in the early 1970s and Hoss as Prime Minister a few years later under the tenure of then president and former BDL Governor, Ilyas Sarkis.⁵¹ Before taking on high government posts starting in the late 1960s, these intellectuals operated in relative isolation from the exigencies of political maneuvering and imperatives of bureaucratic institutions. Their early work sheds light on the different paths towards - and institutional organization of - a prospective central bank that they imagined and proposed. Their work also reveals the fundamental theoretical assumptions about financial and economic reform that informed their thinking. These specialized studies are best understood in the context, and as a culmination, of the economic thought and praxis of all three generations. A general explication of the entire AUB institutionalist tradition is thus in order prior to delving into the particular works of the third generation scholars who were specifically concerned with financial reform and central banking.

4.2.2 Developmental Economics and the Hidden Hand of Institutionalism

Trying to explicate the ideas and economic philosophy of the AUB technocrats and situate them within the global history of economic thought runs into two challenges. The second, which I discuss further below, pertains to the very content of these ideas. The first is external to the corpus of thought, and relates to the *laissez-faire*/'Merchant Republic' paradigm that has

⁵¹ Other members of this generation include Edmund Asfour, George Medawar, and Yahya Mahmasani (a student of Paul Klat). The latter two's doctoral dissertations, which I discuss in this chapter, were dedicated to the question of Lebanon's monetary policy and central banking reform respectively, see George Medawar, "Monetary Policy in Lebanon" (PhD, Cornell University, 1963). And Yahya Mahmasani, "A Central Bank for Lebanon" (MA, American University of Beirut, 1961). Hoss worked as Tapline accountant from 1952 until 1954 and as a correspondent for Beirut's Chamber of Commerce from 1954 till 1955, see Hoss, "The Roles of Central Banking in Lebanon," 140.

dominated the narrative of Lebanon's political economy since formal independence. The paradigm of *laissez-faire* has grown to become a point of reference against which ideological currents and political allegiances are measured (economic liberalism vs. dirigisme). Within this binary framework, public actors including economists are generally categorized based on their support for or opposition to *laissez-faire*, which is often rendered synonymous with resistance to or advocacy of state intervention in the economy. Such a classification obscures rather than illuminates the intellectual trends that the AUB scholars belonged to.

According to this conventional narrative, the Cenacle Libanais acted - during its formative years between 1946 and 1954 - as a forum for celebrating and propagating the doctrine of *laissez-faire* as articulated by Michel Chiha and his disciples. It was only in later years under Chehabism that calls for state-led central planning and intervention and dirigisme supposedly came to share the stage with liberalism at a more intellectually-inclusive Cenacle. Gabriel Menassa, head of La Société Libanaise d'Économie Politique (SLEP), exemplified the liberal current within the Cenacle. Forum speakers like Sa'id Himadeh, which hailed from a different educational environment, were seen as "dissenters" and identified as the exception rather than the rule.⁵²

A more recent and comprehensive examination by Georges Corm of Cenacle Libanais lectures has painted a different picture of the Cenacle. Corm pointed out that the majority of political economists who spoke at the Cenacle were of the reformist rather than the liberal type. They advocated some role of the state in the economy. According to this revisionist account, the Cenacle was - as early as its formative years - a contesting ground between economic liberalism and dirigisme, with the debate eventually won over by the dirigistes during the Chehabist period, rather than dirigisme being introduced into the Cenacle during the club's later years.⁵³ However, Corm's categorizing of Cenacle intellectuals as either liberals or reformists based solely on their position regarding state intervention in the economy leads to a different type of misleading categorization. For example, Corm lumped Menassa, head of SLEP and one of the main architects of the post-WWII liberalization of the Lebanese economy, into the same camp along

⁵² For a concise elaboration of the conventional account regarding the Cenacle, see Shehadi, *The Idea of Lebanon*.

⁵³ For the revisionist assessment of the Cenacle, see Corm, "Al-Itqisad Fi Muhadarat Al-Nadwah Al-Lubnaniyyah."

with reformists like Himadeh, Hakim, and Badre. It is true that unlike Chiha and his fiery protégé Oughourlian, Menassa did not espouse a dogmatic and radical form of *laissez-faire* that harboured an inherent aversion to the role of the state in directing the economy. But this is not sufficient to render Menassa a reformist any more than his liberalizing agenda places him squarely in the Chiha camp.

A more useful distinction that might better explain the complex relationship between the varying trends of economic thought in question is the one that stresses the *institutional* character of intervention as opposed to its state-led nature. This may be most evidently discerned by applying it to analyze the 1960 Cenacle lecture given by Albert Badre, who was a pivotal figure as a second generation scholar in the crystallization of this emerging school of economic thought that I term developmental institutionalism. In line with *laissez-faire* rhetoric, the institutionalists, especially those of the second generation like Badre, celebrated free trade and the Lebanese entrepreneurial spirit. But the “miracle” of the Lebanese economy was quantified by computations. It was at times romanticized by invoking the tropes of Chihism, but often rationalized by attributing its prosperity to contingent and changing economic and social structures.⁵⁴

Georges Corm attributed the invocation of Chihist tropes by Badre to the desire on the part of these “reformists” to gain acceptance and an audience among elite circles where the hegemony of Chiha’s economic liberalism was uncontested.⁵⁵ A more convincing explanation, borne out by the academic corpus of these scholars, especially their doctoral dissertations that were penned away from the prying eyes of the public, was the prevalence of their institutionalist approach to political economy. It is worth noting that at the time of Badre’s lecture in 1960, *laissez-faire*’s hegemony had been challenged by Chehabism. Badre had little incentive to cater to *laissez-faire*. But Badre still conceded that *laissez-faire* had brought “great gain” and “prosperity” to the Lebanese economy. The problem, for Badre, was the attempt to depict the success of *laissez-faire* as a product of some ahistorical unfathomable force not to be tampered with. Badre invoked

⁵⁴ The refrain of Lebanon as a refuge for minorities was part of several Chiha tropes based on geographic determinism (Lebanon crossroads of three continents, the juxtaposition of sea and mountain, outward –looking). For a critical reading of Chiha’s ideology and tropes, see Traboulsi, *Ṣilāt Bi-Lā Waṣl*.

⁵⁵ For Corm’s reasoning, see Corm, “Al-Itqtisad Fi Muhadarat Al-Nadwah Al-Lubnaniyyah,” 278.

an institutionalist worldview of the economy in his rebuttal of such attempts. He blamed the state of affairs on two illusions that had attained the force of truth among the Lebanese educated class. The first pertained to the very concept and nature of economics in general. Contrary to the wide-held implicit assumption that the economy possessed deep-rooted, universally comprehensive and constant principles that applied for all countries and in all epochs, Badre proclaimed that the “science of economics is a science of means not a science of ends”. This “science of means” was capable of pointing to a *variety* of methods and policies for reaching a single objective which, in turn, was not permanent but rather subject to the development of a society’s capabilities and openness. The logic and nature of economics thus dictated a constant revision of the policies, objectives, as well as entire economic systems in place. *Laissez-faire*, Badre told his audience, was no exception in spite of the halo placed around it by the educated class. This halo was an illusion specific to the Lebanese and found its sainthood in the story of Van Zeeland. The latter had allegedly exclaimed that “there is a deep secret behind the Lebanese economy accessible to a select few of Lebanon’s shrewd sages that work out of sight and in silence for the public good and are careful not to divulge this secret and give away the elegant tricks that drives the Lebanese economy from one gain to another.” These gains, according to this reified logic, would suffer should the state try to intervene in economic activity. Such claims, Badre scoffed, were “fake and misleading” even if advocated by an international expert.⁵⁶

The Lebanese economy, Badre asserted, was not an unsolvable riddle. It was subject to scientific rationalization, something he set out to show by qualitatively and quantitatively historicizing and contextualizing its success. For Badre, state-intervention was not *necessarily* the right thing to do. The splendid economic activity that Lebanon witnessed post-WWII was largely due to the *individual* efforts of the Lebanese which reached their full potential due to a state policy of *non-intervention*. The success of such a policy was, however, dependent on the confluence of a set of political and economic conditions, including the flow of petrodollars that prevailed in the post-WWII global order. These conditions, Badre pointed out, had become increasingly untenable by the late 50s. The lopsided economic structure favoring the tertiary sector made Lebanon

⁵⁶ Badre mused that the Van Zeeland’s secret formula became so powerful it entered Lebanese popular tradition through its caricature commemoration by folklore artist Omar Z’inni who exclaimed ‘*kiki kiki, 3ala a3amaki khalliki*’ which may be roughly translated as ‘Tick and Click! To your blind-ways stick!’; see Albert Badre, “Nahwa Afaaq Iqtisadiyyah Jadidah,” in *Ahd Al-Nadwah Al-Lubnaniyyah* (Beirut: Dar al-Nahar, 1997), 370.

extremely vulnerable to external shock, something Badre demonstrated with ample reference to statistical data. Moving forward, future success was dependent on economic planning that addressed these facts and evolved with time and a changing environment rather than policies which invoked past success to justify outdated philosophies. State intervention had become a rational necessity due to a change in economy reality.⁵⁷

Further detailed probing of the work of the AUB technocrats affirms this institutional rather than state-centered approach of the AUB group. The theoretical underpinnings of many of their ideas did not entirely derive from Keynesianism and its espousal of state-led economic development but rather from the US-based institutionalist movement in economics that rose to prominence in the interwar years.⁵⁸ At the time of its inception, two main attributes distinguished American institutionalism from other currents of Eurocentric economic thought. The first was a strong sense of realism critical of orthodox economic theory that was deemed too abstract and incapable of explaining and resolving the social conflicts produced by industrialization and market expansion. Theory had to be based on axioms derived from economic “realities” that were *testable*. Institutionalists thus adopted an empirical and investigative approach that involved the application of natural science methods to economics. The movement’s co-founder, Wesley Mitchell, saw the “statistical laboratory as the closest approach to the methods of physical science”. Quantitative methods became a hallmark of institutionalist economics. The second characteristic of this school of thought was its emphasis, driven by its realistic approach, that economic systems were institutional rather than natural in character. The economy was largely constructed by a set of evolving legal conventions and social norms rather than fixed and natural

⁵⁷ Badre enumerated six conditions that contributed to Lebanon’s economic success and “dazzling activity” in the 50s – and justified its laissez-faire policy - but were no longer necessarily true in the early 60s. These were: Lebanon’s high stock of foreign currency amid scarcity in European countries experiencing post-WWII construction boom; the weak commercial links between the Arab world and the rest of the world allowing Lebanon to play as intermediary, the flood of capital into Lebanon from Arab Gulf oil revenues; the growing desire of Western countries to engage in commercial and financial dealings with Arab countries and the suitability of Lebanese as middlemen at the outset; the laxity of some countries in implementing plans for economic self-sufficiency thereby facilitating triangular trade; the laxity in uprooting illegal commercial transactions prevalent in Lebanon including drug trading and prostitution; see *Ibid.*, 373–374.

⁵⁸ American institutionalism has itself suffered from historiographical neglect and intellectual dismissal as a marginal current and passing phase of economic thought. Recent revisionist history resituated the movement as part of mainstream economic thought that left its mark on economic praxis and policy. See Malcolm Rutherford, *The Institutional Movement in American Economics, 1918-1947: Science and Social Control*, Historical Perspectives on Modern Economics (New York: Cambridge University Press, 2011).

laws to be discovered. This meant that economic problems ranging from unemployment to class conflict to business cycle fluctuations were a product of the failure of markets or of relevant institutions to direct economic activity in the a manner consistent with the collective interest of the system and society. At the core of institutionalism lay the epithet that social control in the service of public interest, whether public or private driven, was best achieved through institutional reform.⁵⁹

The imprints of institutionalism are present through much of the writings of the AUB economists during the interwar period and afterwards. In the mid-1950s, ERI associate A.J. Meyer reported that institutionalism dominated the interwar period.⁶⁰ Sa' id Himadeh was a student of the movement's co-founder Wesley Mitchell at Columbia University. Economic organization was a primary object of Himadeh's pioneering economic studies and analyses of Greater Syria.⁶¹ The two main characteristics of institutionalism, namely a preoccupation with quantitative methods and statistical inquiry coupled with an emphasis on institutional reform, became the *sine-qua-non* of the second and third generation of AUB economists. These characteristics were embodied in the mandate, constitution, and operation of the ERI they founded.⁶² The institutionalism that emerged at AUB, however, was not a copycat of its American counterpart. Institutionalists in both countries were grappling with different problems specific to the historical period and socio-political context they worked in. US institutionalists like Mitchell devoted much of their attention, including the application of quantitative methods, to the question of business cycles and how they led to economic and social crises. Pecuniary institutions were distrusted and

⁵⁹ For quotes and arguments regarding the defining features of the institutionalist movement, see *Ibid.*, 8,9.

⁶⁰ According to Meyer, after the 1920s, three schools of thought held a certain sway in the Middle East. These were 19th century German nationalism, British Classical Economics, and the Mercantilism of Louis XIV, see Albert J. Meyer, "Economic Thought and Its Application and Methodology in the Middle East," *Middle East Economic Papers*, no. 2 (1955): 66–67. On Institutionalism as a dominant trend of thought, see *Ibid.*, 68.

⁶¹ On Himadeh being a student of Wesley Mitchell, see Meyer, "Economic Thought and Its Application and Methodology in the Middle East," 68.

⁶² AUB reformists used a similar strategy to their American counterparts in relation to influencing policy. ERI mandate and activities in some ways resembled those of the US National Bureau of Economic Research (NBER) that was led by Mitchell. A notable difference was the link each had to state. ERI was a private academic venture, NBER was part and parcel of the state apparatus. For details on NBER, see Rutherford, *The Institutional Movement in American Economics, 1918-1947*, 257–288.

partially blamed for economic disorder. Social control for them was about mitigating or eliminating these crises in the interest of the public good.

In the case of the AUB-based group, institutionalism was framed within the paradigm of economic development in a Third Worldist context. Statistical studies sought to calculate data such as national income, population increase, and balance of payments which pertained to the economy at large rather than the business cycle per se. Social control and regulation was about expanding the economy and increasing its productivity levels. Institutional reform was thus more of a catalyst for accelerating market forces at work. Tenets of developmental economics such as central planning and macroscopic aggregate accounting were pivotal to the economic philosophy formulated by these thinkers. In line with developmental economics, AUB institutionalists were also critical of the imbalance among Lebanon's economic sectors with two thirds of national income accruing from trade (mainly imports) and the tertiary sector (banking, transport, tourism) resulting in a chronic deficit. With the rise of the second generation of AUB institutionalists, Keynes's *General Theory* and novel economic concepts such as 'gross economy' merged with institutionalist and structuralist approaches. In line with Keynesianism, AUB institutionalists tolerated public debt as a form of financing development. Mainstays of Keynesian-inspired economic development embraced by the majority of Third Worldism such as import substitution, inflationary fiscal policy, nationalization, and exchange rate control were *not* advocated by the AUB institutionalists. With such eclectic invocation of economic principles, developmental institutionalism was born.⁶³

Developmental institutionalism in its Lebanese incarnation was thus a hybrid theory with distinctive properties. Its post-WWII recipe for fixing the economy was framed in developmentalist language, but it veered away from third world tendencies at the time such as the advocacy of import substitution. The developmental institutionalist blueprint for development came close to Chihist policy terms upheld by SLEP's Menassa: Expand import and transit trade, improve and modernize government services, and enhance the balance of payments

⁶³ Studying the principles of Keynes and his influential *General Theory of Employment, Interest and Money* (1936) was part of Yusif Sayigh's preparation for his Master's degree in 1950 under the guidance of Badre. Sayigh had not heard of Keynes prior, see Sayigh, *Yusif Sayigh*, 294. The summary outline above of the type of Keynesianism adopted by the institutionalists is based on the work of Albert Badre, see Badre, "The Economic Development of Lebanon."

account by developing the *agricultural* sector and specialized, rather than heavy, industry “suited” for Lebanon’s resources (e.g. food industry).⁶⁴ Both camps, the AUB institutionalists and Menassa’s SLEP, held almost identical views on the role of the state vis à vis private enterprise in this process. SLEP’s master plan of reconstructing the postwar Lebanese economy published in 1948 opposed full state control and planning that took hold during WWII. But it also explicitly refrained from calling for a full return to *laissez-faire* in which there was minimal state intervention in economic activity. SLEP advocated a middle path. The state was conceived as a coordinator and guide for the national economy through various forms of indirect intervention. Its apparatus, however, required major reforms of its administrative and technical apparatus along modern and rational lines.⁶⁵

In his doctoral dissertation submitted two years after the publication of SLEP’s master plan, Badre outlined his own detailed plan for developing the Lebanese economy. Like Menassa, Badre proposed a very minimal role of the state in the actual processes of production and exchange. The fastest path to development, he argued, was through state planning and agency, but the state’s task would largely be confined to those areas where private enterprise was incapable of doing the job such as public works and hydroelectric power. As soon as this infrastructure was built, Badre suggested that the steering wheel must be immediately returned to the private sector by privatizing the projects.⁶⁶ The near consensus between AUB developmental institutionalists and SLEP advocates of state-managed *laissez-faire* encompassed reforms of budgetary practices, fiscal policy, administrative reorganization, and even agricultural and industrial development. But it stopped short at the gates of finance. Economists of both camps disagreed regarding issues such as the full adoption of the new international and IMF-regulated financial order, mechanisms of funding development, organizing the banking sector, and the

⁶⁴ The major tenets held by AUB’s developmental institutionalists and summarized above are based on my survey of their writings in MEEP and their lectures at the Cenacle Libanais. Chiha’s views on the economy are best summarized in his collected essays on the subject, Chiha, *Propos D’économie Libanaise*.

⁶⁵ The key according to Menassa was finding the right formula between the two “excesses” in order to preserve liberty and private initiative while preventing the abuse, disorders and “grave errors of an unscrupulous and individualistic capitalism”, see Menassa, *Plan de Reconstruction de L’économie Libanaise et de Reforme de l’État*, 60.

⁶⁶ On Badre’s philosophy of financing economic development see Badre, “The Economic Development of Lebanon.”

future of the BSL. Third generation institutionalists took on the task of elaborating these differences, most notably in relation to central banking reform.

4.2.3 Divergent Paths: Finance without France and Central Bank Prototypes

Personal interests of SLEP members including close ties to the mercantile-financial class and the BSL clique likely played a part in the divergence of attitude that existed between them and the AUB institutionalists. But the disagreement also derived from the particular problem that SLEP, headed by Menassa, was tackling compared to that addressed by the AUB group. For SLEP members, economic development and the role of the state in the process were not seen as a stand-alone paradigm the way AUB economists saw it, but *in relation to* a specific economic concern that preoccupied SLEP members. This was the challenge of how to revive Lebanon's pre-WWII economic organization *while* adapting to the new global economic order. SLEP members doubted the very economic survival of Lebanon after the war and its ability to maintain high living standards for its population outside the French Mandatory framework. In the eyes of SLEP economists, state intervention and a controlled economy that prevailed during WWII were transient phenomena dictated by the exigencies of the war and had to be reversed *without* causing a decline in living standards. The answer lay in a whole-hearted embrace of conservative currency policies leading to a stable currency sustained, in the absence of unilateral economic links to France, by *multilateral* free trade. Lebanon thus needed to *regain* its vocation as a “natural intermediary” of exchange that could rapidly grow into a large financial centre acting as a haven for capital flows.⁶⁷

Contrary to conventional wisdom upheld by the AUB institutionalists and argued for in this study in *Section 3.2.1.*, Menassa praised the French Mandatory monetary regime, claiming – all evidence to the contrary - that pegging the Lebanese Lira to the French Franc prevented rigging and other currency problems. France, Menassa lamented, had also acted as a “super-state” unifying the Lebanese and Syrian economies and regulating their exchange. The end of French

⁶⁷ Menassa outlined what he saw as the new consensus for the reconstruction of a healthy global economy. Its four pillars were: economic liberalism, stable international money, freedom of access to primary resources, and increasing the purchasing power of masses; see Menassa, *Plan de Reconstruction de L'économie Libanaise et de Reforme de l'Etat*, 91, 99–106.

rule resulted in the loss of the Syrian market and the loss of currency reserves to back the Lira. Menassa advocated multilateral trade with Arab states to compensate for the loss of the Syrian market. Currency backing, however, was a more complicated issue and one of a handful that did not garner consensus among SLEP members. In Menassa's view, the 1948 monetary agreement with France provided a provisional solution that should be held on to until a satisfactory monetary arrangement among Arab countries was concluded. It was only in the long run that international cooperation, including the adoption of the common formula of note cover adhered to by the IMF, was in the interest of Lebanon.⁶⁸

Although Menassa acknowledged that adopting the IMF financial framework was in the interest of Lebanon, he did not express the same confidence in the ability of IMF rules to secure currency stability as the AUB institutionalists did. Menassa doubted that IMF interventions would be timely enough to handle unpredictable economic crises. Seeking full gold cover would be much preferred even though securing the hard currency necessary to buy it was a challenge. As a first measure, Menassa saw no harm in replacing surrogate France with US patronage by soliciting commercial credit from the latter to the tune of US\$75-100M that would be largely reimbursed once French note-cover assets were liquidated as stipulated by the 1948 monetary agreement with France.⁶⁹ In the long-run, *laissez-faire* measures according to Menassa would solve the problem of hard currency and gold reserves. These measures included abolishing foreign exchange control and gold flow restrictions, liberalizing legislation to repatriate capital in all its forms, and even authorizing the opening of bank accounts in gold and foreign currency denominations.⁷⁰ These were indeed the measures that were implemented between 1948 and 1952 and formed the basis of the 'Merchant Republic'.

⁶⁸ On Menassa's praise of the Franc exchange standard, see *Ibid.*, 253. On role of France as "super-state" and the divergence of Syrian and Lebanese interests afterwards, see *Ibid.*, 72. On intra-SLEP disagreement regarding monetary policy, see *Ibid.*, 259.

⁶⁹ On deeming the IMF framework in the interest of Lebanon, see Menassa, *Plan de Reconstruction de L'économie Libanaise et de Reforme de l'État*, 256. On details of plan to solicit US dollars, see *Ibid.*, 264–265. Seeking US economic patronage after Lebanon was weaned off mother France was also pursued in the post-WWII era by professed Francophile Chiha through his point person Charles Malik, see Traboulsi, *Şilāt Bi-Lā Waşl*, 246.

⁷⁰ Menassa called for expanding imports while simultaneously citing problems of acquiring hard currency, which flew in the face of his ostensible pursuit of currency stability and betrayed his primary allegiance to vested interest of the mercantile-financial class. On immediate and long term monetary challenges, see Menassa, *Plan de*

Menassa acknowledged the essential role of a central bank in implementing these measures and in achieving note cover as desirable. But he saw no justification in setting up any such independent organization and devoted little space for discussing central and private banking reform and regulation. A central bank was a question for the distant future. According to Menassa, the right to note issue, even during a transition phase, was best vested in a currency board rather than the BSL. The latter, he advised, should remain the government's bank and be represented on the currency board. In the opinion of Menassa, BSL collaboration was irreplaceable rather than inadequate. Its private ownership was lauded as a safeguard against government financial imprudence rather than a bulwark in the face of monetary reform.⁷¹

By contrast, AUB institutionalists consistently advocated a major overhaul of the unregulated banking sector including its central bank and sought a monetary policy that was clearly aligned with the new global order. The third generation of AUB scholars took it upon themselves to ponder in detail the future of the BSL, mostly as the object of inquiry of their doctoral research. Himadeh had raised this particular question as early as the 1930s, but with the second generation, it became overshadowed by the broader question of economic development that farmed post-WWII economic thought. As the BSL concession neared expiry in the late 50s and early 60s, third generation graduate students like Talha Yaffi, Salim Hoss, Paul Klat's student Yahya Mahmasani, and George Medawar revived the question of central banking reform with more urgency and in more detail. Their treatises were elaborations of ideal prototypes of a central bank.⁷²

Blueprints of the ideal central banking arrangement proposed by third generation institutionalists tackled three broad themes of banking reform. The first was the reform of the Lebanese

Reconstruction de L'économie Libanaise et de Reforme de l'État, 78–79. On best measures to remedy monetary challenge, see *Ibid.*, 265–266.

⁷¹ On proposed composition of currency board and need to preserve BSL arrangement, see Menassa, *Plan de Reconstruction de L'économie Libanaise et de Reforme de l'État*, 261–262.

⁷² The ideas of these third generation economists outlined above and in the paragraphs that follow are based on their graduate research work, see Yaffi, “The Monetary and Banking System of Lebanon.” and Hoss, “The Roles of Central Banking in Lebanon.” Mahmasani, “A Central Bank for Lebanon.” and Medawar, “Monetary Policy in Lebanon.”

monetary system and the regulation and reorganization of its banking sector *independently* of its direct relation to the central bank. This included reform through the introduction of legislation governing commercial banking, the reorganization of banks' ownership structures and business practices along modern corporate lines, and the facilitation of inter-bank cooperation through more formal channels. The second theme was the search for the *ideal* institutional arrangement that constituted a theoretically sound basis for the operation of a central bank in a developing economy (including its direct relation to banks). The third theme pertained to the best *practical* institutional arrangement to be adopted in the specific Lebanese setting. Such a practical arrangement would have to take into account the fate of the BSL as well as political and other extra-economic considerations prevailing in Lebanon at the time.

At the level of theoretical models (the second theme), third generation institutionalists identified credit control (its countercyclical expansion and contraction of the money supply) rather than economic development as the primary function of a central bank. The bank would contribute to developing the economy and growing national income, but mainly through *indirect* ways. It would guarantee government loans earmarked for developmental projects, supervise other credit institutions created for this purpose, and influence the propensity to invest through its primary function of manipulating the size and direction of credit flow. Its primary function of credit control, however, was itself framed in relation to economic development theory. The ideal institutional arrangement in this regard was one that would best achieve *efficient* credit control in an *underdeveloped* economy like Lebanon's. Himadeh recognized this fact and AUB's third generation financial economists reached conclusions similar to his. But third generation economists couched them in more theoretical terms derived from emerging literature that specifically dealt with central banking in the context of developing countries.⁷³

Two main influences in this regard were A. F.W. Plumptre, University of Toronto professor of political economy, and S.N. Sen, lecturer of economics at the University of Calcutta. While Plumptre focused on central banking in the British dominions, Sen broadened the scope of his

⁷³ Himadeh framed the need for a single central banking authority in relation to the quest for currency stability and price controls, and to a lesser extent, "economic progress", see Himadah, *Monetary and Banking System of Syria*, 276–277.

study to include developing countries in general.⁷⁴ Both, however, raised the question of how newly established central banks can assert their authority and fulfill their mission of credit control in an efficient manner. They conceded that all central banks needed to be guided by public interest rather than the pursuit of profit. Central banks were expected to perform universally-accepted duties such as maintain currency stability, act as a government bank, and as a bank of last resort. The specific institutional organization of a central bank and the techniques it employed to achieve such goals, however, were not deemed universal. They were determined by the context of the *financial* space they were operating in, namely the degree of development of the money market.⁷⁵

Sen argued that an underdeveloped money market rendered central banking more complicated. Mature money markets reflected a highly organized banking sector and credit structure. Under such conditions, central banks that had attained a dominant financial position over many decades if not centuries would be able to directly affect credit flow through open market operations (sale and purchase of securities) or indirectly through the changing of discount rates at which other banks can buy and sell bills to the central bank. In developing countries, these two conditions - an integrated and deep money market and an experienced and dominant central bank - were often absent.⁷⁶ Unable to exercise sufficient authority in the money market, the central bank's most effective option would be to impose minimum cash reserve ratio requirements on commercial banks and to vary them as needed. Such a statutory-based technique could not be employed as frequently as open market operations or variation in the interest rate, but it provided the central bank with *direct* means of *forcing* unwieldy market agents (regular banks) to abide by central bank policy. The additional right to inspect the books of private banks and demand information

⁷⁴ The two main works cited by third generation AUB scholars were Plumptre, *Central Banking in the British Dominions*. and Sen, *Central Banking in Undeveloped Money Markets*. Hoss was also influenced by Milton Friedman's writings on "positive economics" but did not always agree with his prognosis regarding money market management, see Hoss, "The Roles of Central Banking in Lebanon," 82,105,118,120.

⁷⁵ On the universality of central bank objectives but specificity of its institutional organization and operational strategies, see Sen, *Central Banking in Undeveloped Money Markets*, 8–9.

⁷⁶ Money markets in the British Dominions reached a certain level of maturity thanks to WWI and its financial exigencies. They thus stood half way between fully developed markets of imperialist centres like London and New York on one hand, and global south ones. On the role of WWI in developing money markets in the British Dominions, see Plumptre, *Central Banking in the British Dominions*, 9–12.

on a regular basis would greatly enhance the power of the central bank to make sound judgments in this regard. As Sen put it, such information constituted the “raw materials of control”.⁷⁷

AUB third generation institutionalists endorsed the assumptions and conclusions of Sen’s analysis. They lamented the underdevelopment of Beirut’s money market; assigned secondary importance to economic development compared to credit control; identified cash reserve ratio requirements and variation as the favoured means of such control; and stressed the need for the inspection of bank books and the collection and regular publication of banking data.⁷⁸ In their assessment, the existing institutional arrangement embodied in the BSL failed on all these counts. Even at the apogee of its influence in the mid-30s, Himadeh had pointed out that the BSL, while performing the two main central banking functions of note issue and government banking, lacked the ability to control and regulate credit in the money market, and did not adopt a clear policy of public interest.⁷⁹ By the late 1950s, the BSL’s precarious status as a central bank was attacked on practical performance and not just on purely theoretical grounds. Yaffi cited its unwillingness to act as a central bank and promptly intervene to control credit during crises such as the Korean War and the Suez conflict. Even if it possessed the will, Hoss pointed out, it was under no “legal obligation” to control the money supply and its lack of “jurisdiction” over other banks was a serious handicap.⁸⁰

The BSL’s continued amalgamation of statistics regarding both its commercial and state assets, as well as those of government deposits in Lebanon and Syria, further impeded the

⁷⁷ On cash reserve requirement and variation as most effective means of central banking in underdeveloped markets, see Sen, *Central Banking in Underdeveloped Money Markets*, 143. On characteristics and operations in developed money market see Plumpton, *Central Banking in the British Dominions*, 4–5. On the importance and requirement of banks supplying information that is the “raw material of control”, see Sen, *Central Banking in Underdeveloped Money Markets*, 200–201. See Sen p 200, 201

⁷⁸ Yaffi proposed the establishment of a Supervision and Examination department that could demand and periodically monitor data independently of the central bank if need be. He also recommended the appointment of an auditor and the establishment of a department of research that would produce a monthly bulletin with analysis of the status of the banking sector, see Yaffi, “The Monetary and Banking System of Lebanon,” 240–241.

⁷⁹ On Himadeh’s critique of BSL, see Himadah, *Monetary and Banking System of Syria*, 310.

⁸⁰ On the BSL’s failure to act as central bank during Korean war, see Yaffi, “The Monetary and Banking System of Lebanon,” 134. On the BSL’s lack of legal mandate and authority, see Hoss, “The Roles of Central Banking in Lebanon,” 110. On passive role of BSL in credit control during crises and the application of government pressure on it to act during Suez and the local disturbances of 1958, see *Ibid.*, 62–63.

implementation of an effective fiscal policy. Such concerns were raised by Hoss and Mahmasani. Yaffi also pointed out that the BSL's influence in the private money market was declining. BSL figures cited by AUB institutionalists indicated that the proportion of the BSL's private deposits to the total amount of Lebanese bank deposits was steadily declining and had slipped from 38% in 1951 to 9% in 1959. BSL business had become more and more dependent on its government banking whose deposits at the bank had increased from LL145M in 1955 to a whopping LL247M in 1960. Should the government deprive it of such a privilege upon expiry of its concession in 1964, it was likely to become one of the smallest banks in the country.⁸¹

AUB institutionalists proposed several alternative arrangements to the BSL, ultimately recommending some over others. For Himadeh, who had been writing in the 1930s, the *ideal* solution was a central bank financed by native bankers and modelled after the American Federal Reserve Bank (FRB). Himadeh, however, surmised that political instability of Syria at the time, and the need to de-commercialize the BSL, would render the FRB option impractical. These political, rather than economic considerations, led Himadeh to suggest that the BSL be transformed into a full-fledged central bank along the lines of the Bank of France. The latter retained commercial business in addition to its central banking functions. Should the BSL refuse such an option, Himadeh - who was writing in the run up to the expiry of the BSL's concession in 1939 - suggested a short-term renewal (ten-years) of its concession until political circumstances in Syria changed. In the meantime, national influence may be attained by other means, namely by increasing the proportion of natives on the bank's board and boosting the authority of the government representative.⁸²

Conditions in Syria developed quicker than Himadeh might have anticipated. Syria, as mentioned earlier, never officially renewed the 1924 concession and opted instead for setting up

⁸¹ Yaffi was able to obtain BSL stats from the Ministry of Finance in his capacity as a member of EPDB, see Yaffi, "The Monetary and Banking System of Lebanon," 119–134. Hoss reported that BSL had six times more public deposits than private ones by end of 1958 and 1959, see Hoss, "The Roles of Central Banking in Lebanon," 89. On declining proportion of private deposits and increasing government ones, see Mahmasani, "A Central Bank for Lebanon," 62–63.

⁸² On FRB and Bank of France as models, see Himadah, *Monetary and Banking System of Syria*, 277–78. On the BSL as the most suitable body to be turned into central bank, see *Ibid.*, 310. On board composition and government authority, see *Ibid.*, 312.

a state-owned central bank as early as 1953. By contrast, Lebanon renewed the concession and even prolonged the BSL's privilege for another 25 years. Time, however, was not on the BSL's side. Theories of monetary regulation and regimes of credit control had witnessed fundamental transformations throughout the 1930s in favour of empowering central banking authorities. World War One and the subsequent rise of developmental economics endowed these banks with ever greater prestige and authority. They had become a necessary staple of self-government and economic as well as political independence. This was also the period when the centralization of the regulatory functions of central banking had been quasi complete across much of the globe. The BSL's position became increasingly untenable in light of Lebanon's developing monetary conditions under the new global order. Proposals recommended by the third generation reflected these transformations. The government was expected to take initiative in this regard. Yaffi, seconded by Mahmasani, listed four options: Extending the BSL concession, "Lebanonizing" the bank by acquiring at least 51% of shares in its joint stock, fully nationalizing it, or creating an altogether new state-owned central bank. The fourth option was favoured by the institutionalists. The EPDB, on which Yaffi and several other members of the group served, shared the same view. The EPDB adopted it as a policy recommendation and estimated the necessary capital for its launch to be LL5M.⁸³

The question of the central bank's state-ownership would acquire an overtly nationalistic tone in the early 1960s in the writings of Mahmasani who explicitly accused the BSL of providing French-owned banks all the assistance and help they desire and thereby representing "foreign interests". Quoting Sen, Mahmasani reiterated that a central bank stood for a country's economic independence. Setting up such a bank demonstrated Lebanon's "ability to manifest its authority in the monetary and banking system and to play its role in the development of the economy without any foreign influence or pressure".⁸⁴ Calling for a nationally-owned central bank did not imply in the view of institutionalists a wholesale embrace of etatism. The concept of managerial autonomy, private-public partnership, and independent technocratic expertise remained central to the scheme. In emulation of dominant international practices and in accordance with IMF

⁸³ On the four options of transition, see Yaffi, "The Monetary and Banking System of Lebanon," 208–210. On the endorsement of EPDB for the fourth option and the share capital deemed adequate, see *Ibid.*, 214–215, 225.

⁸⁴ For Mahmasani quotes and argument, see Mahmasani, "A Central Bank for Lebanon," 73,89,103.

recommendations, institutionalists suggested that a Council of Money and Credit would take charge of managing the bank. All its board members would be appointed by the president of the Republic. But these members would be given operational autonomy. In order for this board to represent all the various segments and interests of the national economy, it would be composed of a mix of politicians, high-ranking civil servants, and a majority of technocratic experts.⁸⁵

References by AUB institutionalists to nationalism and state supervision were not inspired by prevalent discourses of Third Worldism, anti-imperialism or state socialism. On the contrary, they sought to conform to US-inspired notions of financial management and economic planning. Himadeh warned against peasant revolts that “we detest” while Badre described imperialism as a benign, even beneficial, set of institutional relationships between more developed and less developed countries.⁸⁶ In terms of central banks, Yaffi cited the growing international consensus that controlling money had become a fundamental exercise of sovereignty while all third generation members whose writings I examined reduced the question of economic underdevelopment and dependency to that of underdeveloped money markets rather than dependent social formations. Calling for public ownership of institutions like the central bank was in line, as Mahmasani put it, with a worldwide tendency to shift ownership from private to public. What really mattered, Yaffi stressed, was management not ownership. Government management was assumed as inefficient and subject to political pressures. In response, institutional safeguards such as the granting of managerial autonomy to experts had to be put in place.⁸⁷

In sum, AUB institutionalists, especially those of the third generation, adhered to economic internationalism rather than nationalism, expressing an almost ideological deference to

⁸⁵ The composition of the Council of Money and Credit as suggested by Yaffi was as follows: The Minister of Finance as honorary chairman, Central Bank Governor as chairman in former’s absence, two recognized experts in the fields of commercial banking and industry and commerce respectively, a fourth monetary expert from the EPDB, a university professor in Economics, and Director General of the Ministry of Finance, see Yaffi, “The Monetary and Banking System of Lebanon,” 226–227. Mahmasani adopted Yaffi’s proposal and stressed the need for separate and independent management by experts, see Mahmasani, “A Central Bank for Lebanon,” 107–108,110.

⁸⁶ On Himadeh’s aversion to revolution, see Himadeh, “Mushkilaatunah al-Iqtisadiyyah,” 104. On Badre’s praise of Imperialism, see Badre, “The Economic Development of Lebanon,” 2–3.

⁸⁷ See Yaffi, “The Monetary and Banking System of Lebanon,” 215,225 and Mahmasani, “A Central Bank for Lebanon,” 108.

international institutions like the IMF and American philosophies of political economy that underpinned it. AUB institutionalist ideas were reformist and liberal in their general character posing little threat to the overall structure of the Lebanese economy and its capitalist foundations. This made institutionalist intervention in public debate around the economy relatively acceptable to Lebanese elites and reconcilable to the doctrine of economic liberalism that these elites professed. But it also made them more menacing in one particular quarter, big bankers and financiers. When it came to the field of finance, AUB institutionalists at their early stages of writing advocated a radical restructuring of the banking system, particularly in terms of regulating the banking sector and central bank authority in this regard. Yaffi put it quite bluntly when he wrote that monetary policy “will not only manage and regulate the composition of the cover and notes in circulation –assets and liabilities – of the note issue department, but also [his emphasis] the management and regulation of the assets and liabilities of the whole banking system”.⁸⁸ Furthermore, the preferred central banking technique for such control advocated by the institutionalists (the cash reserve ratio requirement) implied the *direct* subordination of private banking activity and policy to constant adjustment by a central authority. This in turn required better access to banking data. The spectre of inspection was added to that of authority. The fig leaf of *laissez-faire* was no longer able to hide the parochial interests of Lebanon’s top financiers and bankers. By the late 1950s, the case for a central bank had gained wide consensus among economists and large swathes of public opinion. It had made inroads into the bureaucratic apparatus of the state. By the early 1960s, economic developmentalism was in full swing in the region, Chehabism in full force in the country, and the BSL concession about to expire. In the drawn-out battle to set up a national central bank for Lebanon, the Lebanese bankers were the last frontier.

⁸⁸ See Yaffi, “The Monetary and Banking System of Lebanon,” 138.

5 Barons of Banking and State Regulation: Derailing Development, Self-Organization and Legal Cooptation

The central bank might find that cooperation with the Association of Banks is the ideal method to prevent [banking] perversions, through [mutual] understanding instead of coercion, and persuasion instead of [legal] texts.¹

Pierre Edde, 1963
President of Association of Banks in Lebanon

While AUB institutionalists like George Hakim and Paul Klat sought to grant the idea of a central bank more currency among elite circles and state officials in Lebanon, another AUB alumnus was circulating the idea in Washington. As early as September of 1953, prominent Princeton historian Philip Hitti discussed with then US Assistant Secretary of State Henry Byroade the possibility of creating a central bank in Lebanon as a means of “solving some of the pressing economic problems that beset the land”.² In a letter to Byroade in December of the same year, Hitti passed on news of a widely-endorsed petition back in Lebanon calling for the immediate founding of such a bank. The Middle East historian outlined the argument in favour of its creation: A central bank was the best guarantee against both inflation and deflation. Such a bank would also regulate currency and protect native capital while attracting foreign one, particularly from Lebanese emigrants. But Lebanese president Camille Chamoun, Hitti informed Byroade, preferred to delay the establishment of such an institution. According to Hitti’s source, Lebanese banker Michel Saab, Chamoun justified his reluctance to endorse the project by citing the government’s decision at the time to set up a development bank to finance agriculture and industry. Hitti, however, countered that there was no conflict between the two projects. He cited reports in the Lebanese press indicating that native banks in Beirut, including the Saab-owned Federal Bank, had expressed their readiness to invest the entire necessary capital to realize such a

¹ See Dhulfiqar Qubaysi, “Qissat Al-Bunuk Fi Lubnan,” *Majallat Al-Masarif*, July 1963, 54.

² Hitti wrote endearingly to “my dear Byroade” in what appears to be an unsolicited seasons greeting letter. It is not explicitly clear from the text whether the arguments presented by Hitti in favour of a central bank were his own or those of the campaign. See Letter from Philip Hitti, Department of Oriental Languages and Literature, to Henry A. Byroade, Assistant Secretary of State, Department of State, December 15, 1953; File 883a.14/12-1553; 1950-54 Central Decimal File; RG 59; NAB.

“vital project”. The World Bank, then called the IBRD, was also willing to cooperate. The only impediment was the lack of government consent.³

French and Arabic versions of the petition cited by Hitti were published on 24 June 1953 in four of Lebanon’s major newspapers: *al-Nahar*, *L’Orient*, *al-Hayat*, and the *Beirut Gazette*. The petition bore the signature of over a dozen mainstream political parties and grassroots social organizations as well as prominent commercial, industrial, and agricultural syndicates.⁴

Addressing the Lebanese at large ahead of the first parliamentary elections during Chamoun’s presidency, the rallying statement depicted the establishment of a central bank as a matter of national interest and thus a worthy electoral demand:

O Lebanese [Citizen]

There can be no political independence without economic independence and no economic independence without *bayt al-mal al-Lubnani*, i.e. the “Lebanese Central Bank” [sic]. Otherwise, we will see our agriculture, industry, commerce and tourism susceptible to risk.

Dear Citizen – Demand that your candidate commit to establishing *bayt al-mal al-Lubnani*, i.e. the Lebanese Central Bank provided that it is administered by nationals under the supervision of the Lebanese government without any foreign interference.⁵

The petition’s content, outreach, and scope of signatories indicated the extent to which the call for central banking had become a matter of significant public consensus and debate beyond the

³ See Ibid.

⁴ The signatories were: Kamal Jumblat’s Socialist Progressive Party (SPP), Pierre Gemayel’s The Kataeb and its nemesis party al-Najadah, the Syrian Socialist Nationalist Party (SSNP), the two Armenian parties Henschak and Ramgavar, The General Arab Feminist Union, The Lebanese National Party, the Armenian party Ramgavar, the National Youth Party, the National Representative Party, the Fruit Growers Association of Tripoli, and the Union of Agriculturalists of Saida. For a list of the signatories, see Letter from Michel Saab, American Inter-Asian Trading Co. Inc., to Henry A. Byroade, US Assistant Secretary of State, July 1, 1953; File 883a.14/7-153; 1950-54 Central Decimal File; RG 59; NAB.

⁵ *Bayt al-mal* is the term used to refer to the treasury in Islamic tradition. Its use may have been deliberate by the petitioners to promote the concept of a central bank in a manner that would resonate with large swathes of the population, which is why I have decided to keep it in transliterated form in the text. Saab’s translation of the statement in his letter to US Assistant Secretary of State Henry omits the *Bayt al –mal* part and refers to a Central Reserve [my italics] Bank, in an ostensible attempt to make it more palatable to his American interlocutors. See Saab to Byroade, July 1, 1953; File 883a.14/7-153; 1950-54 Central Decimal File; RG 59; NAB. My translation is based on the original Arabic text as found in newspaper clips enclosed in Hitti to Byroade, December 15, 1953; File 883a.14/12-1553; 1950-54 Central Decimal File; RG 59; NAB.

elite circles of financiers, bureaucrats and academics. It also marked the explicit invocation of national versus foreign banking as a sign of independence. The motives, however, that were apparently behind the widespread endorsement of setting up a central bank were diverse. The swell of popular national sentiment that was expressed by syndicates and political parties in the petition might have been triggered by the establishment, a few months earlier, of a Syrian central bank following the unilateral termination of the BSL concession in Lebanon's neighbour country.⁶ The demise of the French-oriented Khoury regime and the perceived vulnerability of the Banque de Syrie et du Liban (BSL) under the new Anglophile Chamoun administration further emboldened this group. Meanwhile, AUB institutionalists like George Hakim and Paul Klat, who had only recently acquired top ministerial and bureaucratic posts, were happy to try and tilt policy in favour of a central bank project that would further integrate Lebanon into the new international economic order.

The presence of commercial and agricultural associations on the list of signatories in contrast to the conspicuous absence of dominant financial and banking institutions may suggest that positions were split along the line of the industrialists and petit bourgeois traders on one hand, and the financiers and bankers on the other. But as I discuss below, several start-up bankers were strongly in favour of a central bank. As I illustrate in this chapter, the fault line was rather drawn between the BSL-led financial consortium and the rest of the country. Local-based anti-BSL bankers had jumped on the central bank wagon in hope of gaining leverage in their capital turf war with the BSL's and its affiliated French and Lebanese capital. While the *well-established* BSL-led consortium saw a central bank as a threat to its uncontested financial and monetary hegemony, *emerging* rival banks - mostly US-friendly and Arab-linked - were eager to gain an upper hand in the money market via access to a large-scale and state-sponsored central bank. Drawing on popular national sentiment and seeking back-channel US diplomatic pressure, these new barons of banking sought to win management control over such a powerful institution which would grant them what the market had not: speedy and sufficient leverage to wrest from the BSL consortium a larger share of the capital market which was growing thanks to a steady inflow of petrodollars. The debates and policy decisions over setting up a central bank were thus enmeshed

⁶ The Syrian Central Bank was established by law on 28 March, 1953 by decree 87, Achi, *Al-Nizam Al-Naqdi Fi Suriya*, 8.

within local (often parochial) financial interests that were integrated into a discourse of economic independence opposed to foreign interference.

The “bitter conflict” between US-backed Arab banking groups and the BSL over founding a central bank lasted over a decade until the BDL was established in 1964.⁷ The strategies and even basic stances of either camp evolved over time. They were shaped by prevalent currents of economic development and state policy as well as the transformation of the balance of power both among the financial actors involved and between them on one hand and political authorities on the other. In the case of the BSL-consortium, the cabal’s first line of defense in the 1940s, as articulated by La Société Libanaise d’Économie Politique (SLEP) chief economist Gabriel Menassa, was to dismiss the urgent need for such a bank.⁸ In the 1950s, state-led economic development, through a central bank, became harder to oppose. BSL supporters chose to vouch for development banks, such as the BCAIF whose establishment I discuss in the following section, as the lesser evil compared to a central bank. When the creation of a central bank became inevitable in the early 1960s, they closed ranks with other bankers to oppose it or take part in its management.

The emerging anti-BSL bankers shifted their stance and strategy in more radical ways than those of their BSL rivals. In the early 1950s, when their market share was low and their influence minimal compared to the BSL, some of these start-up bankers actively campaigned in favour of a central bank or state-sponsored development banks, which they were willing to fund. They invoked Arab development and national independence to prop their project. But following the spurt of growth of local banking throughout the 1950s and the restructuring of state-sector relations in the favour of the banking sector, these new barons of banking realized that a central bank might also jeopardize their own financial freedom. Competition over control of the central bank persisted between them and BSL-advocates, but the former’s enthusiasm for a central bank

⁷ US treasury attaché in Beirut George Bensusky told his superiors in Washington that the “bitter conflict” between the BSL and emerging Arab banks prevented IBRD envoy Harold Johnson from garnering the backing of both groups in his mission for setting up a development bank in 1953, see Further Information on Mr. Johnson’s Activities in Lebanon, Enclosure no.3, in Dispatch 250, from Beirut to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB. For a full discussion of the IBRD mission to set up a development bank, see Section 4.1 below.

⁸ For Menassa argument, see *Section 4.2.3* above.

had waned. Both camps found themselves fighting a common enemy: Chehabism-inspired state regulation. Bankers in the non-BSL camp turned to self-organization in the late 1950s to preempt regulation. Ultimately, when in the early 1960s the push for regulatory legislation became a *fait accompli*, their tactic shifted to legal cooptation to disempower a future central bank and hollow out its mandate. The battlefield had shifted into the heart of state institutions, but only after the banking sector had itself been structurally transformed. The ultimate stage of this battlefield was the Law of Money and Credit that was promulgated by President Fuad Chehab on August 1, 1963. It was to take effect on April 1, 1964, one day after the end of the BSL concession. The law was composed of 230 articles divided into six major sections: Currency (Articles 1-11), The Central Bank (Articles 12-120), Banking Regulation (Articles 121-191), Sanctions (Articles 192-210), Transitional Provisions Pertaining to Section 3 (211-222), and Miscellaneous and Final Provisions (223-230).⁹ The different sections of the law and their content encapsulated the outcome of this conflict and the three axes around which it revolved: banking regulation, administrative structure of the future central bank, and monetary policy. In *Chapter 6*, I tackle the latter two axes, for which a more detailed examination of Chehabism is required. In this chapter, I address the question of banking regulation. In *Section 5.1* below, I outline in some detail the contestation that took place in the early half of the 1950s over development banking and how the prevalent paradigms of state-based economic development was strategically deployed by local and global actors to sway the outcome of this struggle one way or another. I then turn to examine the *institutional* transformation of the banking sector in *Section 5.2*, including the institutionally-driven growth of the banking sector and the formation of the Association of Banks in Lebanon (ABL). *Section 5.3* analyzes the different forms of struggle that took place between different stakeholders including the ABL over banking regulation legislation during the drafting of the Law of Money and Credit.

⁹ For full text of The Law of Money and Credit, including table of contents and amendments, see Muwaffaq Yafi and Abdel Fattah Yafi, eds., *Majmu'at Al-Naqd Wa Al-Taslif*, vol. 1, 5 vols. (Beirut: Yaffi Ikhwan wa Shurakahum, 1999).

5.1 Development Banks as a Decoy: The BCAIF and Sister Projects

At the centre of the 1953 campaign to set up a Lebanese central bank was Hitti's source on Chamoun, Michel Saab. The Tehran-based Lebanese businessman was himself in direct correspondence with the US State Department. In his own letter to US Assistant Secretary of State Byroade in the summer of 1953, Saab billed the Lebanese central bank as a first step towards the realization of Byroade's own proposal for an Arab Development Bank.¹⁰ US diplomatic dispatches describe Michel Saab's brother, Joseph, who was conducting a popular campaign for a central bank as "violently opposed to the BSL and considers it the agency which thwarts the development of Lebanon for its own profits".¹¹ In 1951, the Saab brothers had partnered up with Beirut notable Sami Solh, who became several-times prime minister under Chamoun, to found The Federal Bank of Lebanon.¹² The Saabs, the dispatch claimed, hoped their bank would be among those that win the concession for setting up a national central bank. The campaign for a central bank however was being derailed by parallel attempts to set up development banks that would nip the need for a central bank in the bud. In November of 1952, the government approved the incorporation of one such private bank under the name Banque Nationale, Foncière, Commerciale et Industriale (BNCFI). Funded by prominent Lebanese businessmen, including Michel Doumit and prominent politician Nagib Salha, the bank began its operations in late 1953.¹³ Discreet enquiries by the American Embassy found links between

¹⁰ See Letter from Saab to Byroade, July 1, 1953, File 883A.14/7-153; 1950-54 Central Decimal File; RG 59; NAB. Prominent Arab businessman and Lebanese politician Emile Bustani, who died in a plane crash in 1963, was a major advocate for an Arab Development Bank, see Dispatch 566, Beirut to Department of State, March 31, 1959; File 883.14/3-3159; 1955-59 Central Decimal File; RG 59; NAB.

¹¹ See Report on Mr. Harold Johnson's Activities in Lebanon, Enclosure no.1, in Dispatch 250, from Beirut to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB.

¹² The Federal Bank of Lebanon (*al-Bank al-Lubnani al-Muttahid*) was incorporated under decree 236 issued on Oct 25, 1951. It commenced its operations in Beirut on October 31, 1952 with the professed objective of funding industrial enterprises with real estate as collateral. Its authorized capital was LL7M, with majority of shares held by chairman of its Board of Directors Michel Saab. The bank's financial correspondents in the US were at the time believed to be The National City Bank of New York and the Guaranty Trust Company of New York. See Dispatch 399, Beirut to Department of State, January 16, 1953; File 883A.14/1-1653; 1950-54 Central Decimal File; RG 59; NAB. By 1958, the bank had opened a branch in Baghdad, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 169.

¹³ Founders of the BNCFI included the following: Negib Salha, prominent capitalist and politician who later became embroiled in the Intra Bank affair, Désiré A. Kettaneh, member of the firm F.A. Kettaneh, Michel Doumit,

the BNFCI and the BSL. Two of the latter's brightest officials were put at the "disposal" of the BNFCI. The BSL acknowledged its support for the BNFCI but denied a direct interest. The BSL's General Manager Emile Gudot, however, served as one of the directors of one bank, Banque de Paris et de Pays-Bas, which had bought shares in the new BNFCI. Some financial circles believed the BSL was hoping that the BNFCI would take over as bank of issue once the BSL's concession expired in 1964.¹⁴

A more high-profile project in the same direction was that of the Agricultural Industrial and Real Estate Credit Bank (BCAIF – Banque Credit Agricole Industriel Fonciere) that Philip Hitti cited in his letter to Byroade. The idea for such a bank emerged in 1953 following the request by the Lebanese government that the International Bank for Reconstruction and Development (IBRD) outline its vision for founding a state-sponsored development bank. Negotiations between the Lebanese government and the IBRD reached a critical stage in August of 1953. During his three-week stay in Beirut, IBRD special consultant Harold Johnson held a series of meetings with Lebanese government officials including President Chamoun and then Minister of National Economy George Hakim to test the waters for the possibility of setting up an industrial development bank. Johnson's vision was that of a trilateral partnership between the IBRD, the private Arab banking sector, and the Lebanese government. Arab-Lebanese banks would supply the share capital of LL5M, the IBRD would furnish it with a foreign currency line of credit worth LL10M, and the Lebanese government would supply an equivalent amount and exempt the bank from taxation for five years.¹⁵

banker and one of Lebanon's top gold brokers, George Karam, former Lebanese deputy and minister and wealthy lumber importer, and Jean Fattal, a Lebanese of Syrian origin and partner of the Syro-Lebanese firm of Khalil Fattal & Fils. See Dispatch 54, from Beirut to Department of State, July 26, 1953; File 883A.14/7-2853; 1950-54 Central Decimal File; RG 59; NAB.

¹⁴ On official dates of inauguration and operation and links between BSL and BNFCI and rumours surrounding their relationship, see *Ibid.*

¹⁵ Johnson's mission which commenced on August 7 was a follow-up to an exploratory visit to Beirut by IBRD special representative in Turkey Pieter Lieftinck that took place in February of the same year. Unless otherwise stated, all information in this section on the BCAIF project in relation to the Johnson mission are derived from Dispatch 250, from Embassy to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB.

In line with conventional doctrines of economic development at the time, Johnson and Hakim proposed that the bank be solely devoted to financing industrial projects, albeit small-scale ones ‘commensurate’ with the resources and capabilities of the country. With the assistance of Hakim who saw eye to eye with him, Johnson was able to secure the written commitment of seven Arab banks, including Intra Bank, The Arab Bank, and Saab’s Federal Bank, to subscribe the full 5LLM. The Saab brothers were key in securing private bank participation.¹⁶ Johnson also received the backing of technical members of the Lebanese government’s Economic Planning and Development Board (EPDB) including second generation institutionalist Paul Klat who was called on by President Chamoun to study the case. The Lebanese president however was of a different mind. Chamoun’s counter-scheme differed from Johnson’s in two main respects. The first was regarding the kind of development projects the bank was authorized to fund. Despite acknowledging that credit conditions for agricultural development differed from those of industry, Chamoun thought it was “politically necessary” that any financing scheme for industry must also simultaneously provide credit facilities for agriculture.¹⁷ The second disagreement was over the source and composition of loan capital and founding share capital. Chamoun proposed that the founding share capital be split 40/60 between the government (LL2M) and private investors (LL3M) rather than the latter investing the full amount. As for loan capital, Chamoun deemed IBRD interest rates for loans too high. Instead, the entire loan capital (estimated at LL25M) would be borrowed from the BSL against treasury bills (i.e. through printing money

¹⁶ On Michel and Joseph Saab’s role in getting private banks on board, see Dispatch 250, from Embassy to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB and Further Information on Mr. Johnson’s Activities in Lebanon, Enclosure no. 3 in Ibid. The other banks were Banque du Liban et Autre-Mer, Eastern Commercial Bank, Bank Misr-Syria Liban, and Banque Libanaise pour le Commerce, see Mr. Johnson and the Development Bank, Enclosure no.2 in Dispatch 250, from Embassy to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB.

¹⁷ US treasury attaché in Beirut Raymond Hare speculated – based on input from EPDB officials and private citizens - that pressure on Chamoun against an IBRD-sponsored *separate* industrial development bank was coming from several corners. The BSL and its allies like the BNFCI feared the bank would diminish their control over the economy, the British embassy resisted attempts to introduce the IBRD into the near east as a “wedge for ‘American Capital’” while the communists opposed it for “obvious reasons”; see Dispatch 342, Beirut to Department of State, January 4, 1954; File 883a.14/1-454; 1950-54 Central Decimal Files; RG 59; NAB. Chamoun asked EPDB member Paul Klat to come up with a plan that would modify the IBRD proposal so that the bank may be able to dole out agricultural credit, see Dispatch 250, from Embassy to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB.

against future government debt) at a rate of 1% compared to the estimated 4% rate offered by the IBRD.¹⁸

One year later, on July 16, 1954, the BCAIF was established by law. The bank was finally constituted at a meeting held at the Ministry of Finance on January 28, 1955. US Charge d’Affaires Armin Meyer, not to be confused with economist A.J. Meyer, described the final arrangement as a “compromise between the President’s proposal for a single institution and the theory advanced by an IBRD mission and the Economic Development Board favoring separate institutions for agriculture and industry.”¹⁹ Calls for separate institutions were ostensibly assuaged by dividing BCAIF into three autonomous departments and apportioning funds to each department based on a fixed formula (2/5 for agriculture, 2/5 for industry, and 1/5 for real estate). There was less of a compromise, however, in the realm of share and loan capital. IBRD-facilitated international capital was excluded while BSL influence was secured with the BSL designated as the sole lender of loan capital. The 40/60 public-private ownership proposed by Chamoun also prevailed.²⁰

In short, Chamoun opted for an unequivocally inflationary policy of financing development via BSL-issued public debt. He also chose a public-private ownership scheme rather than a purely private yet internationally-backed one. Both of Chamoun’s choices contradicted the fundamentals of *laissez-faire*. The fact that they were adopted as policy during the heydays of the ‘Merchant Republic’ demonstrates that the Lebanese ruling clique –and French capital allied to it - largely saw *laissez-faire* in a functional fashion. They were willing to use the state as a conduit

¹⁸ Paul Klat told US embassy officials that Chamoun’s scheme was likely to gain the approval of Parliament and secure the private funds with ease. In return for their LL3M contribution, private shareholders were gaining access to almost 8 times that amount from government funds at the cheap rate of 1%. They were then able to lend it out as short, medium and long term credit to industry and agriculture at rates ranging from 4% to 7%. The BSL, by serving as the main source of lending, would also be guaranteed control over financing the bank, see Dispatch 250, from Embassy to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB.

¹⁹ For date of legal approval as well as Meyer’s comments and his detailed report on BCAIF, See Dispatch 301, Beirut to Department of State, Nov 15, 1954; File 883A.14/11-1554; 1950-54 Central Decimal File; RG 59; NAB. For date of financial constitution of bank, see Dispatch 569, Beirut to Department of State, March 30, 1955; File 883A.14/3-3055; 1955-59 Central Decimal File; RG 59; NAB.

²⁰ See Dispatch 301, Beirut to Department of State, Nov 15, 1954; File 883A.14/11-1554; 1950-54 Central Decimal File; RG 59; NAB.

for private control of public resources and as such flout the basic assumptions of *laissez-faire* in the pursuit of immediate gain and long term control of capital resources and development policy. Up until the end of the Khoury presidency, this credit control had been largely mediated by the BSL. Talks of founding a central bank threatened such a monopoly. A watered-down version, a development bank, reduced the threat but did not *a priori* eliminate it. One of the potential objections raised by the BSL against the BCAIF project had reportedly been the latter's potential to eclipse the activities of the Societe de Credit Agricole et Industriel du Liban (SCAIL), the only similar credit facility in the country at the time. Set up by the BSL in 1936, the SCAIL consortium was a vehicle for directing funds to the benefit of merchants and agricultural landlords within the circles of power close to Lebanon's first president Bishara Khoury. SCAIL had largely left industrial projects that required long-term investments outside its scope of operations.²¹

By securing a stake in BCAIF to the exclusion of the IBRD, the BSL scuttled attempts to wrest significant control of credit flow out of its hands. The proposal for a central bank was also subsequently shelved by claiming, as Chamoun did according to Hitti, that consenting to set up a development bank made calls for a central bank redundant. In addition, the compromise reached was a blow to the doctrine of development as a *conceptual* framework for government policy. Preserving the single-institution-serves-all-sectors approach in the formation of BCAIF - the autonomous departments notwithstanding - prevented the emergence of a new paradigm of specialized finance with industry as its privileged sector. It signified some form of continuity with SCAIL's approach even if at the expense of the latter.²² The price that the BSL consortium had to pay for fending off this international attempt to restructure Lebanon's banking sector in the realm of state-sponsored development was paid on the local stage. The government became a

²¹ At the time of founding BCAIF, the amount of unpaid SCAIL agricultural loans to favoured politicians that were guaranteed by the government stood at LL11M. To avoid further abuse of BCAIF loans by those indebted to SCAIL benefiting from government guarantees, a special BCAIF provision stipulated that "no loan shall be extended by the BCAIF to anyone indebted to the Government or to the SCAIL with the government's guarantee and who has not paid up the amounts due and their interest on time"; see Dispatch 301, Beirut to Department of State, November 15, 1954; File 883a.14/11-1554; 1950-54 Central Decimal File; RG 59; NAB. For more on the state-backed operations of SCAIL, see Gates, *The Merchant Republic of Lebanon*, 34, 44, 117, 132-3.

²² Local financial circles predicted a slackening in SCAIL business once BCAIF went into operation; see Dispatch 301, Beirut to Department of State, November 15, 1954; File 883a.14/11-1554; 1950-54 Central Decimal File; RG 59; NAB.

partner in the management of BCAIF. More significantly, the radius of local beneficiaries, typically restricted to the BSL consortium, was extended to include new financial rivals, including the Saabs' Federal Bank and Intra Bank, which ended up joining the BCAIF scheme when the campaign for a central bank seemed to be losing steam.²³

Attempts to set up large-scale development banks persisted all the way until the very end of the BSL concession in 1964, although evidence that these later projects were directly aimed at denying a future central bank a developmental role remains circumstantial. Several such schemes were circulating in 1959, the same year that the new Chehab administration formally established the Council on Money and Credit tasked with drafting the laws regulating the banking sector and founding a central bank. One such plan came a few months before the creation of the Council on Money and Credit. It was initiated by Lebanese tycoon and member of the BSL Board of Directors Henri Pharaon. In March of 1959, Pharaon, who was Michel Chiha's brother-in-law and belonged to the small circle of prominent merchants and politicians close to former President Bishara Khoury, teamed up with the latter's son and Chiha's nephew, Michel Khoury, to set up a foreign-funded private development bank. The duo called on the US embassy in Beirut to solicit large sums of US corporate funds. The bank, they hoped, would provide long-term funding for

²³ BCAIF statutes stipulated that the Board of Directors be composed of 12 members, eight of whom were elected by the stockholders while the remainder four appointed by the government. Members elected by stockholders at the bank's constitutive meeting held on January 28, 1955 included chairman Edmond Cachecho (Banque Misr-Syrie-Liban) Boutros Khoury (powerful industrialist and merchant), Munir Abu-Fadel (Intra Bank), Elia Abi-Jaoude (Banque Libanaise pour le Commerce), Rene Letayf (BSL). Government appointees (by decree no.8473 issued on February 23, 1955) all hailed from the private sector including major industrialists and tourism entrepreneurs, suggesting that government representation was more about clientalism rather than technocratic oversight. These members were: Toufic Ghandour (Industrialist), Georges Rayes (Manager of Bristol hotel), Fuad Najjar and Fouad Saade (Agricultural engineers and merchants). The latter was also US embassy informant; See Dispatch 569, Beirut to Department of State, March 30, 1955; File 883a.14/3-3055; 1955-59 Central Decimal File; RG 59; NAB. The later appointment of third generation institutionalist Talha Yaffi as BCAIF's manager may have served to appease international interests and heed calls for "rational" and merit-based management. Yaffi served as manager in 1959 (date of appointment not mentioned in related US documents). He is described by US ambassador to Lebanon Robert McClintock as "an honest and well educated young man" who is not seen as a "first-rate economist" but "passes as an expert in the field of finance". For more on Yaffi and members of BCAIF's board (including board's Chairman Boutros Khoury) in 1959, see Dispatch 692, Beirut to Department of State, May 26, 1959; File 883a.14/5-2659; 1955-59 Central Decimal File; RG 59; NAB.

large-scale construction projects in Lebanon and the Arab world including the building of merchant marines, silos, and warehouses.²⁴

In their diplomatic dig for US greenbacks, Pharaon and Khoury availed themselves, albeit to no avail, of all the “cleverness”, or *shatarah*, that Yusif Sayigh had described as typical of Lebanese entrepreneurs.²⁵ They presented an English-written brochure about the project to US Ambassador Robert McClintock whose blessing they said would facilitate their trip to the US to solicit funds. The duo followed up their meeting with a letter in point form arguing that the scheme “would be meeting a genuine desire on the part of private enterprise in the West to associate themselves with the efforts of their respective governments in the aid which must be given to under developed countries and particularly Lebanon” where the US hoped “to raise the standard of life of the Lebanese quickly”. The purely private nature of the proposed bank would “safeguard it from political or confessional interference and intrigue”. The bank’s self-effacing brokers promised to entrust its management to a neutral Swiss. “[Given our] meagre means,” they wrote to the ambassador, “it would only be honest on our part, in appealing for help, to entrust the execution of this work to groups and men better equipped than we are”. Despite its Swiss management and the expectation that the contribution of Lebanese capital would be minimal in the first few years, Pharaon and Khoury reasoned that the bank’s Board of Directors, however, had to be “exclusively composed of Lebanese” to enable the company to enjoy the full rights of Lebanese companies and gain easier access to the Arab world. US corporate shareholders, the duo reasoned, did not need to worry about the integrity of these board members. According to Pharaon and Khoury, “the personalities chosen to sit on this board..., with their prestige and influence, will be able to facilitate the work of the Bank without trying to make any personal profit or handicap its progress”.²⁶

²⁴ Pharaon was president of the port company *Compagnie Immobiliere Libanaise* which would have benefited greatly from the development of marine infrastructure; See Dispatch 322, Beirut to Department of State, File 883a.14/12-1262; 1960-63 Central Decimal File; RG 59; NAB.

²⁵ On Sayigh’s articulation of the “*shatarah*” concept, see Section 2.3, *Chapter 2*, above.

²⁶ For details on the Pharaon-Khoury Scheme and conversation as well as correspondence with the US ambassador in Beirut including quotes cited, see Dispatch 566, Beirut to Department of State, March 31, 1959; File 883a.14/3-3159; 1955-59 Central Decimal File; RG 59; NAB and Dispatch 633, Beirut to Department of State, April 29, 1959; File 883a.14/4-2959; 1955-59 Central Decimal File; RG 59; NAB.

Ambassador McClintock was hardly impressed. He wondered about the benefit of yet another scheme for a development bank at a time when other development-oriented schemes like Michel Saab's or that of Bank Beirut Riyadh were in the air and when the Lebanese government was about to seek US loans for BCAIF. Moreover, Pharaon and Khoury were not the only banking brokers peddling these proposals at the embassy's door. An "almost identical" one was presented by Beirut banker and embassy regular Sami Shoucair. McClintock was more enthusiastic about a third project circulated by Lebanese expatriate Mansour Zanaty, a wealthy Alabama attorney and leading delegate at the 1959 overseas convention of the National Association of the Federations of Syrian and Lebanese American Clubs held in Beirut. Zanaty's scheme ran along "similar lines" to its predecessors but it did not seek direct financial assistance from Washington and relied instead on Lebanese and Syrian expatriate investment.²⁷ Private businessmen seeking the embassy's favour or its advice were joined by at least one state official. In 1961, the same year when the Council on Money and Credit - established in 1959 - was activated, Lebanese Minister of State Maurice Gemayel telephoned McClintock and wondered whether the latter could furnish him with statutes of a development bank that he can use for his own proposal of a similar institution to the Lebanese cabinet.²⁸ Maurice Gemayel's efforts were too little too late. The countdown to creating a central bank was nearing its end and most of these schemes could not further stall the inevitable.

One development scheme that was cited by the Embassy but which did not seek its favours was the Bank Beirut Riyadh. The Saudi-led venture had little to do with supplanting a central bank,

²⁷ The Zanaty scheme had garnered press attention by July of the same year. The Lebanese American attorney had managed to bring several rich Lebanese expatriates in the US, Cuba, and UAR on board and was sounding the idea out to delegates at the convention. On Zanaty chatting it up with Choucair and the rise in development schemes, see Dispatch 130, Beirut to Department of State, August 26, 1959; File 883A.14/8-2659; 1955-59 Central Decimal File; RG 59; NAB.

²⁸ US Ambassador Robert McClintock described Gemayel as "a highly patriotic, energetic but somewhat illusory public figure whose enthusiasm is far in excess of his sense of practicality", see Airgram G-202, Beirut to Department of State, April 26, 1961; File 883a.14/4-2661; 1960-63 Central Decimal File; RG 59; NAB. The Department of State readily furnished Gemayel with the requested documents in addition to those of development banks set up in allied countries Turkey and Iran. Supplied documents included copies of the Agreement establishing the Inter-American Development Bank, the Industrial and Mining Development Bank of Iran, and The Industrial Development Bank of Turkey. The department cited recommended and commercially available readings in the field including the work title Problems and Practices of Development Banks prepared for the IBRD by Shirley Boskey, Johns Hopkins Press, Baltimore, 1959 (for \$3.50), see Airgram A-143, Department of State to Beirut, May 18, 1961; File 883a.14/4-26-61; 1960-63 Central Decimal File; RG 59; NAB.

but its first director, Pierre Edde, had a major influence on the evolution of the BDL. The role of Edde is best understood in the context of the rapid growth of the banking sector in the 1950s and in tandem with the role that his older brother Raymond played in this expansion. Raymond Edde had laid the legal bedrock of the growth of the banking sector during the Chamoun era when he successfully pushed for the ratification of the Banking Secrecy Law in 1956. Pierre Edde would stand guard to secure the survival of these gains under the Chehabist state and against one of its planned administrative arms, the central bank. In this battle, the growing local banking sector would serve as the ‘reserve army’. Through self-organization efforts spearheaded by the younger Edde, the sector turned from a collection of commercial ventures into an *organized* community of vested interests, and ultimately into an instrument of institutional control that shaped the central bank at the time of its making and through its future course up to this date. Below is a brief history of this transformative process.

5.2 Growth of the Banking Sector: From Commerce to Community to Institutional Control

The product of a marriage of wealth and power, the Edde brothers were ideally situated to defend the privileges and protect the gains of Beirut’s bourgeoisie and their banking business. Their mother Ludy Sursuk belonged to one of the city’s wealthiest merchant and landowning families. Under French occupation, their father Emile Edde, a scion of Ottoman-era scribes and dragomans, became the colonial authority’s favourite presidential candidate and won the largely ceremonial post in 1936. But his continued subservience to the French when the tide turned against them during the crisis of political independence in 1943 cost the shrewd lawyer his political career. His sons had little chance of gaining prominence under their father’s arch-rival Bishara Khoury whose presidency lasted until 1952. The due came of political age during Chamoun’s term. They won parliamentary seats for the first time in 1951 (Pierre) and 1953 (Raymond) and became prominent and ardent defenders of the ‘Merchant Republic’ and its economic engine, the banking sector.²⁹

²⁹ On the family history of the Eddes and some of its prominent members including Raymond and Pierre, see Yusuf Saqr Saqr, *‘Ā’ilāt Hakamat Lubnān*, al-Ṭab‘ah 1 (Bayrūt: al-Markaz al-‘Arabī lil-Ma‘lūmāt, 2008), 200–212.

The elder Raymond, who succeeded his father as party leader of the National Bloc, was the architect of the Banking Secrecy Law of 1956. The law was largely credited with securing large flows of capital from Arab oil economies and contributed to the rapid growth of the banks. It also renegotiated the power relation between the state and the banking sector in favour of the latter. While R. Edde pushed for empowering banking institutions at the two levels of public opinion and legislative authority, his brother and fellow parliamentarian P. Edde assumed a more institutional role within the executive branch of government and the private sector. As a three-time finance minister under Chamoun, the younger Edde oversaw monetary policy which involved constant interaction with the BSL and international financial institutions such as the IMF and the World Bank.³⁰

Ironically, Pierre's impact on the banking sector and the making of the central bank remained marginal while he was in government but soared after the presidential crisis of 1958 that brought Fuad Chehab to power led to his exit from public office. The outbreak of the 1958 crisis, at which time the younger Edde was serving as finance minister under Chamoun, exposed the inability of the banking sector to handle unanticipated shocks and the lack of governmental tools to force cooperation and a proper response by these banks. Towards the end of the crisis, economic conditions and political structures were about to witness a major transformation under the direction of the new president Fuad Chehab. The banking sector was one among many sectors targeted for reform. P. Edde sensed the change of wind. The political fortunes of his brother and himself, as symbols of the 'Merchant Republic' associated with Chamoun, took a turn for the worse. In the early 1960s, R. Edde's short-lived rapprochement with Chehabism soon deteriorated into bitter enmity. Meanwhile, P. Edde lost his dual links to the state after losing his parliamentary seat to Pierre Gemayel in the elections of 1960 and ceasing to serve as a government minister. As the doors to the state corridors of power closed in the face of the younger Edde, his appointment as director of the Bank of Beirut and Riyadh shortly before the 1958 crisis opened new influential avenues in the private realm. Through his newly-acquired prestigious position in the banking sector, he spearheaded the collective effort by that sector to

³⁰ IBRD special Envoy Harold Johnson met with Pierre Edde during his negotiations with the Lebanese government over setting up a development bank in 1953. He found Edde to be "intelligent and earnest but not much at home in finance"; see Mr. Johnson's Activities in Lebanon, Enclosure no. 3 in Dispatch 250, from Embassy to Department of State, November 12, 1953; File 883a.14/11-1253; 1950-54 Central Decimal File; RG 59; NAB.

self-organize into an association and to lobby against banking regulation and the creation of a powerful central bank.

Examining the Edde brothers' two pet projects, the Banking Secrecy Law and The Association of Banks in Lebanon (ABL), through the lens of state-sector power relations reveals the *institutional* dimension of the growth of the banking sector and the extent to which this institutional aspect shaped and was shaped by the making of the central bank. For one, the Banking Secrecy Law was a lot more than a tool to attract foreign capital. It further eroded the authority of the state over the banks and pre-empted the former's ability to regulate the sector through the central bank. Meanwhile, the ABL furnished the new barons of banking with a structural and sustainable framework to initially measure up to the BSL and eventually advocate for the entire sector's vested interests to the extent of direct interference in the shaping of state policy and institution-building, not least of which was the creation of the BDL.

5.2.1 Banking Secrecy: Engine of Growth or Shield against State Regulation?

Up until the 1950s, a handful of BSL-led foreign banks and their local agents largely dominated the trade. As mentioned earlier, the partnership of the BSL with locally-based banks in a major state-sponsored institution like BCAIF signaled the growing influence of these start-up banks as a result of the rapid expansion of the banking sector. In the decade that followed the setting up of BCAIF, the expansion of the banking sector turned into an “explosive” growth that even outpaced the fast growing economy it was part of.³¹ The growth of the banking sector was expressed both in terms of total capital flow and number of banking institutions. Between 1950 and 1961, bank deposits increased more than five-fold. The jump in the number of banks was equally phenomenal rising from nine in 1945 to 85 in 1962.³²

³¹ Between 1950 and 1962, Lebanon's national income almost doubled, increasing by an annual average of 4.5%. The financial sector reaped the lion's share of this growth at a staggering rate of 200%. Banking, including foreign exchange operations, constituted close to 95% of that sector. See Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 161. For reference to “explosive” nature of growth, see *Ibid.*, 166.

³² For detailed statistics on the growth of the sector over time and the variation in growth based on the classification of banks as either Lebanese or foreign, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 166–167.

Different forces, both external and internal, contributed to this fast-paced growth environment. Externally, three major forces were at play. The first was the 1948 establishment of a Zionist state in Palestine. With the diversion of trade between Arab countries and the West from Haifa's port to Beirut's, the latter boosted its status as an entrepot between Europe and the rest of the Arab world. The Palestinian bourgeoisie expelled by Zionist forces into Lebanon brought along sizeable capital and entrepreneurial skills that directly contributed to the growth of the banking sector.³³ The second factor was the emergence of an oil economy in the Gulf region which generated an influx of hot capital into the international market including nearby Beirut. The third force whose significance came to fruition in the early 1960s was the gradual shift into planned economies in the neighboring countries such as Egypt and Syria. Nationalization schemes in these countries further channeled free-enterprise capital into Lebanon's liberal economy.³⁴ Locally, Lebanon's *laissez-faire* policy of free trade, deregulation of currency exchange, unrestricted capital flow, and total absence of any banking regulation were hailed as the engine of this growth. In practice, banking "regulation" in the form of the Banking Secrecy Law of 1956 was an equally important driving force.³⁵

Without the banking secrecy legislation, it is doubtful that the banking sector would have sustained such a high rate of growth well into the late 1950s and early 1960s. By then, most of the external forces sustaining the banking boom, as Albert Badre pointed out, were beginning to wane.³⁶ This was especially the case regarding start-up banks with little else than the advantage

³³ For more on the impact of the creation of the Zionist state on the transfer of capital and services from Palestine into Lebanon, including the contribution to the banking sector (including Intra Bank, Arab Bank) see Hussein Abu el-Naml, "Al-Isham Al-Filastini Fi Izdihar Al-Iqtisad Al-Lubnani," in *Awrāq Filasṭīnīyah Wa-'Arabīyah: Takrīman Li-Rif'at Ṣidqī Al-Namir Fī Al-Dhikrā Al-Ūlá Li-Raḥīlih* (Beirut: al-Dār al-'Arabīyah lil-'Ulūm, Nāshirūn, 2008), 139–48. and Saqr Abu Fakhr, "Al-Filastiniyyun Fi Lubnan: Dawr Thaqafī Mumayyaz Wa Isham Mash-Hud Fi Al-'Umran," in *Awrāq Filasṭīnīyah Wa-'Arabīyah: Takrīman Li-Rif'at Ṣidqī Al-Namir Fī Al-Dhikrā Al-Ūlá Li-Raḥīlih* (Beirut: al-Dār al-'Arabīyah lil-'Ulūm, Nāshirūn, 2008), 149–56.

³⁴ On the impact of these three factors combined, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 157. On the role of petrodollars in flooding Lebanese capital market, see Badre, "Nahwa Afaaq Iqtisadiyyah Jadidah," 373. On the expansion of Beirut's regional role as financial entrepot, see Gates, *The Merchant Republic of Lebanon*, 115.

³⁵ On the role of *laissez-faire* policy and exchange deregulation policies in sustaining this growth in the early stages of the Merchant Republic, see Badre, "Nahwa Afaaq Iqtisadiyyah Jadidah," 373. On the pivotal role of the Banking Secrecy law in the process, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 165.

³⁶ See Badre, "Nahwa Afaaq Iqtisadiyyah Jadidah," 373.

of promising secrecy to attract capital. Raymond Edde, the law's architect, told the press a year prior to its passing that his "greatest ambition was to turn Lebanon into the bank of the Arab world" so it may become Switzerland of the East the same way Switzerland acted as a money warehouse of Europe. The aim behind the legislation, he added, was to "render Lebanon a refuge for foreign capital and Lebanese expatriate moneys."³⁷ The joint report on the draft law prepared by two of Lebanon's Parliamentarian committees reiterated Edde's claims while adding the purported objective of providing finance for "the possibility of anticipated grand projects".³⁸ On July 26, 1956, the proposal received a near-unanimous Yes vote in parliament. President Chamoun signed it into law on September 3 of the same year. Two months later, it went into effect.³⁹

Praise for the Banking Secrecy Law and analysis of its impact on the Lebanese economy was largely framed within the *laissez-faire* paradigm. R. Edde couched his rationale in typical Chihist tropes about Lebanon's geographic position and stability vis à vis its environs during the 1950s. Invoking secrecy laws in Switzerland completed the metaphor. But the elder Edde equally admitted, albeit in passing, that the Banking Secrecy Law was also intended to "prevent the flight of Lebanese capital to avoid inheritance tax".⁴⁰ Of more consequence was the incentive the law provided for tax-evading foreign capital to come to Lebanon. Despite its omission by Edde, income tax evasion was at the heart of the law's success in attracting foreign capital. Moreover, the shielding of bank accounts from tax inspection was an indication, of more relevance to this study, that the 1956 Secrecy Law was more than a catalyst of attracting foreign capital. It restructured the relation of authority between the state, the banks and their clients. Lebanon's 1944 income tax law had explicitly decreed that professional secrecy may not be invoked by any institution or administration to prevent the inspection of commercial accounts and documents by tax collecting agents of the ministry of finance. The 1956 Secrecy Law revoked this power.

³⁷ Edde made these remarks to *Le Commerce du Levant* on August 6, 1955, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 163.

³⁸ The joint report submitted to Parliament's General Assembly was prepared by the Budget and Finance Committee and Administrative and Judicial Committee, See *Ibid.*

³⁹ See *Ibid.*

⁴⁰ See *Ibid.*

Under the 1944 income tax law, bank officials of all ranks were subject to penalties if they *refused* to divulge information about clients despite the latter's protestation. Under the 1956 Banking Secrecy Law, they became subject to fines and even imprisonment if they *divulged* any such information unless they obtained consent of the client or their heir or in instances of bankruptcy, unlawful enrichment, or legal action between the client and the bank. The duty not to divulge applied to requests by "any person, be they an individual or a public authority, whether administrative, military or judicial". The state was also barred from freezing assets or deposits without written consent of the owner.⁴¹

As a result of the new Secrecy Law, bank depositors became largely immune from any form of public prosecution, taxation or even inspection. Their monetary transactions were simply above the law, but mostly in relation to the state, *not* the banks. While denying all forms of public authority in the name of professional secrecy, banks were allowed to exchange information about their clients amongst themselves to conduct cross credit checks. Power relations were thus negotiated in favour of the banking institutions. Banking institutions came first, clients second, and the state was relegated to a bottom third. As I discuss in *Section 5.3.1* below, this would prove a serious obstacle to founding a central bank endowed with effective regulatory powers over banks. Moreover, banks became entitled to open numerical accounts for clients with the names of owners strictly known by the banks' *top* managers. In other words, the 1956 Secrecy Law concentrated this power in the upper echelons of the hierarchy of banking management. Bank directors held the key to who's who in the world of business to the exclusion of lower-ranking bank employees and the entire apparatus of the state.⁴²

The fact that the "golden period" of the expansion of the local banking industry was the second half of the 1950s is further evidence of the Banking Secrecy Law's likely contribution to this growth. Indeed, between 1955 and 1961, the number of total banks in Lebanon jumped from 31 to 73. The majority of this expansion ostensibly took place among locally-based rather than

⁴¹ For full text of the law, see Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999, 1:4–5. On the income tax law of 1944 and the changes introduced by the Banking Secrecy Law of 1956, see Maurice Nasr, "al-Sirriyyah al-Masriyyah," *al-Masarif*, September 1964, 56-65.

⁴² On numerical accounts, and sole rite of bank manager and his deputy to know names, see Article 3 of Banking Secrecy Law, Muwaffaq Yafi and Abdel Fattah Yafi, eds., *Majmu'at Al-Naqd Wa Al-Taslif*, vol. 2 (Beirut: Yaffi Ikhwan wa Shurakahum, 1999), 4.

foreign banks. From 1955 up until 1962, the number of foreign banks remained virtually constant at around 17, while the number of Lebanese banks increased four-fold, reaching an estimated 68 institutions.⁴³ Historical accounts by prominent local bankers have depicted this period as one of the rise of national banking after a period of dominance by foreign banks that stretched from the mid-19th century through the mandate period and up to the post-WWII one.⁴⁴ Such a depiction is useful in detecting growth trends. But the classification of banks along foreign and national lines, however, fails to accurately reflect the type of transnational partnerships, regional business networks, and political patronage that formed these new banks. This depiction also obscures the political nature of intra-banking alliances that enabled the formation of a powerful banking association capable of opposing state regulation and of delineating the acceptable framework for the operation of the future central bank.

A close examination of one such nationally-based classification by US officials reveals the complex web of partnerships behind many so-called Lebanese banks. In 1958, US officials identified “ten principal Lebanese banks” whose head office was in Beirut. But at least half of those - including ones self-identifying as Lebanese such as Intra Bank and Banque Sabbagh - were partnerships with foreign, Arab and at times European, capital.⁴⁵ An earlier attempt in 1954 by US officials in Beirut to tally top banks classified the institutions in question as either foreign, or mixed, or Lebanese. But even in this more nuanced tally, some of the banks identified with exclusive native capital, such as the prominent Banque du Liban et d’Outremer (BLOM), were hardly so.⁴⁶ BLOM typified the transnational nexus of economic, and political, capital behind many new Beirut-based banking formations. The bank was the fruit of a partnership that

⁴³ On the “golden period” of growth and nationality-based statistics cited, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 166–167.

⁴⁴ This is the classification adopted by prominent Syro-Lebanese banker Nu‘man al-AzhariAchi [see Nu‘man al-Azhari, *Nu‘man al-Azhari: Nisf Qarn min al-‘Amal al-Masrifi Hadhihi Tajrubati* (Beirut: an-Nahar, 2008), 100.] and by top bankers and business chroniclers Ashi and Ayache in Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*.

⁴⁵ See Dispatch 160, Beirut to Department of State, September 8, 1958; File 883.14/9-858; 1955-59 Central Decimal File; RG 59; NAB.

⁴⁶ See Dispatch 465, Beirut to Department of State, February 9, 1954; File 883a.14/2-954; 1950-54 Central Decimal File; RG 59; NAB.

extended from Beirut to Jeddah to France and all the way to Brazil.⁴⁷ Its founders and directors included several times Prime Minister Hussein ‘Uwayni and future Central Bank governor Philip Takla. These men wore several hats as leading businessmen and powerful politicians whose accumulation of wealth rarely originated from, or was limited to, the confines of the Lebanese market.⁴⁸ BLOM’s chair and its public face, ‘Uwayni, was himself as much an embodiment of Saudi capital *and* political interests as he was of Lebanon’s.⁴⁹ Well-established French capital was also partner to the venture.⁵⁰

Multi-national and politically backed partnerships with political leverage like BLOM were a salient feature of the banking boom. Arab capital, namely Saudi and Kuwaiti, was not restricted to the flow of money into the coffers of Lebanese banks. It actively participated in the expansion of the sector and the co-founding of new banks, drawing on Lebanese expertise and political patronage to secure a dominant position in the market. This was the case of BLOM bank.

⁴⁷ The idea behind the bank was first broached to Lebanese President Bishara Khoury by three of the bank’s founders: Khoury’s then minister of finance Hussein Uwayni, leading Lebanese industrialist and head of Lebanon’s Economic Councils, Boutros Khoury, and Brazilian businessman George Maalouf. The trio envisioned a financial institution that would develop business links between Lebanon and its expat community in Brazil. The president gave his blessing. Maalouf, who was also the father in law of many times foreign minister and the central bank’s first governor Philip Takla, managed to get Lebanese-Brazilian cotton-weaving industry giant Nagib Jafet, on board. On the origins of BLOM, see al-Azhari, *Nu‘man al-Azhari: Nisf Qarn min al-‘Amal al-Masrifi*, 78–79. AUB’s Jafet library is named after Nagib’s father Nami. The family’s Arabic original name was Yafith. On history of Jafet family and their success in building a cotton-weaving industrial empire see <http://www.aub.edu.lb/ulibraries/about/Pages/namijafet.aspx> accessed on August 24, 2014.

⁴⁸ BLOM enjoyed one of the most well-connected and publicly recognized faces of commerce and politics. According to longtime BLOM manager Nu‘man al-Azhari, meetings of the bank’s Board of Directors were jolly occasions. Uwayni, Khoury, and Takla would often talk politics, crack jokes, and then sign pre-prepared minutes without reading them. On turning the bank’s fortunes around and Board of Directors rituals, see *Ibid.*, 80–83.

⁴⁹ As chairman and deputy chairman of BLOM’s board of directors, Uwayni and Boutros Khoury became respectively the Lebanese face of the bank, but other shareholders included Uwayni’s longtime Saudi business partner Ibrahim Shakir and former Saudi minister of finance Surur al-Sabban. For a list of Uwayni’s businesses and partnerships, see Roger Gehchan, *Hussein Uwayni: Khamsuna ‘Aman Min Tarikh Lubnan Wa Al-Sharq Al-Awsat (1920-1970)*, trans. Georges Abi Saleh (Beirut: FMA, 2000), 561–562. Uwayni’s first encounter with Ibn Saud took place when the former was sent as an emissary by literati Amin Rihani to mediate between Abd al-‘Aziz Ibn Saud and his Hijazi rival Ali Ibn Hussein. On Uwayni’s mission to Ibn Saud, see *Ibid.*, 25–34. On Uwayni’s role as an agent of Saudi capital and a political representative, see *Ibid.*, 73–91. On the overall early penetration of Saudi influence into Lebanon, see Fawwaz Traboulsi, “Saudi Expansion: The Lebanese Connection, 1924-1952,” in *Kingdom without Borders: Saudi Political, Religious and Media Frontiers*, ed. Madawi Al-Rasheed (New York, NY: Columbia University Press, 2008).

⁵⁰ The Credit de Foncier de Algerie et Tunisie (CFAT) held 10% of share capital, see al-Azhari, *Nu‘man al-Azhari: Nisf Qarn min al-‘Amal al-Masrifi*, 40.

Another more salient Saudi-led venture was Bank Beirut Riyadh. Incorporated in March 1958 with an authorized capital larger than that of any other Lebanese bank at the time (LL25M), its capital was reportedly split into 55% Lebanese capital and 45% Saudi. As mentioned earlier, the management of the bank was entrusted to Raymond Edde's brother and then minister of finance Pierre.⁵¹ The appointment had come on the cusp of the outbreak of the 1958 civil war and the rise of Chehabism. It served as the ideal lifeline for the younger Edde to build on what his brother has achieved. With the collaboration of other barons of banking, P. Edde co-founded The Association of Banks in Lebanon (ABL), the country's longest-lasting and most influential, yet least studied, lobby groups.

5.2.2 The Association of Banks in Lebanon: Self-Organization and Institutionally Driven Growth

The rise of banker power in the second half of the 1950s and the first half of the 1960s was not an isolated phenomenon in the changing landscape of Lebanon's political economy. The hold of the professional class as a whole over the reins of power became more visible over time as the percentage of businessmen and professionals in parliament rose compared to a dwindling number of landowners hailing from the periphery.⁵² The bankers, however, managed to constitute a distinct and institutionally organized community. For decades to follow, their new-found financial fraternity would leave its mark on the making of the central bank and its policy, as well as on the overall economic orientation of Lebanon.

The successful establishment of the ABL in Lebanon in 1959 stood in sharp contrast to previous failed attempts by local bankers to self-organize. Calls for a banking organization date back to the French mandate period. During the years of the Great Depression, dozens of Lebanese commercial enterprises declared bankruptcy and several local banks collapsed. The lack of credit regulation and presence of lax bankruptcy laws were largely blamed for the snowballing crisis.

⁵¹ The bank's founders included Saudi royal Mohamed Ben Saud al-Saud and influential Lebanese politician Nagib Salha who served on the board of several top banks including al-Ahli and Intra Bank, see Dispatch 518, Beirut to Department of State, March 3, 1959; File 883a.14/3-359; 1955-59 Central Decimal File; RG 59; NAB.

⁵² Between 1943 and 1964, the number of landed parliamentarians dropped from 46 to 23 while the number of businessmen and white-collar professionals rose from 10 each to 17 and 32 respectively. See chart titled "Distribution of Members of Representative Assembly Since Independence" in Iliyya Harik, *Man Yahkum Lubnan* (Beirut: an-Nahar, 1972), 31.

Local bankers convened to discuss possible remedies and formed delegations to meet with government officials. According to contemporary press reports, a group of bankers who met on December 31, 1931 agreed to submit an official request for a permit to form a Banks Association whose organizing structure would be modeled after the Association of Exchange Agents in Paris.⁵³ A few years later, AUB economist Sa' id Himadeh explicitly recommended the creation of a native bankers association as one of several means of developing native banking along modern lines.⁵⁴ Neither projects saw the light. Local bankers continued to exert a powerful influence on policy well into the post-mandate period. Yet, even as they rose in number and wealth during the 1950s, their ability to act collectively remained of an informal type. As late as 1956, when the Banking Secrecy Law was proposed, bankers met with Deputy Prime Minister Fuad Ghosn in the presence of Raymond Edde and managed to convince the Lebanese cabinet of introducing certain amendments to the law.⁵⁵ Their interaction with the state was an ad-hoc initiative. It was not until after the 1958 nation-wide crisis that a much more sustainable initiative to self-organize as a lobby got off the ground.

The 1958 summer crisis, whose political dimension I discuss in the following chapter, was a watershed in the *institutional* development of the banking sector and the restructuring of its relationship with the state. Unlike the mild impact of the Korean War crisis of 1953 and the 1956 Suez aggression, the 1958 crisis over presidential succession that turned into civil strife had a longer lasting effect on the Lebanese economy due to its the armed and prolonged nature. Two months into the armed rebellion that erupted in early May of that year, then Finance minister Pierre Edde publicly warned against speculative activity on the exchange market. Edde pinned his hopes for leading recovery and restoring stability on the banking institutions, which until then

⁵³ Between January 1931 and March 1932, over 50 commercial bankruptcies were declared. In April of 1930, a delegation of bankers, including Michel Trad and Habib al-Dibs, met with then Lebanese President Charles Debbas and urged him to ensure that courts carefully vet the books of companies before confirming a bankruptcy; see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 122–123. The banking sector, however, was equally vulnerable and suffered from a total lack of regulation and good bookkeeping practices. Between 1931 and 1935, five banks folded. For a list of and details on the affected banks, see Himadah, *Monetary and Banking System of Syria*, 136,179,188.

⁵⁴ Himadeh's recommendations to modernize native banking in addition to a bankers association were: the promulgation of a commercial banking law that would regulate both native and foreign banks, the control of banks via a central bank, the merging of native banks into joint-stock banks, and the hiring of employees with "proper banking education", see Himadah, *Monetary and Banking System of Syria*, 291.

⁵⁵ See footnote 62 in Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 351.

had “demonstrated exceptional understanding”.⁵⁶ The landing of thousands of US troops four days after Edde’s statement put further pressure on the exchange market and the BSL offered little in terms of seeking a stabilization rate.⁵⁷ The subsequent election of Fuad Chehab on July 31 brought calm to the money market. But ending the hostilities did not immediately resolve financial disputes arising out of debt non-payments. In October, newly appointed Prime Minister and Minister of Finance, Rashid Karame, who was a prominent Tripoli notable and adherent to Arab nationalism and supporter of Nasser, summoned banking officials and instructed them to continue cooperating with non-paying clients lest markets collapse.⁵⁸

Under Chehabism, debt settlement turned out to be a secondary problem for banks compared to the spectre of state-led regulation of the banking profession. Pierre Edde was perfectly poised to sense and confront this trend towards regulation. As discussed earlier, the 1958 crisis marked a watershed in his public career. His multiple stints as finance minister came to an end and he failed to win back his parliamentary seat during the 1960 elections. Before losing total access to the state, and given his brother’s opposition to the Chehab regime, P. Edde turned to the private sector. His timely appointment as head manager of Bank Beirut Riyadh shortly before the outbreak of the 1958 crisis allowed him to continue playing an intermediary and leading role between the banks and the state, but this time as a representative of the former. Following long but fruitful consultations with a handful of equally concerned fellow senior bankers, P. Edde presided over the establishment and expansion of the Association of Banks in Lebanon (ABL),

⁵⁶ Edde’s remarks appeared in the local French daily *L’Orient* on July 11, 1958. US ambassador in Beirut Robert McClintock told his superiors in Washington that Edde’s declaration was prompted by disorganized state of exchange market and that Edde might have been over optimistic in his assessment of the crisis. See Dispatch 35, Beirut to Department of State, July 11, 1958; File 883a.131/7-1158; 1955-59 Central Decimal File; RG 59; NAB.

⁵⁷ The size of the Lebanese market was too small to meet demands by US troops for local currency to finance their expenditures. The BSL and Lebanese ministry of finance offered to meet these needs from the BSL stabilization fund but at pre-crisis rates with no guarantees of set market rates. See Telegram 964, Beirut to Department of State, August 6, 1958, File 883a.131/8-658; 1955-59 Central Decimal File; RG 59; NAB. Embassy later argued that fears of US troop presence disrupting market were unfounded as military expenditures turned out to be smaller than had been anticipated. See Dispatch 283, Beirut to Department of State, November 6, 1958; File 883a.131/11-658; 1955-59 Central Decimal File; RG 59; NAB.

⁵⁸ Banks complained that creditors had no protection against the sales, unmortgaged property, and concealment of assets by over extended debtors unless they seek statutory procedures. The banks demanded new protective legislation. A five-member committee was formed to make recommendations in this regard. Karame conferred with bankers on Oct 20, 1958 and arranged for a follow up three days later; see Beirut to Secretary of State, October 20, 1958; File 883.14/102058; 1955-59 Central Decimal File; RG 59; NAB.

the first of its kind in the Arab world. Licensed via a ministerial decree on November 6, 1959, the ABL's founding assembly met 12 days later and appointed its first board of directors, with Edde as president and Anis Bibi of the National Union Bank as his deputy.⁵⁹

The composition of ABL membership was not exclusively native as Himadeh had aspired. As its name indicated, it was an association of bank *in* Lebanon, not of Lebanese banks. Foreign banks with branches in Lebanon were allowed to join and their members were eligible for serving on the association's executive board.⁶⁰ This reflected the transnational character of the emerging sector as discussed earlier in relation to BLOM bank. It also highlighted the schism that had grown between French finance on one hand and American-Arab capital one on the other. This rivalry might have been one of the motivations of the creation of the ABL in the first place. The branches of the three major US banks in Lebanon joined as founding members and one of their managers, Chase Manhattan's Julius Thomson, served on the association's first executive board. In contrast, Lebanon's three large French banks, including the BSL, did not register as chartered members and opted for observer status instead.⁶¹ The country's largest local bank, Intra, was also absent from the roster of founders. Its lack of participation reflected the rivalry between its founder Yusif Beidas and the camp led by P. Edde.⁶² Despite early misgivings by Beidas and the French group, the ABL eventually imposed itself as an indispensable umbrella institution for any

⁵⁹ These senior bankers formed the constitutive assembly of the association. They included Anis Bibi (National Union Bank, General Manager and Chairman of Board of directors), Julius Thomson (Chase Manhattan Bank, General Manager of Beirut branch) and Jean Abou Jaoude (Banque Libanaise pour le Commerce – General manager and member of Board of Directors). For a list of founders and a brief history of the ABL's establishment, see The Association of Banks in Lebanon, *Annual Report 1960* (Beirut: The Association of Banks in Lebanon, 1960), 1. And The Association of Banks in Lebanon, *The Golden Jubilee Book 1959-2009*, 10, 22, 23. On the claim that the ABL was the first such association in the Arab world, see *Ibid.*, 7. The ABL was legally sanctioned by ministerial decree 1642 and its founding general assembly met on November 18, 1959. See The Association of Banks in Lebanon, *Annual Report 1960*, 3.

⁶⁰ Four out of the seven members on the ABL's executive board had to be of Lebanese nationality. On rules of membership concerning foreign banks, see Articles 4 and 6 of the ABL's founding statutes, The Association of Banks in Lebanon, *Annual Report 1960*, 12, 13.

⁶¹ The three US member banks were: Bank of America, City Bank of New York, and Chase Manhattan Bank. For full list of founding bank members, see *Ibid.*, 2. The three non-participating French Banks were: Banque de Syrie et du Liban (BSL), Banque Nationale pour le Commerce et l'Industrie, and Banque de Credit Foncier d'Algerie et de Tunisie (BCFAT); see Dispatch 523, from Beirut to Department of State, January 27, 1961; File 883a.14/1-2761; 1960-63 Central Decimal File; RG 59; NAB.

⁶² As discussed below (Section 4.3), this rivalry included competition over the control of the central bank.

bank operating in Lebanon. In less than five years, its membership more than doubled, turning the association into the sole representative of the entire Lebanese banking sector. The total number of operating banks in Lebanon had itself ballooned by 1964 to include over 80 banks. A caption in the sector's magazine of record *al-Masarif* exclaimed that banks were being founded as frequently as restaurants and cabarets.⁶³

The burgeoning of banking business in the late 50s and early 60s was felt beyond the confines of the workplace. Its impact touched various aspects of Beirut's urban space and social culture. As banks opened up branches in its quarters, the up-and-coming Hamra Street grew into a financial hub that competed with the downtown's Street of Banks.⁶⁴ Several factors further contributed to the consolidation of an imagined modern banking community. These included the creation and prospering of social institutions solely dedicated to banking in the spheres of the press, education, entertainment, and union activism, as well as the celebration of the profession's "soft" feminine face.⁶⁵ The Association of Banks in Lebanon played a formative role in the emergence and structuring of this community. Led by its dynamic and well-connected president, the ABL constructed *institutional* links among its member banks through the regular congregation of management and the planned and standardized socializing of its labour force. Four consultative

⁶³ ABL membership grew from 24 banks in 1960 (see The Association of Banks in Lebanon, *Annual Report 1960*, 2.) to 58 in 1964 (see The Association of Banks in Lebanon, *Annual Report 1964* (Beirut: The Association of Banks in Lebanon, March 11, 1965), 5). The number of total banks in 1964 reached 82 with 128 branches, see Banque du Liban, *Annual Report for 1964* (Beirut: Banque du Liban, June 25, 1965), 9. On *al-Masarif's* caption, see Tahqiq, "Dhahirat Izdiyad 'Adad al-Masarif fi Lubnan," *al-Masarif*, February 1964, 4-13, 6.

⁶⁴ See "al-Hamra' al-Shari' al-lathi Asbaha Mintaqat al-Bunuk fi Bayrut," *al-Masarif*, November 1963, 50-51.

⁶⁵ The monthly, and later bi-weekly, periodical *al-Masarif*, issued its first edition in July 1963. It quickly turned into the banking sector's magazine of record, reporting on the professional, legal, financial, and social aspects of Lebanese banking life and the people behind it. For each issue, a prominent banker was chosen as character of the month and their brief bios adorned with their caricature portraits sketched by Pierre Sadiq. News of "People of the Banks" including hotel banquets, travel plans, and other entertainment activities were also highlighted. For photos and reports on beach trips, bowling outings, and dinner banquets see the "Ahl al-Masarif" corner in *al-Masarif*, August 1963, 74-75. Women roles were also addressed. In its April 1964 edition, the magazine shed light on "the soft side of banking" by running a feature on the everyday life of six young women bankers (see Hasan al-Jindi, "6 Fatayat Muwadhhdhafat al-Bunuk," *al-Masarif*, April 1964, 50-51). Like entertainment, education was a field in which a niche for bankers grew. The first training school dedicated to banking studies was established in 1963 by Sami Seikaly's Mu'assasat Lubnan, see *al-Masarif* Public Relations Committee, "Awwal Ma'had Masrifi fi Lubnan," *al-Masarif*, August 1963, 68-69.

committees were struck to oversee this process of professional and social bonding.⁶⁶ The ABL also wove financial networks and formal as well as informal affiliations between its constituents and important financial actors abroad. Bridges were built with European banking associations, Arab Chambers of Commerce, the World Chamber of Commerce in Paris, as well as potential investor partners in developing African markets.⁶⁷

The ABL's official narrative that emerged half a century after the association's creation cited the growth of the banking sector and the need to "organize, immunize, and develop the banking profession" as the main motives behind the association's founding.⁶⁸ But based on the association's first two annual reports, the aim was less about self-organization as a prerequisite of development and more about collective advocacy against perceived external threats (state regulation) and internal ones (union activism). As the second article of the association's founding statutes clearly indicated, the ABL's goal was to "create cooperation among its members in matters pertaining to professional affairs and furnish mechanisms for [achieving] common interests and collectively defend these interests in the form of collective representation of its members at public or other administrations".⁶⁹ The ABL was highly successful in these aims,

⁶⁶ The four consultative committees were: professional, social, technical, and research and commercial practice, see The Association of Banks in Lebanon, *Annual Report 1962* (Beirut: The Association of Banks in Lebanon, March 29, 1963), 5. By 2009, these consultative committees had grown into 11, see The Association of Banks in Lebanon, *The Golden Jubilee Book 1959-2009*, 13.

⁶⁷ Regionally, ABL delegates participated in the proceedings of the Arab Chambers of Commerce held in Beirut from 21 to 26 November 1960, and that of Lebanese expatriates held in September of the same year, see The Association of Banks in Lebanon, *Annual Report 1960*, 5. Internationally, the ABL established contacts with The Swiss and Belgian banking associations as well as the Banking Department at World Chamber of Commerce in Paris. ABL president Pierre Edde paid visits to the heads of the latter two organizations in November 1960, see *Ibid.*, 7–8. On plans to set up a joint Lebano-Senegalese bank and following Pierre Edde's tour of some African countries, see Badri Yunis, "Ifriqya Tariq Jadid Tashuqquhu al-Masarif al-Lubnaniyah." *al-Masarif*, November 1963, 28-31.

⁶⁸ For the official narrative see The Association of Banks in Lebanon, *The Golden Jubilee Book 1959-2009*, 22. The notion that organizing had become a necessary step in light of the stage of growth of the Lebanese economy seemed like an afterthought of ABL officials prompted by the public mood. It was mentioned in passing in the first report in terms of the need to "positively interact" with a long-felt need for public and private organization of the sector. Furthermore, such an acknowledgement was not part of the Articles of Association; see The Association of Banks in Lebanon, *Annual Report 1960*, 3. In the second annual report, organization was recognized as a "necessary matter in the current stage of development of the Lebanese economy" while declaring asserting its abidance to "the path of a free liberal economy and the system of banking secrecy", see The Association of Banks in Lebanon, *Annual Report 1961* (Beirut: The Association of Banks in Lebanon, 1961), 8.

⁶⁹ See Article 2, ABL founding statutes, The Association of Banks in Lebanon, *Annual Report 1960*, 12.

evolving in record time into one of the country's most powerful lobby groups. Its executive directors and growing number of subcommittees kept abreast of bank-related developments in the country and abroad. In its first year of operation, the ABL issued circulars to member banks on finance related laws, ended a banking employees' union strike, opposed the draft law on social security at home, and petitioned to prevent the nationalization of its member branches abroad in the United Arab Republic.⁷⁰ In the fall of 1964, the association went as far as concluding a gag-type agreement with the Lebanese Press Syndicate to silence criticism of banks.⁷¹ By the ABL's own admission, the rapid growth of its membership in 1961 was thanks to its increased activity and "defense of the rights of the profession and for its effective contribution, alongside authorities, to all matters concerning the economy, currency, and investment".⁷² The most important challenge faced by the ABL in its formative years, however, was the state-led campaign to regulate the banking sector via a central bank. By 1963, almost all Lebanese-based banks had become members, thanks, also by the ABL's own admission, to the association's negotiating stance towards the drafting of the Law of Money and Credit by the newly-constituted Council on Money and Credit (CMC).⁷³ The Law of Money and Credit outlined banking regulations and the statutes of the proposed Central Bank. ABL lobby efforts to influence the drafting process of the law through the CMC resuscitated old rivalries among the different banking factions over control of the Central Bank. It also altered the course of the Central Bank's evolution in fundamental and long-lasting ways by ensuring that any banking

⁷⁰ A four-day strike by banking employees demanding a pay raise was terminated after the ABL and the union of employees issued a joint statement. Five of the country's French-affiliated top banks which were not members of the ABL expressed their support for ABL efforts and adopted the joint statement. The ABL was also consulted by the government over the proposed social security scheme and expressed its disapproval of the draft. Calls to exempt member banks with branches in the United Arab Republic from nationalization were voiced by ABL delegates at the Arabic Chamber of Commerce conference held in Beirut in November 1960. See *Ibid.*, 5–8. Basim al-Jisr, who was a Chehabist technocrat, wrote that the Social Security scheme, as well as the Law of Money and Credit discussed below, faced "strong opposition" by businessmen and bankers, see Basim al-Jisr, *Fu'ad Shihab* (Beirut: Mu'assasat Fu'ad Shihab, 1998), 101. On the distribution of circulars and memos and laws to association members, see *The Association of Banks in Lebanon, Annual Report 1961*, 5.

⁷¹ For details on the ABL agreement with the Press Syndicate, see below Ch.6 section 5.4.1, pp.185-186

⁷² Ten more banks joined the ABL in 1961. See *The Association of Banks in Lebanon, Annual Report 1961*, 3..

⁷³ The ABL clearly linked the expansion of membership at the time to its position on the Law of Money and Credit, see *The Association of Banks in Lebanon, Annual Report 1963* (Beirut: The Association of Banks in Lebanon, January 10, 1964), 5.

regulation did not undermine the “untouchable” foundations of the banking sector’s power, top among them the Banking Secrecy Law.

5.3 Nipping Banking Regulation at the Council of Money and Credit: The “Untouchable” Foundations of Lebanese Banking

The Keesing IMF study of 1955 discussed in *Chapter 4* was one of the first high-caliber official reports to call for the creation of a Credit and Currency Board in Lebanon as a means of regulating credit and the banking profession. Ministerial departments like the Economic Planning and Development Board (EPDB) had seconded such recommendations and drafted bills for the collection of statistics while political parties publicly demanded that a national institution of note issue be created.⁷⁴ President Chamoun managed to keep the tide for change at bay during his tenure that lasted until 1958. But as the date of expiry of the BSL concession in 1964 kept drawing closer, there was less room for maneuver by vested interests opposed to the project. The flurry of administrative reforms initiated by Chamoun’s successor Chehab, which I discuss in detail in the next chapter, dealt a final blow to hopes of evading a serious consideration of the matter. The Council on Money and Credit (CMC) was one of many bureaucratic bodies set up by Chehab in 1959. Acting as a special committee within the ministry of finance, the CMC’s officially-decreed mandate was fairly broad. The council was expected to draw on its own statistically-informed studies in order to advise the ministry on its credit and monetary policy and to draft legislation for organizing the banking profession. Provisions of the constitutive decree of the CMC did not stipulate that the second task, i.e. banking regulation, required the setting up of a central bank. At the time of its creation, cooperation between the CMC and the BSL was an acceptable future framework for such an organization.⁷⁵

The decree setting up the CMC remained a dead letter for two and a half years. Published accounts of the committee’s history and activity are silent or speculative as to why its actual

⁷⁴ EPDB submitted a draft bill to that effect on March 8, 1956, see footnote 24, Abdul-Amir. Badrud-Din, *The Bank of Lebanon : Central Banking in a Financial Centre and Entrepôt* (Dover, N.H.: F. Pinter, 1984), 62.

⁷⁵ The CMC became a legal entity under decree 154 promulgated on 12 June 1959. On the CMC’s official mandate, see *Ibid.*, 42.

formation got delayed.⁷⁶ US diplomatic cables indicate, however, that vested interests fighting over control of the CMC were behind postponing its commencement of duties. Efforts to influence the Council were ultimately aimed at influencing the drafting of the statutory laws of the proposed central bank. According to then prominent Lebanese banker and entrepreneur Sami Shoucair, who was “well-known” to the US Department of State, three major powerful business groups were jockeying to obtain favourable positions vis a vis the central bank given the “tremendous power” to be gained by controlling such an institution.⁷⁷ The first group sought a central bank “free from foreign influence”, with “foreign” largely referring to French influence embodied in the BSL. It was represented by Shoucair, ABL president Pierre Edde, Prime Minister and Minister of Finance Rashid Karame, and AUB second generation economist Paul Klat, who was also a government financial consultant. The second group stood for French interests embodied in the BSL. The bank’s prominent member of the board of directors, Henri Pharaon, and its financial councilor, Joseph Oughourlian, formed this second front by teaming up with Kataeb leader and increasingly powerful politician Pierre Gemayel. The third group reportedly represented British interests and was headed by Yusif Beidas, founder and head of Intra Bank. The “dynamic and ambitious” Beidas had figured that the best way to control the proposed Central Bank was by winning a contract to manage it. He closed ranks with the French group and worked behind the scenes using the Pharaon-linked al-Ahli bank - in which he acquired shares - as a joint front with the French contingent. Beidas also tried to win over Klat by offering him a tempting salary as an advisor to Intra. Klat, who was close to P. Edde, declined.⁷⁸

The two-year delay apparently evolved as follows: The Klat-Karame forces, as the US confidential memo described the first group, had been able to push for the promulgation of the

⁷⁶ In one such account, the authors claim that the CMC had no notable role in the history of Lebanese currency and banking, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 179–181. On the appointment of its members two and half years after its creation, see Badrud-Din, *The Bank of Lebanon*, 42.

⁷⁷ Unless otherwise stated, the account of the conflict between banking factions over control of the CMC is drawn from the US embassy report largely based on Shoucair’s version of events. Shoucair was appealing to the embassy to support his group claiming that the Bank of America was “unwittingly being used by Beidas to extend Intra Bank’s influence and hence Anglo-French interests”; see Dispatch 322, Beirut to Department of State, December 12, 1961; File 883a.14/12-126; 1960-63 Central Decimal File; RG 59; NAB.

⁷⁸ See *Ibid.*

CMC decree in the summer of 1959 when PM Karame held the finance portfolio. But the BSL-backed Gemayel, who won back his seat in parliament in the 1960 after losing it to Pierre Edde in 1951, managed to stall the council's formation once he became finance minister in the two successive cabinets formed by Saeb Salam from August 1960 till the end of October 1961. As finance minister, Gemayel signed a deal in August of 1961 with the BSL's Oughourlian to head a committee that would issue recommendations on founding a central bank. But Karame cancelled the contract once he returned to power in November of the same year. The finance portfolio was also back in Karame's possession, which made him the *ex officio* president of the CMC. The dilly-dallying was finally cut short. CMC members were appointed by decree on 15 December 1961.⁷⁹ The Board's composition was not entirely in favour of the Klat-Karame camp. French-linked interests were apparently taken into account. In addition to Karame (president) and Klat (member), the BSL's Oughourlian was appointed vice president. The remaining members were: Joseph Prince (the government commissioner at the BSL), Mohamad Atallah (representative of the Economic Planning and Development Board), and AUB alumni and financial expert Abdul-Amir Badrud-Din. During the Board's first meeting held at the Ministry of Finance, Karame declared that the purpose of the Council was not only to prepare legislation on banking regulation but to establish a central bank. The clandestine rivalry between the three mentioned groups was transposed into tensions among Council members over the drafting of the Law of Money and Credit which would organize the profession and create the BDL.⁸⁰

5.3.1 Central Banking According to the ABL: Bank of Issue not Bank of Banks

The Law of Money and Credit issued in 1963 was a major turning point in the history of banking regulation in Lebanon. For the first time, banks in Lebanon were treated as a distinct type of corporation subject to their own laws as opposed to the Commercial Code. Under the new law, banking institutions were banned from directly conducting any type of commercial, agricultural, or industrial business. Their ownership had to be along corporate lines and their paid share capital was set at a minimum of LL3M. Failure to abide by provisions of The Law of Money and

⁷⁹ On the Gemayel-Karame tussle, see *Ibid.* On date of decree 8211 establishing CMC and the outlining of its aim as that of establishing a central bank, see Badrud-Din, *The Bank of Lebanon*, 42–43.

⁸⁰ On member composition of CMC, see *Ibid.*

Credit or a private bank's own statute meant risk of being crossed out from the bank list sanctioned by the central bank, whose founding was as well decreed by the same law.⁸¹ The barons of banking objected little to these basic regulations. Their misgivings lay elsewhere. Unlike its predecessor the BSL, the prospective BDL was empowered by the draft Law of Money and Credit to act as a bank of banks, not simply a note issue department. In practice, this was tantamount to regulating the banking sector via three instruments: the collection and publication of banking statistics, the classification of banks, and cash reserve ratio requirements. The Association of Banks (ABL) challenged each.

The first of these instruments, data collection, was the most intractable. In its initial draft, the Law of Money and Credit required private banks to submit to Banque du Liban reports detailing the former institutions' balance sheets or profit-and-loss statements as per a set of CMC-issued instructions. This was a direct threat to banking secrecy granted under the Banking Secrecy Law of 1956 which bankers held and hailed so dearly. Even prior to 1956, attempts by Lebanese state authorities to gather banking data and statistics were met with very limited success. Data collected by the government's General Bureau of Statistics as early as 1942 were, as US officials complained, "very vaguely worded, and [asked] merely for deposit, loan and notes discounted figures".⁸² In 1954, the Bureau introduced a new questionnaire allowing for the distinction between local and foreign capital but later reverted to the old form. Pre-CMC statistics gathering had thus failed to generate a substantive response and reliable statistical series. These attempts posed little threat to private banking interests keen to keep their operations in the dark.⁸³

In contrast, CMC instructions issued in September 1962 were extremely detailed and sought a full standardization of data gathering both in form and content. Private banks were ordered to

⁸¹ Articles 121-191 of the Law of Money and Credit regulate the banking profession. For summary and analysis of main provisions including those cited above, see *Ibid.*, 55–57.

⁸² On the nature of statistics gathered by the General Statistical Bureau via a vaguely worded questionnaire, see Dispatch 1, from Beirut to Department of State, July 1, 1954; File 883.14/7-154; 1950-54 Central Decimal Files; RG 59; NAB.

⁸³ On the attempt to introduce an improved "totally new type of questionnaire" and its reverting to the old version, see Dispatch 694, Beirut to Department of State, May, 3, 1954; File 883.14/5-354; 1950-54 Central Decimal File; RG 59; NAB and Dispatch 107, Beirut to Department of State, August 13, 1954; File 883A.14/8-1354; 1950-54 Central Decimal File; RG 59; NAB.

complete newly designed statistical forms and submit them on a monthly, quarterly and annual basis.⁸⁴ Templates provided to the private banks had to be filled out in typewritten script, placed in envelopes bearing the moniker “Statistics – secret”, and mailed by set deadlines to the CMC or to the Central Bank upon its founding. While monthly submissions had to include the bank’s assets and liabilities, yearly submissions had to provide the institutions’ annual budget and its credit portfolio based on the resident status of debtors and the economic sector involved. Bank secrecy was upheld but access to information expanded to include Central Bank staff. The instructions also granted the Central Bank the right to publish or share aggregate statistics regarding the budgets, profits and losses pertaining to *both* the banking sector as whole and individual banks if necessary.⁸⁵ Such information would have allowed the Central Bank to gain a better understanding of the money supply and credit volume in circulation and to enable external parties to evaluate the performance of the Central Bank and the banking sector.

The CMC went to great lengths to ensure that the Central Bank’s prospective authority over the banks was not going to violate the Secrecy Law of 1956. The control department in charge of gathering statistics was granted independent status and its staff was sworn to secrecy even against other Central Bank employees. These measures failed to gratify regulation critics within the banking community, suggesting that the objection of bankers was more about the privilege of their institution rather than the privacy of their clients. Towards the end of 1962, and upon completion of the draft Law of Money and Credit, the CMC invited the ABL and the Economic Planning and Development Board to comment on it. The board’s feedback was largely cosmetic. The association’s response, however, was more substantial and went beyond the question of data collection. Sensing the urgent need to formulate a collective position on the new proposed law, the ABL’s board met a record 13 times and held four General Assembly meetings and two extraordinary ones.⁸⁶ ABL members objected to the very principle of regulating the banking

⁸⁴ CMC instructions were issued under memo 1/62 on September 15, 1962, see Badrud-Din, *The Bank of Lebanon*, 44. According to al-Masarif, the instructions of memo 1/62 were part of decree 10523 issued on September 10, 1962; see “Awwal Ta‘limat Min al-Masrif al-Markazi,” *al-Masarif*, December 1963, 82-87.

⁸⁵ For a full list of the instructions, see *Ibid.*

⁸⁶ See The Association of Banks in Lebanon, *Annual Report 1963*, 6.

profession by any government entity including a Central Bank. The latter's role, they argued, must be restricted to note issue.

The ABL's distinction between note issue and banking regulation was justified by a *laissez-faire* logic adorned with a nationalistic garb. In its first memorandum addressed to Prime Minister Karame on 12 February 1963, the association held the position that "note issue is a symbol of state sovereignty and the Central Bank is a mere government institution, while banking regulation is concerned with a liberal profession and as such is of concern to private initiative."⁸⁷ The association, contrary to its ostensible acknowledgement for the need to organize the profession, also tried to delay the issuance of banking regulation legislation claiming that priority should be given to replacing the BSL as an institution of issue. It recommended that the draft law be split into two distinct pieces of legislation. The first and more urgent one would deal with currency and the Central Bank while the second handled banking regulation. The ABL's memorandum also stressed the primacy of the Secrecy Law of 1956 as the governing principle of banking in Lebanon and the source of its prosperity and stability against capital flight during political crises.⁸⁸

The government declined to split the law into two pieces but made some amendments. The ABL found these amendments to be "fundamental" albeit inadequate as far as protecting banking secrecy was concerned. In a second letter addressed by ABL president Pierre Edde to Karame on March 12 of the same year, Edde argued that the control mechanism outlined by the draft law was in direct conflict with the Secrecy Law of 1956. In his passionate defense of the Secrecy Law proposed by his brother almost a decade earlier, P. Edde depicted banking secrecy as a duty *imposed* on banks for the benefit of their clients rather than a privilege enjoyed by them. The law was in the interest of the public at large, he claimed, not just the banking profession. It was the "privilege of Lebanon". To illustrate the extent to which banks opposed the slightest tampering with the Secrecy Law, Edde elevated the law to the status of ultimate guarantor of Lebanon's very economic survival. He wrote to Karame:

⁸⁷ As quoted in Badrud-Din, *The Bank of Lebanon*, 43. I was not able to locate full copy of this first memorandum.

⁸⁸ An English translation of Pierre Edde's letter/memorandum is reproduced in full in Antoine Edouard Asseily, *Central Banking in Lebanon* (Beirut, 1967), 19–22.

The [Secrecy] Law was the one that fixed the present economic organization of Lebanon and constitutes one of its main structural parts.

The effects of the Banking Secrecy Law are in fact felt beyond the frontiers of Lebanon and reach all those who trust our laws, their maintenance and stability; and, things being what they are, touching the rights of those who have trusted us is not possible nor can it be thought of. That trust has increased our economic resources and has contributed to our development and prosperity.

Therefore, the Association of Banks in Lebanon considers any attempt, even if indirect or separate, to touch the Banking Secrecy law as an attempt to change the foundation of our economic system, of our future wealth and of the well-being of our people.⁸⁹

Edde recognized that “some sort of control [was] necessary and useful” but stipulated that, whatever form it took, the most important provision must be to ensure that the names of people protected under the secrecy law, namely depositors, were not mentioned at all. The ABL president also urged the government to legislate a role for the ABL in the process of implementing regulation in emulation of “a great number of countries”. He suggested that both parties, the CMC and the ABL, hold a series of meetings before the draft law is submitted to the cabinet for approval.⁹⁰ At the instigation of President Chehab, a series of marathon meetings between CMC and ABL officials were convened in March and April of 1963. After some back and forth, the ABL won the day.⁹¹ Under the final agreed-upon arrangement, private banks were permitted to use numbers rather than names to organize and list client accounts while Central Bank examiners were prevented from accessing banking information except through the banks’ managers and via standardized forms. Central bank inspectors were denied the right to demand the names of balance-holding customers unless the balance in question was a credit one. Central Bank employees were also to be sworn to secrecy regarding information on aggregate data pertaining to the banking institutions themselves, not just their clients. Employees who violated

⁸⁹ See Ibid.

⁹⁰ See Ibid.

⁹¹ At least five such meetings were held between the ABL and the CMC, see The Association of Banks in Lebanon, *Annual Report 1963*, 6. On Chehab wishing both parties to meet, see Airgram 1025, Beirut to Department of State, April 17, 1963; File FN6 LEB; 1963 Subject-Numeric File; RG 59; NAB.

banking secrecy became subject to harsher penalties than the ones stipulated by the Secrecy law of 1956.⁹²

The ABL won another significant victory regarding the second instrument of banking regulation. It managed to eliminate provisions stipulating the obligatory classification of banks based on their credit policy. The draft law sought to categorize banks based on whether they issue short-term, medium or long term loans. Such a classification would have contributed to further specialization of the money market and an ability to identify and encourage medium and long term lending required for economic development. During its negotiations with the Council on Money and Credit, the ABL argued that applying such a classification would be impossible. There were no provisions in the Law of Money and Credit, ABL officials pointed out, that organized money market operations and as a result allowed banks to conduct specified types of transactions upon which they might be classified. In response, the CMC watered down the legislation. The two categories were reduced to “specialized” and “commercial” banks. But ABL officials claimed that such categorization did not fit Lebanon’s needs for growth. They demanded that the Ministry of Finance outline clearer criteria of how such classification was to take place and renewed their wholesale rejection of any form of categorization. Their objection was fully taken into account. The final draft of the Law of Money and Credit made no reference to the classification of banks.⁹³

The third significant instrument of direct regulation of banks by the Central Bank was that of cash reserve ratio requirements. The ABL did not score an absolute victory in this regard. As discussed in *Chapter 4*, altering reserve requirements was seen by AUB institutionalists as a vital instrument of credit control in developing nations in the absence of a mature money market. In its final version, the Law of Money and Credit granted the Central Bank the authority to impose a minimum reserve ratio on private banks not to exceed 25% of their demand deposits and 15%

⁹² Under the 1956 law, violators were subject to a prison sentence of three months up to a year. Under the Law of Money and Credit, the term was increased to six months up to two years. See Badrud-Din, *The Bank of Lebanon*, 56–57.

⁹³ On the different stages of negotiations regarding classification of banks and ABL refusal to entertain any form of classification, see The Association of Banks in Lebanon, *Annual Report 1963*, 10–11.

of their time deposits. Violators were subject to financial penalties.⁹⁴ The ABL found the ceiling to be too high, suggesting that ratios be set at 10% and 5% respectively. The association was not the only opponent of implementing such ratios. In the first public debate over the Law of Money and Credit, then Minister of National Economy Rafiq Naja opposed the measure, arguing that forcing banks to place such deposits will increase interests on loans and consequently the prices of goods. But the fact that these percentiles were mere ceilings and that banks were given a minimum of 30 days to adjust their reserves to the governor-imposed ratio reduced the severity of the objections. Before the BDL went into operation, an ABL insider told *al-Masarif* magazine that the actual imposed ratio was unlikely to exceed 3 or 4 per cent. Once it opened for business, the BDL exceeded the expectations of the ABL rather than their estimates of actual reserve ratios. No reserve requirements were imposed until 1969, when the ratio was set at a low 2.5 per cent.⁹⁵

In sum, the ABL had managed to hollow out the banking regulatory provisions of the Law of Money and Credit. Its success reflected the cumulative clout of the bankers. Bargaining over the two other aspects of central banking, monetary policy and to a lesser extent internal administrative structure, charted a different less resistant path. In a telling sign of the extent to which *laissez-faire* remained a governing principle of the Council on Money and Credit mission and practice, all its members had been quick to reach consensus over two fundamental principles that would guide their work. The first was the preservation of the Lebanese free enterprise system. The Council praised rather than decried the Lebanese economy's heavy reliance on its services sector. It vowed to ensure that banking legislation should protect rather than curtail the freedom of the banking sector as much as possible. The second principle was the granting of substantial managerial autonomy to the central bank in relation to the government.⁹⁶

⁹⁴ Violators were subject to interest rate charges on the deficient amount that was not to exceed 3% of the interest rate applied on advances against securities (Article 77), Badrud-Din, *The Bank of Lebanon*, 52–53.

⁹⁵ On the absence of cash reserve ration requirements until 1969 and subsequent increases, see *Ibid.*, 53. On public debate regarding the reserve ratio requirement and opposition by ABL and Naja, see “5 ‘am 10 ‘am 25? Hadhihi Hiya al-Mas’alah,” *al-Masarif*, August 1963, 6–9.

⁹⁶ See Badrud-Din, *The Bank of Lebanon*, 43–44

The battle between the ABL and the Chehabist administration was thus more of a quarrel among different interpretive schools of the same ideological family. Disagreement over monetary policy was minimal. ABL efforts to equally enforce its vision in relation to the question of central bank governing structure, however, were less successful though not entirely in vain. Chehabists were more assertive in imposing their own interpretation of administrative autonomy in central bank legislation than they were in preserving provisions that regulated the banking sector. Chehabist-style administrative autonomy did not mean a significant departure from BSL monetary and credit policy. Quite the contrary, it reproduced previous policies but under a new state-led managerial arrangement. The willingness of Chehabist officials to compromise more readily on questions of private sector regulation and conservative monetary policy rather than on structures of public administration embodied the distinct characteristics of Chehabism as a style of rule and philosophy of economic development and social reform. Chehabism rationally internalized rather than eliminated *laissez-faire* monetary policies. In that sense, the administrative anatomy of Banque du Liban and its credit and currency policies, which I tackle in the following chapter, were a Chehabist affair par excellence.

6 The Birth of Banque du Liban: Chehabism and the Façade of Economic Sovereignty

The masses are often drawn to politics. This is why [upon the evacuation of all foreign armies] in 1946, people expressed their joy in wonderful ways all over Lebanese cities and regions. But economics, given its dry and harsh content, rarely invokes in the masses a desire to celebrate and express happiness and jubilation ... This is why despite the grand celebration sponsored by the President of the Republic, few in Lebanon realized that the [commemorative] plaque pinned at the... new Central Bank, is no less important in terms of its connotations and significance than the plaque [commemorating the evacuation of all foreign armies] fixed on the rocks standing in a suburb of Beirut.¹

Dhulfiqar Qubaysi,
Editor in Chief,
al-Masarif, 1964

Lebanese President Fuad Chehab (r.1958-1964) once quipped that he was not chosen as head of state by the Lebanese people, but by their inability to agree on any other candidate.² Local disagreement in 1958 over a presidential successor to Camille Chamoun (r.1952-1958) was eventually overcome through international consensus, but only after the crisis of succession had escalated into civil strife. The months-long conflict left thousands dead and injured, precipitated the first overt US military intervention in post-independence Lebanon, and created deep social and political rifts within Lebanese society. Chehab, who as commander-in-chief of the Lebanese army refused to explicitly side with either warring faction, emerged as the compromise candidate of the two most powerful political actors in the region at the time, Washington and Cairo. Publicly, he kept some distance between himself and the Lebanese political establishment and set about to reform the existing social order that he blamed for the 1958 crisis. The establishment of a central bank did not figure as a top item on the list of Chehab's reforms and did not materialize until the very last year of his term. Its delayed implementation, however, rendered it the final act that crowned his preceding achievements.

¹ See Dhulfiqar Qubaysi, "Nalat al-Lira al-Lubnaniyyah Istiqlalaha," *al-Masarif*, April 1964, 4-6 (5).

² See Niqūlā Nāṣīf, *Jumhūrīyat Fu'ād Shihāb*, al-Ṭab'ah 1 (Bayrūt: Dār al-Nahār, 2008), 431.

Regardless of its status in relation to other projects, the making of Lebanon's central bank was as much a product of Chehabism as any other of his more commonly celebrated institutional legacies. Two of the bank's fundamental characteristics, administrative organization and monetary policy, were particularly shaped by the outlook of Chehabism on economic development and institutional organization of the state bureaucracy. In this chapter, I outline the economic philosophy that shaped Chehab's outlook and policy. *Section 6.1* examines the broader political underpinning of the social upheaval that struck Lebanon in 1958 and how it shaped Chehab's reform agenda of reconciling state-building with sectarian interests. In particular, I delineate Chehab's proclivity for regional rather than sectoral reform and trace that various ideological affiliations that shaped such proclivity including his military training, Francophile education, and adherence to the philosophy of humanistic economics. In the section that follows, I conduct a comparative analysis of the BDL's charter compared to its predecessor, the BSL, to detect continuities and highlight ruptures. I explore questions of managerial autonomy, monetary policy, and economic sovereignty through this analysis and through recounting the construction and inauguration of the BDL. The final section chronicles the first two years of operation of the BDL. In particular, I evaluate the ability of the BDL to ascertain its authority vis a vis the banking sector and to manage a series of banking crises that foreshadowed the Intra crash discussed in *Chapter 7*.

6.1 Precarious Chehabism: The Planned Development of Liberal Economies

Chehab's principles and policies, which became known as Chehabism, were largely informed by what he saw as the root cause behind the 1958 crisis, namely the undermining by Chamoun of the National Pact.³ Struck on the eve of independence in 1943 between Bishara Khoury, representing Christian elites, and Riyadh Solh, representing Muslim elites, the pact lay at the heart of the stability of the Lebanese sectarian social contract. The Pact upheld Lebanon's sovereignty and friendly relations with the West espoused by Maronite ruling elites in return for

³ Chamoun was a turncoat. He was voted into office as the candidate for the "Socialist Front" ostensibly opposed to Bishara Khoury's consortium of big business, *Ibid.*, 144. But once in office, Chamoun jettisoned his erstwhile political backer Kamal Jumblatt and proved to be as much if not a greater ally as Khoury to the big bankers and their Merchant Republic. It was under his auspices that the legal and financial foundations of the Merchant Republic were consolidated.

a clear commitment to identify with its Arab surrounding demanded by their Muslim counterparts while local governance was divided up among both albeit in favour of the former. A seasoned diplomat and shrewd political manipulator, Chamoun maintained the sectarian balance of power during the early years of his presidency by allying himself with second-tier *zu'ama*, i.e. community leaders, of the other non-Maronite major sects.⁴ Chamoun's foreign policy, however, was a much less balanced and calculated affair. The anglophile Chamoun opted for an unequivocally pro-Western foreign policy that was further prodded by the anti-communist and anti-Nasserist Charles Malik who served as Chamoun's foreign minister starting in late 1956.⁵

By completely siding with the US camp and antagonizing Nasserist forces at home and across the Arab world, Chamoun had severely undermined the National Pact on which the Lebanese "Precarious Republic" was erected.⁶ Chehab sought to restore this balance in foreign policy by seeking closer ties with Egyptian President and pan-Arab leader Jamal Abdel Nasser without alienating Western capitals.⁷ More relevant to this study was Chehab's domestic policy in reaction to the 1958 crisis. Despite its regional overtones, civil strife in 1958 was equally a manifestation of socioeconomic malaise that expressed itself in political terms as a clash of elites over the country's sectarian power-sharing arrangement. Installed by French colonial authorities, the sectarian sharing formula was consecrated by the Lebanese bourgeoisie in the National Pact. Under this sectarian division of power, Christians were favoured over Muslims in the allotment of seats of public office whether in political, civil, or army institutions. The unbridled policies of

⁴ These included the Shuf emir Majid Irsan (a veteran counterweight to Jumblatt), Beirut's notable Sami Solh (A counterweight to Saeb Salam), and southern Lebanon's prominent landowning families such as the Usayrans and the Khalils (A counterweight to Ahmad al-As'ad).

⁵ Chamoun refused to break relations with France and Britain during the 1956 tripartite aggression on Egypt's Suez Canal, and only grudgingly abandoned his plan to join the Baghdad Pact in 1955 due to mounting local opposition. An equally furious opposition however did not prevent him in 1957 from signing onto the Eisenhower doctrine that granted the US the right to military intervention in the face of a "perceived" communist threat to a third country. See Nāṣif, *Jumhūrīyat Fu'ād Shihāb*, 174–175.

⁶ The term Precarious Republic in relation to Lebanon was coined by Michael Hudson, see Hudson, *The Precarious Republic*.

⁷ On Chehab's adherence to a more "pro-Arab interpretation of the National Pact" compared to Chamoun's, see *Ibid.*, 300. On the regional significance of developments that took place in Lebanon and the Arab world in 1958, see William Roger Louis and Roger Owen, eds., *A Revolutionary Year: The Middle East in 1958* (London ; New York : Washington, DC: I.B. Tauris Publishers ; Woodrow Wilson Center Press, 2002).

laissez-faire during the Khoury and Chamoun administrations had also widened the gap between rich and poor. The country's wealth became increasingly concentrated in the hands of Beirut's mercantile financial class to the detriment of other, namely rural, regions of the country. Most of these regions had a majority Muslim population. This sense of inequality further fueled popular discontent among the general population. Chamoun further weakened his rule by introducing electoral "reforms" that ensured the exclusion of much of Lebanon's traditional political elite from power during the 1957 parliamentary elections. As presidential elections drew closer in the following year, Chamoun's refusal to dispel rumours that he was seeking a second term coupled with the unification of Syria and Egypt under Nasser served to further fuel the political conflict. It spilled into the streets in 1958.

The 1958 rebellion failed to affect any real change in the system at the level of sectarian-based political representation. On the contrary, the political settlement preserved the *status quo*. The slogan of "no victor and no vanquished" became the famous formula for salvation.⁸ Chehab, however, recognized that to re-establish the legitimacy of the National Pact and preserve the *status quo* in the long run, the latter had to be rattled in the short run. The imbalance in the allocation of public office between Muslims and Christians, at least in the state bureaucracy, had to be rectified.⁹ Clientalism in state institutions through which the political elite reproduced its hegemony over members of its political and social base had to be addressed. Meanwhile, the lopsided economic development in favour of metropole Beirut needed to be eliminated or at least reduced if a social upheaval akin to the one that erupted in 1958 was to be avoided in the future. Chehabism, however, was not an ideology of change. In Chehab's own words, it was "a style of governance and a reformist pathway and the trial testing of managing a state through principles that will lead to the construction of the [Lebanese] state of independence. It is the practice of leading the ruling of Lebanon according to constant planning...and an advanced vision".¹⁰ In

⁸ The expression was coined by Beirut's wealthy merchant and main leader of the 1958 anti-Chamoun rebellion Saeb Salam. See Nāṣīf, *Jumhūrīyat Fu'ād Shihāb*, 264.

⁹ Chehab, however, did not seek to alter the ratio of Christians to Muslims in Parliament.

¹⁰ See Nāṣīf, *Jumhūrīyat Fu'ād Shihāb*, 372. For a sympathetic articulation of Chehabism as a "new style" of governance, see Georges Naccache, "Un Nouveau Style: Le Chehabisme," in *'Ahd Al-Nadwah Al-Lubnaniyyah* (Beirut: Dar al-Nahar, 1997), 389–99.

other words, Chehab was not seeking a revolution but the means to avoid one. The vision was one of “modernization without revolution”.¹¹ Change had to be gradual, slow and via consensus. Major amendments of the sectarian system were to be avoided. The two fundamental instruments of this piecemeal process were administrative reform and economic development of the regions outside Beirut. Administrative reform, Chehab reasoned, would set the stage for political reform. Building state institutions that guaranteed the basic rights of citizens would redefine the relationship between citizen and state as one that does not need political mediation. Economic development of the peripheral regions, on the other hand, would “Lebanonize” the communities of these areas facing economic marginalization. State-linked assistance would forge the loyalty of rural communities to the country rather than to their extended family, clan, or local notable.¹² For Chehab, social justice was a bridge to national unity.

During his six year term, Chehab tried to turn his vision into reality. In the wake of the 1958 crisis, his cabinet wrested from parliament sweeping powers for a six-month period that allowed him to circumvent the political ruling elite. In a matter of days, his cabinet issued dozens of legislative decrees aimed at reorganizing public administration.¹³ These decrees reorganized the state’s bureaucratic apparatus and introduced semi-autonomous development agencies formally attached to ministries but directly accountable to the President. Top among the latter were the Civil Service Council and the Central Inspection Agency. Their official mandate was to eliminate corruption and to base recruitment for public service on merit rather than political favouritism. Chehab hoped such an approach would produce a public servant whose loyalty was to the law and the country not to a political patron. Other administrative reforms laid the foundation of a welfare state that tried to address social security and class inequality. In the realm of economic development of underserved regions, Chehab presided over a major

¹¹ I borrow the term from Elie Adib. Salem, *Modernization without Revolution: Lebanon’s Experience* (Bloomington: Indiana University Press, 1973).

¹² On the need for gradual and slow reform, see Nāṣīf, *Jumhūrīyat Fu’ād Shihāb*, 379. On the priority of administrative reform see *Ibid.*, 389. On redefining the state-citizen relationship, *Ibid.*, 294,376. On developing the periphery as a means of integration, see *Ibid.*, 376.

¹³ Michael Hudson put the number of decrees issued in a single day (June 3, 1959) at 162, see Hudson, *The Precarious Republic*, 316. Niqula Nasif however, made reference to 62 decrees in a single day (June 12, 1959), see Nāṣīf, *Jumhūrīyat Fu’ād Shihāb*, 414.

expansion of public works projects outside Beirut. The state built roads, hospitals, schools, and irrigation networks while seeking to bring electricity to underdeveloped areas in the Bekaa valley, the south, and the north of the country.¹⁴

Chehab's diversion of resources from metropolitan Beirut into the peripheries did not sit well with the capital's bourgeoisie like the Salams and Eddes. To counter their opposition, Chehab relied on two strategies. The first was to build selective alliances with elements within the political class who benefited from his periphery-friendly approach, namely other regional bourgeoisies and the landed classes.¹⁵ These included Tripoli's urban notable Rashid Karamé, landowning rural *zu'ama* - both progressives like Kamal Jumblatt and conservatives like Sabri Himadeh and his rivals, the Dandash clan. His allies also included populist movements such as Pierre Gemayel's fascist Kataeb party.¹⁶ Chehab's mistrust of the entire political class, however, led him to seek a second, parallel strategy, one that would empower elements within the state apparatus who were independent of ruling circles and thereby loyal directly to him. He implemented this latter strategy in the three arenas of military intelligence, presidential civil aides, and mid-level bureaucracy.¹⁷ The influence of the military on state and society, however, was not restricted to interference in political decision-making and surveillance of public life.¹⁸ Chehabism began in the military institution before being applied to the broader sphere of political and social relations. Chehab saw the army as the "mirror image" of society at large and

¹⁴ These included the establishment of a National Fund for Social Security and a Directorate for Social Affairs serving marginalized communities. For a detailed list of agencies and laws issued under Chehab, see Tawfiq Kfuri, *al-Shihabiyyah wa Siyasat al-Mawqif* (Beirut, 1980), 257–307. For a concise list of the major laws, institutions and projects directly related to social welfare, economic development and public works see al-Jisr, *Fu'ad Shihab*, 57–60.

¹⁵ See Johnson, *Class & Client in Beirut*, 138.

¹⁶ On Chehab's allies among the traditional ruling elite and emerging populist forces such as the Phalanges, see Hudson, *The Precarious Republic*, 301. On Chehab's wooing of the Dandash clan, see Nāṣif, *Jumhūrīyat Fu'ād Shihāb*, 167.

¹⁷ On these "three arenas" and their formation and operation see Johnson, *Class & Client in Beirut*, 140–143.

¹⁸ The first arena was the military establishment. The military's intelligence unit, the Deuxième Bureau, was led by Chehabist loyalists who served as the president's eyes and ears among the country's politicians. It grew in clout and reach under his rule. Prominent Chehabist military officers included head of Deuxième Bureau Antun Sa'ad (see footnote 20 in Nāṣif, *Jumhūrīyat Fu'ād Shihāb*, 146.

a model for governance.¹⁹ Military-inspired virtues such as discreetness, rigorous planning, protocol, routine, separation of public and private, loyalty to superiors, and a systematic approach to execution were all imported into his administrative reforms. His two top foreign administrative consultants, Jean Lay and Jesuit priest Louis-Joseph Lebret embodied these values in their idealized French form. They both had military backgrounds.²⁰

Chehab's top Lebanese aides Elias Sarkis and Fuad Boutros who hailed from institutional legal backgrounds ranked a close second to his French entourage. Boutros and Sarkis were key agents of Chehab's second element of his ruling strategy: a handful of competent administrators and reputable jurists that were attached to the Presidential office. Sarkis, who headed this office, later became the governor of the BDL and a decade later the country's president.²¹ The third element of Chehab's strategy was composed of the cadres of mid-level civil servants as well as private professionals and experts who often hailed from the petit bourgeoisie and sympathized with his reformist agenda. Chehab relied on these technocrats for restructuring the administration and implementing projects of economic development. This social group espoused an ideology of developmental rationalism that sought to bring order to state institutions in an effort to grant it relative autonomy in the Weberian sense of the term.²² By the early 1970s, however, the influence of Chehabist elements within the state apparatus, let alone political life, had largely

¹⁹ On the impact of military life and training on Chehabism, see *Ibid.*, 95, 103, 375.

²⁰ Lay was a former colonel of the French army in charge of inspecting the latter's financial books. He was entrusted by Chehab with supervising the reorganization of Lebanon's Public Administration and its operating laws., see *Ibid.*, 241–242 and Antoine Sa'd, *Fu'ad Butrus: al-Mudhakkirat* (Beirut: Dar al-Nahar, 2009), 58–59. On Lebret reputation as the *éminence grise* of Chehab's administration, see Hudson, *The Precarious Republic*, 303. Priest Lebret, whom Chehab retained as advisor after the termination of the IRFED mission that Lebret headed (see section 5.1.1 below), was himself a former marine officer in the French navy, see Nāṣīf, *Jumhūrīyat Fu'ād Shihāb*, 395. Another French consultant who had good access to Chehab was city planner Michel Ecochard, who was head of the engineering division at the Public Works Ministry, see Hudson, *The Precarious Republic*, 321. For more on the dynamics of foreign vs. Lebanese expert planners under Chehab, see Eric Verdeil, "Politics, Ideology, and Professional Interests: Foreign versus Local Planners in Lebanon under President Chehab," in *Urbanism Imported or Exported? Native Aspirations and Foreign Plans* (West Sussex, England: Wile-Academy, 2003), 290–315.

²¹ On Fuad Boutros's role during Chehab's term, see Chapter 2 (Titled: With the Prince), Sa'd, *Fu'ad Butrus: al-Mudhakkirat*, 49–108.

²² On the "rational planning" that characterized Chehabism, see Hudson, *The Precarious Republic*, 315. On the attitude of these professions towards state restructuring as "rational bureaucratic in the Weberian sense" see Johnson, *Class & Client in Beirut*, 142.

dwindled.²³ Chehab himself was disappointed with his own legacy. While in office, he told Boutros that Lebanon failed to become a country in the sense of a nation-state. But if state institutions were properly built, he added, the interaction of people with state institutions will make the idea of a state more amenable and in turn that of a nation more acceptable. Later, the retired president confided to his wife Rose Poitieux that he had built a state but failed to build a country.²⁴

The failure of Chehab has often been interpreted as a failure of Chehabism. This conclusion presupposed that Chehab was an outsider to the system “socially, politically, and ideologically” and thus failed to change it.²⁵ Politically, Chehab’s relationship with Chamoun was testy and adversarial, but the same cannot be said of his rapport with Bishara Khoury and his clique. More broadly, Chehab fully subscribed to the ideology of Lebanese nationalism in its Chihist version.²⁶ He did not seek a fundamental transformation of the Lebanese system. His objective was to rationalize the existing sectarian system. He ended up institutionalizing it.²⁷ Chehab’s

²³ During the second half of his term, Chehab tried to transform the second and third elements of his power base into the nucleus of a social class and a political force within the national arena beyond the formal institutions of the state. He reasoned that such a step would inaugurate much needed yet perpetually postponed political reform, see Nāṣīf, *Jumhūrīyat Fu’ād Shihāb*, 421. His initiative was met with limited success, see Sa’d, *Fu’ad Butrus: al-Mudhakkirat*, 69.

²⁴ See Nāṣīf, *Jumhūrīyat Fu’ād Shihāb*, 411, 53.

²⁵ On the thesis of the failure of Chehabism and the claim the Chehab was an outsider, as well as quotes cited above, see Shehadi, *The Idea of Lebanon*, 11,12. On Chehab’s administrative reforms coming “mostly to nought [sic]” see Kamal Salibi, “Lebanon under Fuad Chehab 1958–1964,” *Middle Eastern Studies* 2, no. 3 (April 1, 1966): 226. Chehabist journalist, lawyer, and technocrat Basim al-Jisr argued that it would be wrong to claim that Chehabism “failed” since it left behind well-established institutions and projects, see al-Jisr, *Fu’ad Shihab*, 124. Al-Jisr is featured as a case study of the kind of professional recruited by Chehab in Johnson, *Class & Client in Beirut*, 143–144.

²⁶ Chehab took to heart the national myth of a centuries-old Lebanon founded by the emirs Fakhr al-Din al-Thani and Bashir al-Thani, see Nāṣīf, *Jumhūrīyat Fu’ād Shihāb*, 281–282. He was an admirer of Michel Chiha and an avid reader of his *Le Jour* columns, see *Ibid.*, 142. He was also a fan of the Catholic publication *Le Croix* and wrote in stilted Arabic with many of his speeches translated or penned in Arabic by the two Solhs, Munah and Taqiyyideen, see *Ibid.*, 252. For more on how Chehabists, like Chamoun loyalists, drew from the doctrines of Chiha, see Traboulsi, *Ṣilāt Bi-Lā Waṣl*, 12.

²⁷ During his pre-independence years of military service under French command, Chehab played a key role in the consolidation of the French mandate and the armed suppression of local revolts, including the 1926 Great Syrian Revolt, thereby paving the way for the creation of a sectarian Lebanon, see Nāṣīf, *Jumhūrīyat Fu’ād Shihāb*, 54. He was nominated by the colonial powers to lead the fledgling Lebanese army (see *Ibid.*, 74.) In some instances, he took steps that even reinforced sectarianism in partisan ways. Examples include his efforts to pave roads connecting

economic policies were even less radical than his political reforms when judged based on the *type* rather than the *extent* of state-led intervention in the economy. These policies were neither “diametrically opposed” to those of his two predecessors nor did they seek in their implemented form to drastically transform the state economic system.²⁸ What distinguished Chehab from his predecessors was a heightened awareness of the need for the *orderly* and *regional* redistribution of wealth and rational expansion of public works which were polices inspired by the president’s faith in Humanistic Economics.

6.1.1 Chehab’s Humanistic Economics: Regional vs. Sectoral Reform

The drastic expansion of the state’s role in planning economic development and the significant increase in the magnitude of public expenditure - to the point of running a deficit - did set Chehab apart from his predecessors in that respect. But a close examination of the composition of these expenditures across sectors and across time does not signal a *qualitative* difference in the attitude of Chehabism towards *restructuring* the Lebanese economy. While public spending increased in all fields during Chehab’s presidency, the *rate* of growth of the overall budget, in relation to Gross National Product, remained largely similar to previous ones. Spurts of growth in the budget, such as those of 1961 in 1964, may have also been linked to political calculations such as election season or consolidating the legitimacy of the president after shocks.²⁹ More significantly, the distribution of spending per sector (education, health, and defense) remained quite comparable to those under Chamoun and Khoury.³⁰ In short, Chehabism preserved the proportions of expenditure on different sectors. It also chose public works rather than industrialization (Import substitution or otherwise) as the main target of state-led intervention.

Christian villages in case they are besieged at some point (see *Ibid.*, 297.) He also was the first president to consecrate the custom of reserving the post of head of military for a Maronite, see *Ibid.*, 244.

²⁸ See Shehadi, *The Idea of Lebanon*, 12.

²⁹ On the relatively steady rate of increase in the ordinary budget between 1950 and 1961, see Table 25, Hudson, *The Precarious Republic*, 308. Chehab put down a military coup in 1961 and elections (parliamentary and presidential) were held in 1964.

³⁰ A major exception was the percentage of government spending on public works which hovered around 17% of total expenditures under Chamoun and Khoury but jumped to a whopping 30% in 1964 under Chehab. I made these calculations based on budgetary expenditures by sector listed in Table 27, *Ibid.*, 310.

The structural composition of the *laissez-faire* economy in which the trade and services sector occupied two-thirds while industry and agriculture captured the remaining third was thus left largely intact. This was a reflection of the fact that Chehab's developmental philosophy was regional rather than sectoral in nature. Chehab embraced the economic liberalism of the 'Merchant Republic'. He left property relations, particularly those of land ownership, intact. He seemed less critical – even compared to AUB institutionalists – of the structural economic bias in favour of the trade and services sector. He described the latter as a “golden hen” that must be safeguarded. His objection was against keeping the eggs in one basket, Beirut.³¹

At the root of this geo-social notion of development lay two socio-cultural forces that, in addition to military discipline, colored Chehab's liberalism in particular and his political career and ideological formation in general. These two factors were religious piety and French education. As a devout Catholic fond of French culture and tradition, Chehab was drawn to the school of Humanistic Economics advocated by French priest Louis-Joseph Lebret mentioned earlier. The doctrine's main tenets were comprehensive planning and the distribution of wealth equitably between classes *and* across regions.³² Lebret, who served as head of the Institut International de Recherches Scientifique et de Formation en vue de Développement Intégral et Harmonisé (IRFED), preached a harmonious approach to economic development that combined broad social reform with a systematic and 'scientific' approach to fieldwork. In March 1959, Chehab invited Lebret to head a mission composed of French and Lebanese experts that would conduct a thorough survey of Lebanon's development problems and make appropriate recommendations. Less than two months earlier, the Economic Planning and Development Board of the Ministry of General Planning, which had been set up under Chamoun and on which AUB institutionalists

³¹ According to contemporary Chehabist technocrat Basim al-Jisr, Chehab used to repeat the French proverb “Preserve the hen that lay golden eggs” when he wished to refer to the services sector, see al-Jisr, *Fu'ad Shihab*, 120. On the President's belief in economic liberalism and that the main challenge of economic development facing the country was the confinement of prosperity to Beirut, see *Ibid.*, 119. Chehab's “legendary” dislike for Beirut and its merchants and politicians and his preference for a policy of regional development led him to reside in the northern town of Sarba and earned him the moniker *l'hérmite de Sarba*, see Shehadi, *The Idea of Lebanon*, 11.

³² On the main tenets of Humanistic Economics and Chehab's conversion to it under the influence of Lebret, see Raad, *Tarikh Lubnan Al-Siyasi*, 110. On Chehab's general admiration for France and hope for the return of its “historic role” in Lebanon, see Nāṣīf, *Jumhūrīyat Fu'ad Shihāb*, 346–347.

served, produced a five-year plan for economic development.³³ But Chehab's proclivity for francophone supervision on a larger scale apparently led him to seek the services of IRFED. His adversaries accused the general of "Vatican socialism" and depicted the IRFED mission, as they did the military, as a state within a state.³⁴

Chehab's draconian security measures following the failed SSNP-led coup against his rule in 1961 supplied his political enemies, including Raymond Edde, with the perfect opportunity to complain of his police state.³⁵ In the arena of economic policy, however, there was not much to show for Chehab's 'socialism'. Little was done by the general-turned-president to "reduce the dominance of the commercial sector" and less was ultimately achieved in terms of diluting the concentration of industrial capital in Beirut.³⁶ In the realm of banking, Chehab was committed to deregulated exchange markets and banking secrecy. The Law of Shared Account issued under Chehab in 1961 formed the twin legislation of the Banking Secrecy Law that further shielded the banking sector from state scrutiny.³⁷ Chehab, however, was intent on bringing *order* to modernize the sector and mitigate its excessively exploitative character, something the freewheeling banking sector was too wary of to ignore. Decrying modernization of the banking sector would have been self-incriminating and self-defeating for the Beirut-based anti-Chehab forces to adopt as a counter discourse. Linking administrative regulation to anti-liberal tendencies under the rubric of a police state was a wiser and Lebanese-tested strategy. Pierre Edde and the ABL invoked the 'free foundations' of Lebanon's economy to resist any

³³ On the EPDB five-year plan, see Raad, *Tarikh Lubnan Al-Siyasi*, 25.

³⁴ The IRFED mission to Lebanon was nominally attached to the Ministry of Planning but reported directly to the president. See Hudson, *The Precarious Republic*, 314. Chehab kept Lebret as an advisor following the termination of the IRFED mission, see Nāṣīf, *Jumhūrīyat Fu'ād Shihāb*, 401.

³⁵ In the wake of the botched coup led by the Socialist Syrian National Party (SSNP), over 6,000 people were arrested. The names of President Chamoun and former MP Raymond Edde were mentioned in the subsequent trial and their passports, along those of a handful of other politicians, were revoked, see Hudson, *The Precarious Republic*, 305.

³⁶ On the continued predominance of the commercial sector, see Johnson, *Class & Client in Beirut*, 146. On the concentration of industry in Beirut, see al-Jisr, *Fu'ad Shihab*, 106.

³⁷ The Shared Account Law was issued on December 19, 1961. It allowed banks to open a single account for multiple clients. Should any of the account holders die, his or her partners are granted absolute authority to manage the account and are not obliged to provide the heirs of the deceased with any information about the account, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 165.

meaningful regulation of the banking sector under the relevant provisions of the Law of Money and Credit. The same logic would be raised to push for managerial autonomy of the Central Bank and its adherence to a conservative monetary policy in the relevant sections of the Law.

6.2 Central Banking à la Chehabism: The Institutional Imperative and Colonial Continuities of Monetary Policy

In contrast to the debate over regulation of the banking sector, the pursuit of BDL autonomy from state intervention as a principle and the adoption of monetary policy garnered less controversy among members of the Council on Money and Credit (CMC) that convened in 1961 to draft the Law of Money and Credit. But Chehabist politicians and bureaucrats, ABL-associated private bankers, and BSL-trained technocrats disagreed over the interpretation of what autonomy entailed and to a lesser degree over what constituted a development-friendly yet conservative monetary policy. Conflicts arose and compromises were struck before the final set of provisions in the Law of Money and Credit that specifically dealt with the Central Bank and with monetary policy were approved. The following sub-sections examine the struggles that transpired, the legal texts that were produced, and the culmination of the process in the building and inauguration of the BDL.

6.2.1 Managerial Autonomy: Bureaucratic Rationality as an Imbrication of State and Private Interests

The question of managerial autonomy of Banque du Liban was framed in relation to the bank's ownership, governing structure, and internal organization. The ownership debate was swiftly settled. In recognition of its special status as a symbol of national sovereignty and guardian of economic independence, the bank was to be wholly owned by the state. But it was granted special legal status as a financially autonomous entity. The BDL was exempted from taxation and the general administrative rules and regulations governing other public institutions and private corporations. It was also granted judicial privileges in matters of debt collection and Beirut's courts held sole jurisdiction in cases pertaining to the Bank.³⁸ Disagreements over governing structure and internal organization were harder to untangle. These disagreements

³⁸ See Law of Money and Credit, Articles (12 to 16) and Article 120, Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999, 1:7–8, 44.

centered around three essential elements of the bank's governance and policy structures: the powers granted to the bank's governing body and its constitution, the extent of government oversight, and the role of non-state actors, such as the ABL and independent financial experts, in shaping the bank's policies and actions.

The ABL and the Economic Planning and Development Board (EPDB) stressed that the Bank's Governor had to hold university degrees and to have past experience in money with the EPDB further recognizing that the Governor represents "the monetary power of the country" and as such he and his deputies must exhibit high moral standards and patriotism.³⁹ The EPDB and the ABL, however, were in favour of devolving power away from the post of Governor and investing it in a Central Council. Their recommendations as to who should serve on the Council reflected their divergent interests and approaches to public management. For the EPDB, the Central Council needed to balance the respective authorities of government, Central Bank administrators, and independent financial expertise. The planning board proposed that the Central Council ideally consist of the Governor and his Deputies, five reputable experts on money and banking, and the Director-General of the Ministry of Finance acting as a government representative. The latter would be capable of suspending decisions by the council for up to ten days if they were perceived as harmful to monetary policy or in violation of the bank's general directives as outlined by the government cabinet. The banking association, on the other hand, pushed for eliminating government representation and replacing it with directors from within the Central Bank. The ABL also called for wider representation of the private sector on the advisory committee whose members held a consultative role.⁴⁰

The final formula adopted by the Council on Money and Credit reflected the compromise-based approach towards institutional building typical of Chehabist policy. It attempted to strike a very fine yet precarious balance between state authority and private sector interests. The four basic yet interlinked units of this final institutional arrangement were the Governor, the Central Council,

³⁹ On the positions of the Planning Board and the ABL regarding the powers of the Governor and Central Council, see Badrud-Din, *The Bank of Lebanon*, 48–50.

⁴⁰ See *Ibid.*

the Advisory Committee, and the Government Commissariat.⁴¹ The Governor was to be appointed by the state, but was given immunity from political influence during his renewable tenure. He could not be dismissed save in specified instances of debilitating illness or grave abuse of powers. Checks were put in place to prevent any conflict of interest. The Governor and his Deputies were thus barred from holding any other office during or two years after the end of their Central Bank service. The only exception was membership in international financial organizations such as the World Bank and the IMF. As per the Bretton Woods understanding, the Central Bank was to serve as the institutional mediator between the national government and the international financial order. In terms of daily executive powers, the Law of Money and Credit bestowed on the Governor “the widest powers in the general administration and management” of the bank including the power to appoint, supervise and dismiss bank employees.⁴²

The Central Council was empowered with drawing up the bank’s monetary, credit, and note issue policies as well as all other administrative and managerial regulations, including those outlining the Governor’s executive tasks and budgetary allotments. This Council consisted of the Governor, his three Deputies, and the Director-Generals of the Ministry of Finance and the Ministry of National Economy. The latter two, as far as the Law was concerned, were *not* to act as government delegates. The authority of the government in terms of decision-making was restricted to a supervisory one embodied in the third administrative unit of the bank: the Government Commissariat. The Commissariat acted as an inspecting agency that had full access to the bank’s accounts except those of third parties protected under the Banking Secrecy Law. The commissioner, who was appointed by the Minister of Finance following consultations with the Central Council, was explicitly barred from “intervening in any form in the caretaking [of operations] at the Central Bank”.⁴³ Central Council decisions had to be “immediately reported”

⁴¹ For an illustrative chart of the different bodies and departments constituting the Central Bank, their functions, and the administrative relationship between them, see Figure 4.1 in *Ibid.*, 65.

⁴² On Governor rights and duties including sitting on the Board of Directors of the IMF, IBRD, or other official international bodies, see Articles 18 to 27, Yafi and Yafi, *Majmu’at Al-Naqd Wa Al-Taslif*, 1999, 1:9–11. English translation of phrase is quoted from the Law of Money and Credit’s Article 26, see Badrud-Din, *The Bank of Lebanon*, 49.

⁴³ See Article 44, Yafi and Yafi, *Majmu’at Al-Naqd Wa Al-Taslif*, 1999, 1:17. On government supervision of the Central Bank, see Articles 41 to 46, *Ibid.*, 1:17–18.

to the commissioner who, within two days of notification, was empowered to request the suspension of any decision he deemed was in violation of the law and the bank's bylaws pending consultation with the Minister of Finance. If the matter was not resolved within five days, however, the decision came automatically into effect.⁴⁴ The final piece of the puzzle was a six-member Advisory Committee designed to embody the role of the private sector in the Central Bank's policymaking. Four of its members had to be experts in the fields of banking, commerce, industry, and agriculture respectively. They were appointed by the Minister of Finance based on a larger list of nominations supplied by private associations representing each of these sectors. The fifth member was chosen from the EPDB while the sixth had to be a professor of economics of Lebanese nationality.⁴⁵

The Bank's somewhat innovative, yet cumbersome, administrative arrangement did not translate into a fundamental restructuring of the bank's mandate as an agent of economic development. If anything, the BDL's monetary policy in relation to the question of economic development was more conservative than that of its predecessor, the BSL. By conducting a comparative analysis of both, and examining the role of the bureaucrat who embodied that transition, Joseph Oughourlian, some of the continuities and ruptures between the two institutions' monetary mandate may be better defined and their context better understood.

6.2.2 Conservative Monetary Policy and the Persistence of BSL Practices: The Oughourlian Factor

Banque de Liban's general mission, as stated in the 1963 Law of Money and Credit, was to "safeguard money in order to provide a foundation for permanent economic and social progress."⁴⁶ The word 'progress', as CMC member Abdel Amir Badrud-Din pointed out in his study of the BDL two decades after its establishment, signified a more general notion of change compared to 'growth'. Such progress encompassed "any kind of social improvement".⁴⁷ A

⁴⁴ See Article 43, Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999, 1:17.

⁴⁵ On composition and mandate of Advisory Committee, see Law of Money and Credit, Articles 35 to 40, *Ibid.*, 1:15–16.

⁴⁶ Article 70 as stated in footnote 1, Law of Money and Credit, *Ibid.*, 1:23.

⁴⁷ See Badrud-Din, *The Bank of Lebanon*, 51.

careful reading of the provision in the context of the times and in comparison to that of the BSL suggests that such a generalization served to dilute rather than reinforce the BDL's commitment to economic development. Despite the private nature of the BSL and the drafting of its statutes in 1924 when conservative monetary policy was the norm among much of Europe and the capitalist world, the BSL's "principal objective was to promote the economic development of Syria and Greater Lebanon".⁴⁸ Meanwhile, four decades later, at the height of popular support for interventionist theories of economic development and powerful central banking as one tool in that regard, the governing mandate of the publicly-owned BDL refrained from invoking 'economic development' for the sake of the vague notion of "progress". More significantly, such progress or growth or development was not, as was the case for the BSL, a direct aim of the BDL. It was a loosely-linked consequence of its actions. The BDL's principal objective was the safeguarding of money as a *foundation* of economic and social progress.

The BSL's public lending policy, outlined back in 1924, was more in line with state-led development theories than that of the BDL that were outlined in 1964. Like the BSL, the BDL was recognized as the state's sole fiscal agent. It was also designated as the liaison with international financial institutions and foreign governments. It was expected to advise the government and make recommendations regarding policies affecting balance of payments, price movements, public finance, and economic growth in general. But the BSL's 1924 mandate explicitly stated that one means of achieving development was the extension of loans and advances to the government, in this case the colonial one.⁴⁹ The BDL statutes, on the other hand, did not make such explicit links when it came to lending the now independent native government. Quite the contrary, loans to public authorities as a primary instrument of development were discouraged in the strongest language possible. State borrowing was confined to situations of "utmost necessity" and "exceptionally dangerous circumstances". Even then, it was subject to highly restrictive provisions relating to the amount and frequency of borrowing.

⁴⁸ See Article 3 of the BSL's Statutes, Appendix III in Himadah, *Monetary and Banking System of Syria*, 330.

⁴⁹ See Ibid.

Long-term lending, a hallmark of debt-driven economic development, was all but banned to both public and private entities.⁵⁰

The BDL's monetary tools influencing economic development through the manipulation of banking liquidity or the control of the volume of market credit were equally of a conservative nature. They included typical instruments such as setting a bank rate, open-market operations, the buying and selling of gold and foreign exchange, minimum reserve ratio requirements, and advances against securities. Bank rate rules and reserve ratio requirements provided the BDL with more leverage than the BSL, but the former did not take advantage of either in its first years of operation. Meanwhile open-market operations and dealing in gold and foreign exchanges that the BDL was empowered to conduct were subject to constraints that were virtually identical to those dictated by the BSL. Discounted paper had to have short-term maturity, thereby dismissing the possibility of financing medium or long term development projects. Discounted paper had to include three signatures thereby reducing the volume of paper that could be discounted. The absence of a developed money market further reduced the influence of such operations on credit volume. Meanwhile, gold and foreign exchange operations were mainly concerned with exchange stability and fulfilling gold-heavy note-cover requirements. The latter were quite similar to those imposed on the BSL.⁵¹

In short, the legal framework of the BDL provided some leverage regarding banking regulation that the BSL did not. But the policies of the colonially-designed BSL were subsumed into the latter's ostensibly sovereign heir, the Banque de Liban, after any benefits to colonial governments were denied to national ones. The high level of continuity between BSL monetary policy and that of the BDL was reinforced at the level of personnel. In March of 1963, the

⁵⁰ When exceptional circumstances arise, the Central Bank would still have to explore other options with the government such as cutting expenditures or imposing new taxes before approving the loan (Article 91). The Government was allowed to draw on advances from the bank but only up to 10% of the average revenues of the state's budget in the past three years, and such advances may not exceed four months (Article 88). On operations between the bank and the public sector including the highly restrictive conditions under which the government was permitted to borrow from the Banque du Liban, see Law of Money and Credit, Articles 84 to 97, Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999, 1:30–34.

⁵¹ On BDL operations affecting money liquidity and volume of credit, see Articles 76 to 79, *Ibid.*, 1:25–27. On gold and foreign currency exchange operations, see Articles 81 to 83, *Ibid.*, 1:29–30. On operations with private banks, see Articles 98 to 109, *Ibid.*, 1:34–38.

government agreed to transfer all staff at the BSL issue-department to the BDL.⁵² Banque du Liban, some critics complained, was the “BSL under another name”. Such accusations were directed at the person of former BSL-consultant Joseph Oughourlian, who had “almost single-handedly” written the Law of Money and Credit.⁵³ Oughourlian’s appointment as First Deputy Governor of the new Central Bank was seen by some, including the First Secretary of the US Embassy in Beirut Leslie Tihany, as a strong sign of such continuity. As a longtime financial advisor to French mandatory authorities, the BSL, and the Bishara Khoury administration, Oughourlian was “by far the best equipped and trained of the new appointees” and as such his economic views were bound to have a significant bearing on monetary policy. These economic views, Tihany added, were decidedly “conservative” and “definitely anti-Keynesian”:

[Oughourlian] abhors the current expansion of government expenditures, feeling that they might get out of hand and lead to an inflationary situation. Antagonistic to economic planning, he looks with a jaundiced eye on the work of the IRFED mission and the development bank project proposed by it. He is an ardent advocate of the policy of the high gold coverage for the note issue and of stability in the exchange rate of the Lebanese pound.⁵⁴

Oughourlian might have played a pivotal role in shaping the conservative policy of the new Central Bank and in curbing Chehabist tendencies for larger government and public borrowing. But his success in doing so due to his personal authority should not be overestimated. It was as much a reflection of the broader persistence of *laissez-faire* currents within Chehabist circles of decision-making as it was an expression of a single man’s monetary philosophy. This claim is borne out by the outcome over banking regulation. While serving on the Council on Money and Credit (CMC) that drafted the Law of Money and Credit, Oughourlian had strongly opposed the demand of the banking association to shield the names of customers from Central Bank

⁵² The transfer of BSL staff reduced the need for training of new recruits at the BDL. It was partly due to pressure by the BSL’s labour union led by Gabriel Khoury, who was also the head of Lebanon’s General Federation of Trade Unions; see Badrud-Din, *The Bank of Lebanon*, 70.

⁵³ See Airgram 224, Beirut to Department of State, September 27, 1963; File FN 6 LEB; Subject-Numeric File; RG 59; NAB. On his alleged “single-handed” drafting of the law, see Enclosure 1, *Ibid.* According to Nicolas Nassif, Chehab enlisted the help of former Nazi Minister of Economics Hjalmar Schacht in issuing the Law of Money and Credit, see Nāṣīf, *Jumhūrīyat Fu’ād Shihāb*, 419.

⁵⁴ See Airgram 224, Beirut to Department of State, September 27, 1963; File FN 6 LEB; 1963 Subject-Numeric File; RG 59; NAB.

authorities. But the Association of Banks (ABL) view prevailed. Then Finance Minister and head of the CMC, Rashid Karame, voted in favour of amendments introduced by the ABL-backed member of the CMC, Paul Klat. Karame and Klat were the only two members of the CMC that attended the final meeting between the CMC and the ABL on the 2nd of April 1963 when important decisions in favour of the ABL were taken.⁵⁵ If the Karame-Klat camp had been sufficiently opposed to Oughourlian's conservative approach regarding monetary policy, it is not clear why they did not vote these conservative provisions down.

It was Oughourlian's antagonism to local and non-French banking interests rather than his antipathy to state-led development that raised alarm bells among the emerging local banking sector. He stood for French capital embodied in the old guard of *laissez-faire*, the Bishara Khoury clique. Members of this clique, like first BDL governor Philip Takla, had become allies of Chehab. Khoury's arch-rivals and anti-Chehabists including the Eddes and their local banking allies saw eye to eye with Oughourlian in terms of monetary policy. Their main opposition was directed at banking regulation and access to information, the latter of which Oughourlian as a member of the CMC had pushed for. The Edde camp had managed to largely neutralize Oughourlian's attempts in this regard through the door of legislation. But they were still weary of him retaining some influence as a guardian of rival financial interests through the window of day-to-day management of the bank. Their aversion to him running the show was an open secret. Rumours circulating in the summer of 1963 alleged that big bankers had voiced their objection to Oughourlian's appointment as Governor for fear it would be in the interest of the BSL. Oughourlian, they claimed, would "monopolize the laying out of financial planning in the future thereby securing the interest of French conglomerate of companies and banks to the exclusion of looking after other banks and companies".⁵⁶ The battle of BDL appointments would thus garner more controversy than the question of conservative monetary policy.

⁵⁵ During CMC deliberations, Karame overruled Oughourlian on several controversial points; see Airgram 1025, Embassy to Department of State, April 17, 1963; File FN 6 LEB; 1963 Subject-Numeric File; RG 59; NAB. On Karame and Klat being the only attendees at the last meeting with the ABL, see Asseily, *Central Banking in Lebanon*, 22.

⁵⁶ See Karim Khalil, "Al-Qissah al-Kamilah li Ta'yinat al-Masrif al-Markazi," *al-Masarif*, October 1963, 16-19.

According to US embassy sources, Oughourlian had strongly coveted the position of Central Bank Governor. The ABL unofficially backed Paul Klat for the post.⁵⁷ Based on merit, the odds of Oughourlian heading the new bank were quite higher than Klat's or those of any other contender. As Tihany put it, Oughourlian had "experience, education, connections, and a forceful character". At the time of the Central Bank's founding, Oughourlian was arguably the longest serving financial official in modern Lebanese times. After obtaining two doctoral degrees in law and finance respectively from Parisian universities, he had commenced work for the Financial Department of the French High Commissioner's office in Lebanon in 1928. In 1943, Oughourlian became the Financial Controller of the Concessionary Companies and assistant to the Director General of the Ministry of Finance for currency matters, a post that enabled him to represent Lebanon for a number of years on the governing boards of both the IMF and the World Bank. He also acted as a financial advisor to then president Bishara Khoury. Starting in 1952, Oughourlian became consultant to the BSL note issued department, a position he continued to occupy until his appointment in 1961 as vice-chair of the CMC. Oughourlian's professional links to state authority were buttressed by the personal ties he wove with political elites through his marriage into the Trads, a prominent Beirut family. His wife Aurore, who was the sister-in-law of Chehab's advisor and presidential successor, Charles Helou, introduced him to the salons of French and high Lebanese society.⁵⁸

In his job, Oughourlian was a "hard worker and very meticulous about everything that he does" with a "strong personality which usually overcomes most opposition". But opposition to his appointment at the helm of the Central Bank was "too much" to overcome.⁵⁹ As a plan B, Oughourlian decided to campaign for Philip Takla, Chehab's trusted foreign minister, as an alternative. Takla was not a professional banker but his status as a seasoned statesman and Chehab-favoured Cabinet Minister made his nomination more difficult to oppose. The veteran

⁵⁷ On the ABL allegedly backing Klat for Governor, see Dispatch 322, Beirut to Department of State, December 12, 1961; File 883a.14/12-1261; 1960-63 Central Decimal File; RG 59; NAB.

⁵⁸ Quotes and biographic data on Oughourlian, including his career path and family ties, cited in this sub-section (5.2.2) is based on vivid profile prepared by First Secretary of US Embassy of Beirut Leslie Tihany, see Airgram 224, Beirut to Department of State, September 27, 1963; File FN 6 LEB; 1963 Subject-Numeric File; RG 59; NAB.

⁵⁹ See Ibid.

diplomat had reportedly pinned his hopes on capping his career with the prestigious appointment of Lebanese ambassador to France. At the persistence of Chehab, he accepted the offer of serving as Governor on the condition that Oughourlian be chosen as First Deputy Governor.⁶⁰

Takla's retention of his foreign ministry post flew in the face of governor autonomy as stipulated in the Law on Money and Credit. Such flouting of the law was done through a loophole introduced to ostensibly accommodate him and which I discuss below. Such maneuvering signaled the willingness of Chehab to undermine his own reforms for securing political authority at such a vital state institution. Meanwhile, Takla's preoccupation with high politics, his lack of specialized knowledge of monetary and financial management, and his lending of a sympathetic ear to Oughourlian meant that the diligent latter, as First Deputy Governor, secured the role of *de facto* if not *de jure* governor.⁶¹

Takla's appointment was not a foregone conclusion in public circles. Speculation over top appointments at the Central Bank reached its apogee in the late summer of 1963. The Law of Money and Credit, which was ratified by Chehab and published in the official Gazette on August 1st, stipulated that appointments of top Central Bank positions be made within a two-month period. A loophole in the Law allowing the Governor to hold another office during the transition period until the BSL concession officially expired on 31 March 1964 placed the name of Foreign Minister Takla out of the rumor mill and into the check box. On September 7, his appointment as Governor was confirmed. Choices of Deputy Governors were less certain. Names of candidates for Deputy Governors in circulation included AUB economists Talha Yaffi, Elias Saba, Abdel Amir Badrud-din, and Muhammad Attallah. Oughourlian's potential appointment was met with skepticism in some circles. But Chehab, who was on better terms with the Khoury camp rather than the Eddes, seemed bent on retaining a strong Francophile element at the helm of the Bank's administration. Two days after appointing Takla as governor, Oughourlian was confirmed as First Deputy Governor, while French-educated architect, public works consultant, and Chehab

⁶⁰ Chehab reassured US officials that should Takla take on the job of Governor, he would appoint Hussein Uwayni as Foreign Minister which would involve "no change in policy because Oueni and Takla saw eye-to-eye on everything, internal and external". See Airgram 206, Embassy to Department of State, September 16, 1963; FN 6 LEB; 1963 Subject-Numeric File; RG 59; NAB.

⁶¹ When almost a year later Takla was reappointed as foreign minister in President Charles Helou's cabinet, Oughourlian was formally designated as acting governor of the Central Bank. See Section 5.3 below.

technical advisor Shafiq Muharram grabbed the second spot. The third deputy post was assigned to Badrud-din, who was a British-educated financial economist and AUB alumnus. Former government commissioner to the BSL, Joseph Prince, was appointed to the same post at the BDL.⁶²

With governor appointments finalized in September of 1963 and the Law of Money and Credit promulgated the month prior, preparations for the full assumption of central banking duties by BDL scheduled for April 1, 1964 commenced in earnest. The BSL-BDL transition took place at three levels: transition of duties and assets from the BSL to the BDL, the development of skills and organization of the administrative force that was entrusted with operating the bank, and the construction of the bank's new location. All three levels of transition were aimed at a smooth transfer of power and a marking moment in the attainment of full economic sovereignty. But as I show below, these stages were all marred with the persistence of the old order and failed to precipitate a decisive rupture with the BSL.

6.2.3 Central Bank Transition, Construction, and Celebration: Economic Sovereignty as a National Imaginary

The first level of transition pertained to the full transfer of assets and duties from the BSL to the BDL. As stipulated by the Law of Money and Credit, the government issued decrees ordering the withdrawal of public funds from private banks, which was allowed under the BSL concession. It also set up BDL branches in Tripoli, Saida, and Zahle. Funds required to cover the Bank's legally-mandated founding capital were also set aside. Disputes with the BSL over a case of currency fraud that dated back to 1952 and the amount of interest the BSL owed to the government over public deposits were resolved.⁶³ For its part, the BSL used the transition period to exercise its profit-generating right of note-issue to the full. Towards the end of 1963, the BSL

⁶² Director Generals of the Ministries of Finance and National Economy, Andre Tueni and Ihsan Beydoun, were appointed as ex-officio members of the Central Council per the Law of Money Credit provisions. For a detailed press account of the appointment saga and short bios of appointees, see Karim Khalil, "Al-Qissah al-Kamilah li Ta'yinat al-Masrif al-Markazi," *al-Masarif*, October 1963, 16-19.

⁶³ Arbitration contracts had been reached between the two parties on both matter and Parliament was expected to vote on them. But the Money and Credit Law designated the Central Bank Governor as the new arbiter, so the issue became primarily BDL-BSL matter. See "Lubnan Yabda' 'Ahd al-Istiqal al-Masrifi," *al-Masarif*, March 1964, 68-77, 73.

sent an order to British mints to issue LL15M worth of new Lebanese currency. The BSL's administration claimed it was a response to market demand for currency. Takla, who was operating from his makeshift office at the BSL pending the construction of the BDL's new headquarters, assured the public that the BSL move was lawful and did not require the consent of the new Central Bank.⁶⁴

The second level of transition involved the preparation of the Central Bank as an administrative entity to commence operations. The BDL's newly formed Central Council held regular meetings to discuss internal organization and technical preparedness as well as plan for the training of operating personnel. Oughourlian, in consultation with experts from France's Central Bank, actively proposed administrative schemes for the various departments of the BDL. The IMF offered free training to employees. The French-oriented outlook of Chehabism, however, seemed to tilt the balance in favour of seeking expert advice in Francophone Europe and through the BSL rather than through Washington-based Bretton-Woods institutions. During the drafting of the Law of Money and Credit, Oughourlian, who was serving at the time as deputy chair of the Money and Credit Board (CMC), visited Europe in May of 1962 to study how European central banks operated. One year later, Takla sought the close collaboration of the BSL administration and foreign experts to organize Banque de Liban's fledgling note-issue department and train its personnel. In Beirut, he held a series of meetings with BSL officials to plan arrangements for sending employees of the department to train in Paris and Brussels. During an earlier two week trip to the French capital, Takla had discussed with French experts the impact of the BSL-DBL handover on the future of financial relations between the two countries and the relationship of the BSL with the banking sector. He also concluded an agreement with officials at the Belgian Central Bank to send a large number of top BDL employees to the latter for training. Meanwhile, a mission of officials from the French Central Bank came to Beirut to help set up the note-issue department.⁶⁵

⁶⁴ See "Bada' Lubnan Ya'ish Ayyam al-Bank al-Markazi," *al-Masarif*, January 1964, 46-49, 49.

⁶⁵ Lebanese officials saw the IMF offer as an opportunity to become less dependent on foreign experts, see "Lubnan Yabda' 'Ahd al-Istiqlal al-Masrifi," *al-Masarif*, March 1964, 68-77, 72. On Oughourlian's proposals regarding internal organization of the BDL, see "Bada' Lubnan Ya'ish Ayyam al-Bank al-Markazi," *al-Masarif*, January 1964, 46-49, 48-49. On the role of the French delegation and Takla's efforts to involve French and Belgian experts in setting up the note-issue department and train its personnel, see "'5 'am 10 'am 25? Hadhihi Hiya al-Mas'alah," *al-*

The third and arguably most pressing aspect of the BSL-BDL transition was the construction of the BDL's headquarters. Monetary independence and national economic sovereignty had to be on public display in no equivocal terms. If the BDL's mission, policy, and administrative staff and training were sure signs of continuity with its predecessor, the physical space it occupied signaled a total rupture even if the actual design remained subservient to Euro-centric tastes. Faced with an eighteen-month window to design and implement an LL8M-worth project, the process of construction was a testimony to president Chehab's ability to execute grand-scale projects of public works in a timely and accountable fashion. It also reflected the President's tendency to marry European designing expertise with local technocratic talent and state execution. Architectural plans for a totally new and imposing edifice were drawn up by Swiss firm Addor & Julliard and in consultation with internationally renowned architects H. Vicariot and Maurice Zuber. Execution on the ground was entrusted to Lebanese engineer Fayez al-Ahdab in his capacity as head of one of Chehab's several new administrative directorates. Al-Ahdab was attached to the Ministry of Public Works and Transport's Construction Projects Execution Council. He had also served for several years as a member of the BSL's Board of Directors⁶⁶

Ground zero construction began in the spring of 1963. The Sanayeh-based twelve-story building (three of them underground) and its refurbishing were feted in the press as a marvel of modern architecture and contemporary cutting-edge technology. Reception counters were fitted with reinforced concrete and bulletproof glass. The underground vaults, where gold deposits were kept, were reportedly built to withstand earthquakes and a nuclear attack. They were fitted with

Masarif, August 1963, 6-9, 8. On Oughourlian's visits to European Central Banks, see Badrud-Din, *The Bank of Lebanon*, 44.

⁶⁶ The Ministry of Public Works issued a special information booklet on the project. Images of the different stages of construction and information on the construction material and companies involved were included. The blurb introducing the brochure boasted the success of the Construction Projects Execution Council in its timely termination of what "many thought would be an unachievable miracle"; see booklet obtained by this author from Banque du Liban Library: Majlis Tanfiidh al-Masharii' al-Insha'iyyah, "Masrif Lubnan" (Wizarit al-Ashghaal al-'Ammah wa al-Naql, 1964). On total cost of project see Bada' Lubnan Ya'ish Ayyam al-Bank al-Markazi," *al-Masarif*, January 1964, 46-49, 49. Fayiz al-Ahdab is listed as a member of the BSL's Board of Directors for at least the years, 1959, 1960, 1962; see Banque de Syrie et du Liban, *Exercice 1959* (Beirut: Banque de Syrie et du Liban, 1960) and Banque de Syrie et du Liban, *Exercice 1960* (Beirut: Banque de Syrie et du Liban, 1961) and Banque de Syrie et du Liban, *Exercice 1962* (Beirut: Banque de Syrie et du Liban, 1963).

“one of the largest bank doors in the world”. These steel doors were equipped with highly advanced anti-theft electric sensors and “the most modern protection and monitoring equipment”.⁶⁷ Other supplementary state-of-the-art appliances included internal wireless networks, automatic fire alarms, speedy lifts, pneumatic capsule pipelines for internal mail, and telecommunication devices. The Chehab administration, however, made a point of employing Lebanese manpower and construction material to highlight the BDL’s national character.⁶⁸ By the end of 1963, Minister of Public Works Pierre Gemayel boasted that the project would be done by the end of March 1964 in “record time”.⁶⁹

The Chehab administration delivered on its promise. On March 31, 1964, the inauguration ceremony of Lebanon’s long-awaited Central Bank was held with state-sponsored fanfare. *Al-Masarif* Editor-in-Chief Dhulfiqar Qubaysi wrote that the commemorative plaque unveiled at the BDL’s entrance was no less significant than that chiseled into the rocky banks of the Kalb River in northern Lebanon commemorating the 1946 withdrawal of all foreign armies. Political independence was meaningless, he pointed out, without monetary independence. It was the Central Bank that “drew the final and complete contours of Lebanese independence”. Qubaysi lamented the lack of expressions of “happiness and jubilation” among the general population compared to their reaction to the 1946 event. He blamed such apathy on the dry nature of economic issues.⁷⁰

Members of the ruling elite, unlike the “masses”, were quick to answer the celebratory call. Attendees of the gala included government ministers, heads of diplomatic missions, top civil servants, prominent businessmen, and representatives of economic associations. Lebanese Prime Minister Hussein ‘Uwayni, and Foreign Minister Philip Takla who was the newly-appointed Central Bank Governor, represented President Chehab at the event and gave speeches to

⁶⁷ See Ibid.

⁶⁸ In addition to list of high-tech refurbishing, the booklet on construction produced by the Ministry of Public Works and Transport pointed out that electronically powered parking doors were made in Lebanon while tiles of the external lobby were extracted from Lebanese quarries. See Majlis Tanfiidh al-Masharii’ al-Insha’iyyah, “Masrif Lubnan.”

⁶⁹ See “Bada’ Lubnan Ya’ish Ayyam al-Bank al-Markazi,” *al-Masarif*, January 1964, 46-49, 49.

⁷⁰ See Dhulfiqar Qubaysi, “Nalat al-Lira al-Lubnaniyyah Istiqlalaha,” *al-Masarif*, April 1964, 4-6 (5).

celebrate the occasion. ‘Uwayni and Takla identified the Central Bank, both as a construction project and administrative institution, as one of the “great achievements” of the Chehab presidency that was marked by the development of public life. Indicating the level of continuity between old and new, both officials praised the BSL for what they described as its cooperative relationship with the state and its constructive policies throughout its concessionary life.

‘Uwayni and Takla were also both keen to affirm the liberal nature of Lebanon’s economy based on a strong currency. The right to free-initiative, they told their audience, was sacrosanct and the Banking Secrecy Law would be fully respected. It was equally important, however, that laws regarding the organization and regulation of the banking sector be upheld. Regulation was billed by ‘Uwayni and Takla as a guarantor of freedom. Balancing rights with duties and economic freedom with social justice, as the speakers reminded the crowd, was a hallmark of Chehabism that had informed the making of the Central Bank. Takla stated the need to organize the fast-growing banking sector. ‘Uwayni opined that collaboration between Banque de Liban and the private banks was particularly significant in the very preservation and prosperity of Lebanon. He said:

If economic freedom is the logic of Lebanese prosperity, then the cooperation of private banks and the Central Bank in particular and the cooperation between individuals and the state in general form the basis for future actions. This is in order to provide the suitable climate and capabilities through which the state would be able to reconcile Lebanon’s interest in remaining a country of freedom and free-initiative with the interest of citizens that [such] freedom is coupled with social justice without which there is no stability. As such, Lebanon becomes in word and deed the country of welfare, bliss, stability, and freedom.⁷¹

The first few years of operation of the BDL would see little in the way of bliss, monetary stability, or cooperation with the banking sector. BDL annual reports attempted to reflect the new configuration of Lebanon’s emerging and BDL-centered monetary space. But the making of the Central Bank was far from complete. The ability of the BDL to exert its authority was severely strained. A growing liquidity crisis shook public confidence and reignited the debate around the validity of having a central bank. It also exposed the structural weaknesses of the banking sector

⁷¹ For details of the inauguration ceremony and excerpts of speeches by Takla and Uwayni including ‘Uwayni’s quote above, see “Tafaseel al-Ihtifal bi Tadsheen Masrif Lubnan.” *al-Masarif*, April 1964, 7-9.

and forced a rethinking of BDL role and function. These transformations that led up to a general crisis in 1966 are examined and analyzed in the remainder of this chapter.

6.3 The BDL's Turbulent Take-off: Coaxing without Coercion

Like the construction and celebration of its headquarters, the BDL's annual reports in its early years of operation tried to further consolidate the concept of an independent Lebanese economy in the national imaginary. The task proved rather elusive. In its first two years of operation, the BDL's official policy as outlined in its annual reports failed to construct a full representation of the economy. BDL officials repeatedly lamented the lack of adequate and at times non-existent statistics necessary for the operation of the state and a prerequisite for painting a full picture of the economy. Statistics published were either incomplete or their object of inquiry differed from one year to the other. Each sector was dealt with separately, with no gross national product statistics emerging as a unifying framework.⁷²

These reports, however, failed to change the perception of the Lebanese economy as a free service-based one. The reports reinforced the sanctity of *laissez-faire* economics celebrated by Takla and 'Uwayni while paying lip-service to the parallel ideals of economic development and social justice that the top officials had peddled at the ceremony. The BDL did recognize the overwhelming bias within the Lebanese private sector towards commercial rather than agricultural or industrial lending and the persistence of the trade balance deficit that had plagued Lebanon since its independence. But the Bank's first annual report warned that it was important when addressing such imbalances "to avoid *touching* [my italics] the foundations of the principles of free economy and the immunity of currency and not to target invisible incomes that remain the basic factor in adjusting the Lebanese balance of trade."⁷³ These foundations were again cited, in addition to a "moderate" tax policy, as the main reasons behind the "satisfactory" growth and "exponential prosperity" that the Lebanese economy witnessed in 1964. Other reasons of prosperity included the "free system that provided the widest of possibilities for the

⁷² On repeated complaint of BDL officials for lack of adequate statistics see Banque du Liban, *Annual Report for 1964*, 1 and Banque du Liban, *Annual Report for 1965* (Beirut: Banque du Liban, May 27, 1966), 3.

⁷³ See Banque du Liban, *Annual Report for 1964*, 5.

Lebanese to make use of their talents and characteristics” and the country’s “high air quality and the beauty of nature that lasts all four seasons.”⁷⁴

BDL recommendations to ensure that these foundations were preserved seemed more in line with the prescriptions of the ‘Merchant Republic’ than the declared policies of Chehabism. These recommendations included the deregulation of rent control, the rolling back of progressive tax on real estate, and the total elimination of tax on bank deposits for residents and non-residents alike as a means of attracting foreign capital and increasing the volume of its local counterpart.⁷⁵

Laissez-faire remedies were equally invoked in the few instances when the discourse of economic development prevailed. The Bank acknowledged the need for medium and long term credit for sustained economic development. Yet, it identified the elimination of tax on bank deposits as the method of getting private companies to create the necessary medium and long-term lending institutions. The bank’s proclivity for privately-driven rather than state-led initiatives was reinforced by its lending policy. BDL advances to the public sector were consistently and significantly less than those given to private institutions with little evidence the latter were geared towards development projects.⁷⁶ Even the Bank’s sole impulse for state intervention reserved for the regulation of the banking sector remained hardly detectable in its first year of operation.⁷⁷

By the end of 1965, the aura of optimism surrounding the establishment of the bank had all but faded into the shadows of the collapse of three banks, a widely feared liquidity crisis, grumpy brokers at a struggling Beirut Bourse, an increasingly antagonistic private banking sector, and a

⁷⁴ See *Ibid.*, 15. The BDL’s praise of Lebanese talent seemed toned down compared to the BSL’s assessment of the secret behind Lebanon’s growth. In its 1959 annual report, the BSL declared that it is only possible to understand the Lebanese economy “as a function of the skills and ingenuity of the Lebanese”; see Banque de Syrie et du Liban, *Exercice 1959*, 25.

⁷⁵ See Banque du Liban, *Annual Report for 1964*, 16.

⁷⁶ In 1964, advances to public sector amounted to approximately LL60M, those to the private stood close to LL100M (See *Ibid.*, 19.). In 1965, the public sector advances went down to LL54M while private ones increased to around LL105M (See Banque du Liban, *Annual Report for 1965*, 23.).

⁷⁷ Unlike the 1965 report which addressed the question of abundance of banks and need for their regulation, the 1964 Annual Report stated matter-of-factly the number of banks and their geographic distribution. Other banking stats were also simply stated. See Banque du Liban, *Annual Report for 1964* and Banque du Liban, *Annual Report for 1965*.

public increasingly skeptical of the Bank's governor and his rusty Midas touch. The Central Bank's troubles had begun prior to its own official inauguration. In February of 1964, the medium-sized Lebanese Real Estate Bank failed to secure enough liquidity to meet demand despite drawing on a large loan from another bank, the Commercial Bank. The outbreak of the crisis during the period of transition of duties between the BSL and the BDL presented serious obstacles to its summary resolution and exposed the unstable situation precipitated by the prolonged and not-so-orderly transfer. It also illustrated the precarious balance of authority between the Association of Banks, the old bank of note issue and the new Central Bank.

Lacking any clear protocol of how to handle the crisis, the three concerned institutions passed the case of the troubled bank to each other like participants in a game of musical chairs passing around a hot potato. George Debbas, who was the Real Estate Bank's General Manager, first approached the banking community for help before the matter took on national proportions. On February 20, he contacted the ABL and sought assistance. ABL executives held an extended emergency meeting over the weekend.⁷⁸ They devised a three-step roadmap. The first was to strike a joint committee composed of Real Estate Bank board members and a select group of bank managers. The second was to request advances, via the committee, from the bank of issue, the BSL at the time. The third was to obtain a guarantee of these advances from the Real Estate Bank's Board of Directors. The cycle of passing on responsibility began. Once approached by the ABL, the BSL deferred to the BDL's governor Philip Takla as the relevant authority, who in turn conferred with the BSL given that the latter was in a better position to furnish the needed funds. Takla managed to get the BSL on board, but on condition that the ABL bankers would offer the adequate loan guarantees. The bankers expressed their willingness to take on the matter, but only if the Real Estate Bank board members unconditionally mortgaged all their possessions as a guarantee.

After a series of highly publicized meetings and announcements by public officials and private stakeholders, the parties involved failed to reach a satisfactory agreement. Both banks, The Real Estate Bank and the Commercial Bank, had to fold and declare stoppage of payment. The ABL,

⁷⁸ For dates of meetings, see Dhulfiqar Qubaysi, "Azmat Thiqah Azmat Bunuk: al-Qissah al-Kamilah li Azmat Shari' al-Bunuk," *al-Masarif*, March 1964, 4-13, 4 and 8.

BSL and the BDL all wrung their hands from the case and let the courts settle the dispute.⁷⁹ In a matter of weeks, the court came out with its verdict. On March 12, 1964, the Real Estate Bank was declared legally bankrupt for failing to abide by proper banking practices. The verdict was based on the Commercial Code given that the Law of Money and Credit was not in effect yet. The Commercial Bank got a lighter sentence. It was deemed a victim of the Real Estate Bank's irresponsible behavior and granted preventive debt settlement status.⁸⁰ The case was closed but BDL policy and viability was seriously affected. A larger banking crisis was looming ahead.

6.3.1 Doubting the Central Bank and the Debbas Domino Effect: The Signs before the Storm

During the Real Estate Bank crisis, BDL governor Takla and ABL president Pierre Edde dismissed it case as an isolated case. Edde assured the press that the folding of the banks had “absolutely no effect” on the general financial state of the country. Takla publicly declared that these crises can happen anywhere in the world and pointed to the low volume of discounted bills at the BSL as proof that the banking sector as a whole was not facing any liquidity crisis. The Ministry of Information and Guidance also released an announcement assuring the public that the crisis is a passing one and could not be compared to that of 1956 or 1958.⁸¹ Government and ABL assurances failed to stem the tide of public speculation over the robustness of the financial sector and the ability of the new Central Bank to manage it efficiently and promptly. Rumours of a serious liquidity crisis persisted throughout the rest of the year despite optimistic forecasts by the French Press. The crisis took on a nationalist dimension as reports indicated that there was a movement of capital out of domestic banks and into foreign ones. The entire financial sector,

⁷⁹ The Real Estate Bank's Board of Directors included Beirut wealthy merchant and notable Ahmed Daouk. Backed by his family, Daouk expressed willingness to provide some guarantees but refused to offer such a blanket pledge. On the details of these trilateral meetings between the ABL, the BSL, and the BDL, see Dhulfiqar Qubaysi, “Azmat Thiqah Azmat Bunuk: al-Qissah al-Kamilah li Azmat Shari' al-Bunuk,” *al-Masarif*, March 1964, 4-13.

⁸⁰ Members of the bank's Board of Directors were held accountable for liquidating its debt with Debbas receiving the bulk of the blame. For the full text of the court's ruling, see “al-Bank al-'Aqari wa al-Bank al-Tijari,” *al-Masarif*, May 1964, 84-90.

⁸¹ For excerpts of statements by Takla and Edde, see Dhulfiqar Qubaysi, “Azmat Thiqah Azmat Bunuk: al-Qissah al-Kamilah li Azmat Shari' al-Bunuk,” *al-Masarif*, March 1964, 4-13, 12. For excerpt of ministry's release, see *Ibid*, 10.

including the banks, Beirut's struggling Bourse, and the Central Bank became targets of public debate and criticism.⁸²

Speculation reached a crescendo during the summer months of 1964 as Chehab's term neared its end. Private banks were faced with political uncertainty, the collapse of two banks, and the new - albeit inactivated - legislation granting the Central Bank the right to impose reserve ratio requirements. If imposed, these requirements would further strain the banks' credit capabilities. Many of these banks adopted a tight lending policy and the money market became stagnant. Experts like Salim Hoss, who at the time had risen to become head of AUB's Business Administration department, publicly defended the practice of reserve ratio requirements but called on the Central Bank to promptly announce the ratio it wished to adopt so as not to keep the banks guessing. Several Members of Parliament sent a formal query to the government asking the latter about the measures it took to resolve the financial crisis and wondering whether it was on a scale similar to that of 1958.⁸³

Prominent bankers largely dismissed talk of a full-fledged crisis but acknowledged the precarious status of the sector and offered a range of solutions that were either private-led, state-run, or a mix of both. Former ABL vice-president Anis Bibi assured the public that Lebanese banks shall withstand shocks thanks to the Banking Secrecy Law and the special national role local banks played compared to foreign ones. Domestic banks, he told the press, attract Arab capital destined to serve "general national [*qawmiyyah*] objectives" as opposed to capital deposited in foreign banks that is invested in foreign interests let alone Israeli ones.⁸⁴ Other bankers took aim at the Central Bank. Veteran banker Sami Shoucair argued that calls to restrict the number of operating banks were misplaced. The problem, Choucair explained, was not a shortage of liquidity but one of trust. Investors held off their savings because they needed assurances from the Central Bank. Choucair acknowledged that the BDL was a necessity but

⁸² One *al-Masarif* analysis contrasted reports by the French newspaper *LeMonde* affirming the good financial standing of Lebanon with testimony by the BDL's foreign expert Rudolf Manstersky that Lebanese money markets are facing a liquidity crisis; see "Naqs al-Suyulah al-Naqdiyyah," *al-Masarif*, June 1964, 6-9, 6-7.

⁸³ The parliamentary petitioners were Ghalib Shahin, Abdel Latif al-Zayn and Anwar al-Sabbah; see "Hakim al-Bank al-Markazi Ya'tarif..." *al-Masarif*, Jul 1964, 6-9, 9.

⁸⁴ See interview of Anis Bibi in "Masarif Lubnan Samidah fi Wajh al-Azamaat," *al-Masarif*, Sept 1964, 10-13, 11.

chided it for allegedly acting as a purely inspection agency. “The [Central] Bank is not the Ministry of Finance,” he told the bankers’ magazine of record *al-Masarif* in July of 1964. “It is rather the bank of banks and the official and actual setter of economic and financial life and thereby has to act based on the principles of personal free initiative and not solely according to the protocols of administrative inspection”.⁸⁵ Start-up banker George Jabbour, however, argued that Lebanon could not tolerate a further increase in the number of banks and proposed private mergers as a solution.⁸⁶ Businessman Michel Saab, who had campaigned for a Central Bank in 1953, called for the creation of a Lebanese deposit insurance fund as a joint public-private venture managed by the government.⁸⁷

For their part, Beirut’s money exchangers were more vocally critical of the Central Bank and demanded a larger consultative role for financial and economic associations in running it. In a public memo they submitted to the Lebanese cabinet, the brokers lamented that financial markets will remain shaky “as long as conditions at the Central Bank remained unchanged” and as long as expertise was lacking for “good intentions were not enough”. The BDL, they complained, failed to provide them with adequate amounts of coins of small denomination and to replace “dirty” bank notes which [did] not reflect Lebanon’s “civilized” face and were understandably being turned down by tourists.⁸⁸

In the press, the polemics for and against the BDL were framed within broader and familiar debates about planned versus *laissez-faire* economies. One critical editorial harkened back to the days when there was “chaos...that did not harm anyone” but was rather coupled with “an authentic spirit of adventure mixed with national ambition” that stood behind the country’s prosperity. In response to claims that many countries had Central Banks with powers like the

⁸⁵ See interview with Sami Choucair in “Majmu‘at Shuqayr Qa‘dah lil Izdihar wa al-Istiqrar,” *al-Masarif*, July 1964, 10-13.

⁸⁶ See interview with Jabbour in “Damj al-Bunuk fi Lubnan Amr la Mafarr Minhu,” *al-Masarif*, August 1964, 16-19.

⁸⁷ Saab’s proposed law included over 50 articles. For text of draft law, see “Mashru‘ Qanun Bi Insha’ Maslahat Ta’min al-Wada’i,” *al-Masarif*, Sept 1964, 86-91

⁸⁸ The excerpt was reprinted in *al-Masarif* but the newspaper it first appeared in was not identified. See “al-Safqah al-Masrifiyah al-Lati Tawat Safhah Qadimah,” *al-Masarif*, August 1964, 8-9, 8.

BDL, the editorial invoked Lebanese exceptionalism to the point of claiming that Lebanon without a central bank was better off financially and economically than those countries with a central bank:

These countries [that have a Central Bank] are not Lebanon. They neither have Lebanon's status nor the secret of its success nor the spirit [*nafsiyyah*] of its people. In particular, these [countries] do not have the prosperity that Lebanon possesses that would prompt [Lebanon] to inquire into what it was missing...so why would the blessed imitate the less [blessed]? Why does the prosperous country apply the regulations of unprosperous country? Why turn envy on its head?⁸⁹

The polemical attack then went on to identify dirigisme as the root of this purportedly immiserating path:

We were wealthier, we were happier, our future was clearer, we used to attract the world's money, so why did we imitate them rather than they imitate us? Why did we feel that the shortcoming was ours not theirs? Why did we set them as a higher example? ...Why this inversion of role models? ... Why do we wag the supervision of the state over individuals when our prosperity is the product of the independent labour of individuals, their ability to take free-initiative and overcome state-placed obstacles?⁹⁰

Other newspapers defended the BDL and turned the argument on its head. It was the absence of a central bank, one newspaper argued, that “allowed foreigners to extend their hands into our country and control its economy and financial direction”. Another paper asserted that the Central Bank was a “national institution that looks after banks and guides it along the right course and acts as a guarantor of the rights of depositors”.⁹¹ Once in office, BDL governor Philip Takla initially tried to stay away from press talk. In the spring of 1964, he told reporters that his relationship to the press as a governor was drastically different from what it was like as foreign minister. The governor's mission, he said, required little talk and a lot of work.⁹² The summer crisis dragged the veteran diplomat out of his reticence. With the persistent talk of a liquidity crisis, Takla admitted that there was “something unusual” about the money market. The rookie

⁸⁹ As quoted in Ibid, 8-9. The *al-Masarif* article enumerates the different newspapers but does not cite their names.

⁹⁰ Ibid.

⁹¹ The names of these newspapers were withheld by *al-Masarif*, see Ibid.

⁹² Takla urged reporters to uphold the standards of accuracy, objectivity, and positivity when discussing the Central Bank; See “Hakim al-Bank al-Markazi Yaquul li *al-Masarif*,” *al-Masarif*, May 1964, 44-45.

governor refused to describe it as a “crisis”, suggesting that it was a “temporary emergency condition that will fade away in a very short time. “The economic situation”, he told his interviewers, “is in great shape”.⁹³

The autumn of 1964 seemed to vindicate Takla’s assessment. But the Governor’s *visible* hand was at play. In the first two weeks of October, the BDL pumped LL24M into the money market.⁹⁴ Earlier in September, the election of president Charles Helou had brought some confidence back into the money market and curbed the outflow of capital from accounts in Lebanese currency into foreign currency ones. The Association of Banks, seemingly emboldened by the election of a right-of-centre Chehabist like Helou, launched its own attack on the press, threatening to take part in legal action against publications that targeted banks. Such campaigns, the ABL claimed, were an attack on the “entire banking system”. Its legal action was accordingly in defense of the entire banking profession.⁹⁵ The clash between Lebanon’s two titans, the press and the banks, led the associations of both professions, the ABL and the Press Syndicate, to reach an agreement in October of 1964.⁹⁶ Under the deal, all press campaigns and all legal action by banks would cease. Future press reports that include criticism of banks, however, had to be submitted to the Syndicate which in turn had the right to solicit an obligatory response from the ABL prior to publication. Newspapers that violated these procedures would be declared legitimate targets for litigation and the Syndicate pledged not to come to their aid.⁹⁷ The bankers’ stranglehold over the press was reinforced the following month when the publication of

⁹³ See “Hakim al-Bank al-Markazi Ya‘tarif...”, *al-Masarif*, Jul 1964, 6-9,6-7.

⁹⁴ See “Wad‘ Masrif Lubnan 24 Malyun fi al-Aswaq Khilal Nisf Shahr Tishreen al-Awwal,” *al-Masarif*, November 1964, 8-9.

⁹⁵ See ABL’s statement to the press, “Jam‘iyyat Masarif Lubnan Ta‘tabir...[sic],” *al-Masarif*, October 1964.

⁹⁶ *al-Masarif* reporter Badri Yunis referred to the Press and the Banks as the “two titans of the Lebanese Economy”, see Badri Yunis, “Sira‘ al-Jababirah: Bayna al-Sahafah wa al-Masarif,” *al-Masarif*, Oct 1964, 98.

⁹⁷ As a gesture to show that all was well between the Press, the Bankers, and the Central Bank following the signature of the agreement, the ABL held a function in recognition of Central Bank governor Philip Takla and invited Press Syndicate head Afif al-Tibi as guest of honor. See “Wad‘ Masrif Lubnan 24 Malyun fi al-Aswaq Khilal Nisf Shahr Tishreen al-Awwal,” *al-Masarif*, November 1964, 8-9.

false news about banks was criminalized and their author subject to a jail sentence of three months to two years.⁹⁸

Silencing the press did not bring a swift end to the crisis. In January of 1965, claims by the ABL that the crisis was largely a function of press speculation were undermined by the collapse of another bank called Sogex. Unlike the Real Estate Bank case, the Central Bank managed to get ten private banks to take on the liquidation of the failing institution. But as the BDL's 1965 Annual Report warned, that was a one-time remedy that could not be relied on in the long-run.⁹⁹ A more sustainable solution was required. The collapse of three banks had failed to slowdown the sector's expansion. In 1964, the Central Bank reviewed 22 permits for founding new banks in addition to approving the establishment of four new branches of foreign banks.¹⁰⁰ In 1965, four additional banks were established, bringing the number of banking institutions to 86 with a total of 206 permanent branches.¹⁰¹ The abundance of banks preoccupied the BDL throughout 1965. Following a survey of the sector, the BDL explicitly asked the Lebanese cabinet, which in July of 1965 had tightened the rules for setting up new banks, to fully cease issuing any such permits except to ventures devoted to medium and long-term lending. The Bank also advised that even new branches must obtain a special permit. On 5 January 1966, the cabinet adopted these and other recommendations that provided incentives for banks to merge or liquidate or turn into non-banking businesses.¹⁰² The measures were too little too late. They prevented an *additional* increase in the number of banks, but did not impose any new regulation on existing ones which were already in great abundance. In sum, these measures did not form a coherent policy aimed at tackling the roots of the crisis or leading to a fundamental change in the relationship between the central bank and the banking sector.

⁹⁸ On the details of the law and its provisions see "Asbaha Hakim Masrif Lubnan Waziran lil Kharijiyyah," *al-Masarif*, December 1964, 8-11.

⁹⁹ See Banque du Liban, *Annual Report for 1965*, 14.

¹⁰⁰ The BDL's *Annual Report for 1965* does not indicate how many out of the 22 were approved. See *Ibid.*, 18.

¹⁰¹ See statistics as listed in *Ibid.*, 12.

¹⁰² See *Ibid.*, 13.

With its regulatory wings clipped and an organized banking lobby tethered to its administrative arm, BDL calls for financial prudence largely had fallen on deaf ears in the first two years of its operation. A couple of banking failures and public panic over a looming liquidity crisis had failed to jade the buoyant bankers or alter the power dynamic between their sector and the Central Bank. The reappointment of the bank's governor Philip Takla as foreign minister under Helou, in violation of the BDL's own statutes, only served to weaken the BDL's authority and effectiveness.¹⁰³ It took a tempest in a jackpot to shake the banking establishment off its high pecuniary pedestal. In the fall of 1966, the country's largest bank, Intra, collapsed. It was the strike that tore off the Central Bank's fig leaf of financial acumen and authority. The Chehabist bureaucrats and the barons of banking had to go back to the legislative drawing board to renegotiate the precarious balance of cooperation vs coercion they had produced under the Law of Money and Credit.

¹⁰³ Takla's first deputy Joseph Oughourlian was designated as acting governor, see *Majallat al-Masarif* Dec 1964, 8-9.

7 Suits and Shadows: The Intra Crisis and the Remaking of Banque du Liban

Choosing not to support Intra but to support other banks in Lebanon was the lesser of two evils. Nay, it was the best of solutions and the most effective.¹

Charles Helou
President of Lebanon (r.1964-1970), 1995

On November 23, 1967, Swiss police in the tourist city of Lucerne grew suspicious of a vehicle carrying a New Jersey plate that was parked for several hours next to the Central Postal Office. When approached by police, the car's driver, an elegant man dressed in a black coat, identified himself as Brazilian trader Jose Carlos. Further interrogation of the man and the examination of his Brazilian-issued passport and belongings revealed that the suspect was Yusif Beidas, the former head of Intra Bank wanted by the Interpol.² Beidas had turned from a financial giant into an international fugitive after Intra, the largest bank in Lebanon at the time, collapsed in the fall of 1966 and its founder refused to return to Beirut to face the music. One year after his arrest in Lucerne, Beidas fell ill and died a bitter and forlorn man.³ The causes and consequences of his bank's collapse, and the major role of Lebanon's central bank in the debacle, however, continued to stir controversy for decades to come. Thanks to its size and hold on vital junctions of the Lebanese economy as well as its pioneering expansion abroad, Intra's fortunes were intimately

¹ See Charles Helou, *Hayat Fi Dhikrayat* (Beirut: Dar al-Nahar, 1995), 239.

² When interrogated by Herzek, Beidas brandished a Brazilian passport and claimed he was a trader in the hides of wild animals and had just arrived in Switzerland. Herzek, who was multilingual, became suspicious when, among other things, Beidas was unable to respond in Portuguese. Herzek later discovered that Beidas was carrying other identification documents bearing his true name as well as some jewelry, safe deposit keys, and hotel cutlery kept as a souvenir; for detailed testimonies of the arrest, see Riyadh Najib Rayyis, "Khamsat Shuhud Yarwun Qissat Yusif Beidas," *Annahar*, December 9, 1967. At the time of his arrest, Beidas was reportedly carrying US\$7,000 and 11,000 Swiss Francs and driving a car with the 1967 New Jersey Plate number JZA 617, see Telegram 1558, Bern to Department of State, December 07, 1967; File FN 6 LEB; Subject-Numeric File; RG 59; NAB. Beidas had first sought refuge in Brazil, see George de Carvalho, "Fall of the 'Genius from Jerusalem'," *LIFE*, January 27, 1967, 87-89.

³ Beidas died of pancreatic cancer at the age of 56 on November 28, 1968, see Joseph Farah, "Marwan Beidas Li ad-Diyar," *ad-Diyar*, December 27, 2001 and Hanna Asfour, *Bank Intra: Qadiyyah Wa 'Ibar* (Beirut, 1969), 37. . Beidas's brother, Emile, tried to commit suicide twice a couple of months after the crisis broke out, see "Emile Beidas Yantahir Marrah Thaniyah wa Yanju," *Al-Hayat*, December 21, 1966.

linked to those of the Lebanese economy. Its collapse had threatened the entire banking sector with bankruptcy, destabilized the Lebanese political establishment, and shook the trust of Arab and international investors in the ability of Lebanon to act as a financial entrepot and powerhouse for the Middle East. The crisis was also a major force behind sweeping central banking reforms that restructured the relationship between the BDL and the banking sector.

The rise of Intra and the sequence of events that led to its crash, which are briefly outlined below, have been detailed elsewhere.⁴ Rather than delve too much into the storyline depicting the rise and fall of Intra, this chapter is an attempt to situate the crisis in a global and regional context and to equally examine its local roots and ramifications in relation to a series of BDL-related conceptual themes. These themes pertain to questions of financial stability of underdeveloped and foreign-capital dependent money markets like Lebanon's financial market, central banking authority as the capacity to direct the outcome of crises, and the regulation of banking as a sufficient mechanism of avoiding or mitigating crisis. The first theme addresses the workings of money and power within national space and at the state institutional level (Central Banking) when faced with a crisis with an international dimension. What was the relationship between Lebanon's governing elites and powerful financial actors like Beidas? Were the politics of national identity, given Beidas was a Palestinian, a determining factor in the outcome of events? To what extent were these elites capable of controlling big money and manipulating the state apparatus, including its most powerful financial arm the Central Bank, both in terms of precipitating the crisis and/or controlling its aftermath? The second theme revolves around the transnational character of the crisis. How did regional flows of capital and international competition for financial control, even of small peripheral spheres of influence such as the Lebanese money market, produce a discourse of national vs foreign capital? How did central banking authority navigate these public claims and pressures that usually called for protecting national capital? Additionally, to what extent was the crisis tied to economic warfare fueled by political rivalries that developed in the context of the Cold War era on the Arab stage (Cairo vs.

⁴ For the most detailed and non-partisan account of the Intra crash, its causes, and fallout, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*. Other book-based reliable accounts consulted for this study include Yusif Salameh, *Haddathani Y.S. Qal*, 4th ed. (Sweden: Dar Nelson, 2001), 111–152; Najib Alamuddin, *The Flying Sheikh: Autobiography* (London: Quartet Books, 1989), 135–169. More sensational and poorly referenced accounts include Dhulfiqar Qubaysi, *Yusif Beidas: Filastini Halim Bi Majd Lubnan* (Beirut, 1978) and Faysal Sammak, *Nihayat Imbaraturiyat Beidas* (Beirut, 1967).

Riyadh) and through European challenges to US hegemony (Paris vs. Washington)? The third and final theme addresses the structural and institutional transformation of central banking authority that took place as a result of the crisis. The Intra collapse led to a flurry of banking legislation that created new institutional instruments of central banking aimed at restoring trust in the banking sector. How did these legal innovations, such as the deposit insurance corporation and the banking control commission, alter the power relation between the central bank and the private sector? To what extent were they conditioned by local versus international banking practices? And what type of new regimes of regulation and banking operation did they introduce?

The first two themes are explored in *Sections 7.1* and *7.2* through an examination of the causes of collapse of Intra, including conspiracy theories implicating the BDL to that effect, and efforts to either sink or refloat the bank afterwards. The last theme is tackled in *Section 7.3* through a critical survey of the new legal framework that was devised in the wake of the crisis to regulate the entire banking sector. This new legal framework was linked to - but not entirely integrated into - the central bank apparatus. Rather, the BDL came to govern this framework and contributed to the rise of a new breed of bankers, the banker-bureaucrats who straddled the space of state institutions and private banking as the expert guardians of the new regulatory regime.

7.1 Intra and the End of a Monetary Miracle: Credit Crisis or Conspiracy of Lebanon's Financial Fraternity?

Like his peers of Palestinian entrepreneurs who rose to prominence in the Arab world of business following their 1948 expulsion from Palestine, Beidas owed his success as much to his dynamic character as he did to a confluence of political and economic forces of the time.⁵ The ambitious and hardworking Jerusalemite gained his financial experience in Palestine at Barclays Bank and later as manager of The Arab Bank's branch in Jerusalem. Following the *Nakba* and his relocation to Beirut in 1948, Beidas set up a commercial venture called International Traders in partnership with two other Palestinian entrepreneurs. They were joined by his wife's uncle Munir

⁵ These peers included Hasib Sabbagh, Said Khoury, Zuhayr Alami, Badr al-Fahum, and Abdul Hameed Shoman; see Abu Fakhr, "Al-Filastiniyyun Fi Lubnan," and Abdulhameed Shoman, *The Indomitable Arab: The Life and Times of Abdulhameed Shoman (1890-1974) Founder of the Arab Bank*. (London: Third World Centre, 1984).

Abu Fadil, who was a prominent Lebanese politician and a former police officer in Palestine.⁶ By 1951, Beidas and his partners had amassed enough capital to establish their own bank which they called Intra. In the following decade, and largely thanks to the inflow of petrodollars, Intra rose to become Lebanon's number one bank. Its share capital increased ten-fold from LL6.4M in 1951 to LL60M in 1962. Its banking operations topped 15% of Beirut's entire market while its assets rivalled those of the Central Bank.⁷ Intra's influence on the economy of Lebanon was not restricted to the volume of credit it controlled. Beidas pursued an aggressive policy of acquiring major stock shares in some of Lebanon's vital commercial enterprises in the sectors of air and maritime transport, tourism, media, and construction. Most of these sectors were in the hands of foreign capital thanks to concessionary privileges granted during colonial times.⁸

Faced with an increasingly saturated domestic market, Beidas set his eyes abroad. His ventures, which I refer to in the course of this chapter, included bold buyouts of prime real estate property in New York, Geneva, and Paris, as well as the acquisition of controlling shares in France's major shipyard, Chantiers Navals de la Ciotat. By 1965, a year described by Intra's Board of Directors as "one of the most successful", the number of Intra's branches worldwide, including those in Lebanon, had reached two dozen and were spread across nine countries on four continents. The value of the bank's total declared holdings inched close to LL1Billion, its declared net profits stood at LL6.5M, and its Board of Directors contemplated yet another

⁶ Beidas' two other partners were Munir Haddad and Fritz Maroum. International Traders made handsome profits in the foreign exchange market by meeting the needs of the Palestinian refugee population through the provision of transportation and currency exchange services to international aid organizations such as the Red Cross and the newly-created United Nations Works and Relief Agency (UNRWA). The company also signed service contracts with Bechtel and other oil refining companies that were tapping into the burgeoning Gulf oil market, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 10–12. On his promotion to bank manager at the Arab Bank, see Salameh, *Haddathani Y.S. Qal*, 114.

⁷ Intra's founding capital of LL6.4M was increased to LL12M in 1953, LL30M in 1959, and finally LL60M in 1962, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 15. Dhulfiqar Qubaysi claims Intra controlled 60% of Lebanon's money market while Hanna Asfour cites a more conservative estimate, larger than 15%, of its banking operations, see *Ibid.*, 16, and Qubaysi, *Yusif Beidas: Filastini Halim Bi Majd Lubnan*, 27. Intra's total declared assets in 1965 amounted to LL925M while those of the BDL were a little over LL1Billion; see Board of Directors, *Annual Report 1965* (Intra Bank, May 31, 1966) and Banque du Liban, *Annual Report for 1965*.

⁸ Intra owned stocks in companies such as Middle East Airlines, Société Financière & Immobilière du Port de Beyrouth, Radio-Orient, Casino du Liban, Phoenicia Hotel, Lebanese Cement Corporation, Baalbek Studios, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 203. Beidas himself was chairman or member of Board of Directors of over a dozen companies and banks, for list of such companies, see Appendix III in Badrud-Din, *The Bank of Lebanon*.

increase in share capital up to LL120M. Three additional branches were planned for the following year.⁹ But the euphoric mood prevalent among Intra officials in 1965 proved illusory. In the summer of 1966, Intra began to face a liquidity problem as rumours of cash shortages and large withdrawals emerged. In the second week of October, withdrawals snowballed into a run on the bank. Close to LL51M were withdrawn between October 3 and October 14. Faced with inaction by the Central Bank and mounting withdrawals that reached LL12M on the single day of October 14, Intra declared stoppage of payment on October 15 and shut its doors until further notice.¹⁰

The Intra closure sent shockwaves across Beirut's money market, occupied front page headlines in the press for several weeks, and triggered a political crisis that eventually brought down the presiding government of Abdallah Yafi.¹¹ The local press feverishly speculated over the causes of the crash. Conspiracy theories were floated amid conflicting reports of whether there was a deliberate effort to sink the bank or whether mismanagement by Beidas coupled with ineffective central banking policy was to blame. Conspiracy claims of a deliberate run coalesced into two intersecting narratives of a regional and another local dimension. Regionally, Intra was seen as a victim of heightened tensions between the two rival Arab camps headed by Egypt's President Nasser and the Saudi King Faysal Ibn Saud. Domestically, the demise of Beidas was largely blamed on local financial rivals who did not wish to see a Palestinian become the country's top financier. In the following sub-sections, I consider these claims in light of archival evidence, press reports, and personal accounts of individuals involved while contextualizing the crisis within broader socio-economic and political developments. My findings in these subsections challenge dominant conspiracy narratives without exonerating several actors from responsibility

⁹ In addition to 11 branches in Lebanon, Intra set up branches or offices abroad in Jordan, Qatar, Britain, France, West Germany, Italy, United States, Sierra Leone, and Gambia. It had subsidiary banks in Lebanon, Switzerland and Morocco (under construction) and sister banks in Nigeria, Liberia, Brazil, and Greece; for detail on status of Intra and expansion in 1965, see Board of Directors, *Annual Report 1965*. The bank's good fortunes in 1965 seemed to transcend the world of finance. In October, Yulla Harb, an Intra employee, was crowned Miss Lebanon, see "Ahl Al-Masarif," *al-Masarif*, October 31, 1966, 65.

¹⁰ See Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 38. On the withdrawal of LL12M in single day, see Telegram 3292, Beirut to Department of State, October 14, 1966; File FN 6 LEB; 1963-1966 Subject Numeric File; RG 59; NAB.

¹¹ Yaffi resigned on Dec 6, 1966. On role of Intra in resignation, see Majid, *Tarikh al-Hukumat al-Lubnaniyyah*, 160–162.

or wrongdoing. They also shed light on the way financial capital flows were seen as a weapon of political rivalry. But these findings are primarily geared towards placing this crisis in a global setting and providing a better understanding of the role of the BDL in its precipitation and resolution.

7.1.1 Global Capital Flows and Regional Political Pressures: Intra as a Precarious Intermediary

The mid-60s saw a serious deterioration of relations between Cairo and Riyadh over the Yemen war and the larger question of pan-Arab unity and global alliances in a Cold War setting. Nasserist forces criticized attempts by the Saudi king, Faysal Ibn Saud, to build an Islamic alliance which would undermine anti-imperialist efforts, drive a wedge into Arab unity, and act as a front for pro-US designs in the region. Officially, the administration of Lebanese president Charles Helou maintained a stance of neutrality in this dispute. But by the fall of 1966, Faysal grew impatient by the increasingly pro-Nasser stance of the Lebanese press and of some Lebanese government officials so much so that it was rumored, as I report below, he encouraged the withdrawal of Saudi and other Gulf capital from Lebanon. With Intra holding Lebanon's lion's share of Gulf capital, namely Kuwaiti funds, the bank bore the brunt of the alleged scheme. Pro-Nasserist forces in Lebanon were quick to point fingers at reactionary forces. Beirut's communist daily *al-Nidaa* unequivocally declared in its front page headlines: "Behind The Intra Crisis American-Saudi Plot to Conspire against Lebanon." Later, albeit unfounded, press reports that Beidas had secretly loaned President Nasser LL250M to finance the Yemeni war reinforced claims of such a plot.¹²

Intra did experience heavy withdrawals of Gulf capital funds in the two months preceding its collapse. Pro-Saudi newspapers, like *al-Hayat*, quoted "reliable" sources claiming that Intra's crisis began towards the end of August of 1966 when Arab investors, lured by higher interest rates elsewhere, withdrew an estimated LL70M from the bank.¹³ Intra's own consultant Paul

¹² The claim that Beidas made secret loans to Nasser first appeared in German weekly *Der Spiegel* and was reprinted in pro-Saudi Arab daily *al-Hayat*. *Der Spiegel* put the amount at 320M Marks, calculated by *al-Hayat* to amount to LL250M. See "Intra Bank: Geheimer Kredit," *Der Spiegel*, October 24, 1966, 139-140 and "Qard Sirri min Beidas Lil Muttahidah," *al-Hayat*, October 27, 1966.

¹³ See "Riwayat 'an Asbab Azmat Bank Intra," *al-Hayat*, October 16, 1966, p.4.

Parker, who was the former US Treasury's representative for the Near East and had worked at Bank of America, privately told the American Embassy in Beirut one day before Intra's closure on October 15 that large withdrawals of Kuwaiti deposits started roughly in mid-September. That was three weeks prior to the heavy run on the bank.¹⁴ But were these withdrawals politically motivated or did they follow the logic of the market seeking higher returns elsewhere? Saudi and Kuwaiti leaders publicly denied any malicious involvement in the ordeal. Kuwait's Crown Prince and then Prime Minister Jaber al-Ahmad al-Sabah told the press his government had nothing to do with the crisis. Kuwaiti government monies invested in Lebanon had risen to over LL200M, LL30M of which were deposited in Intra. Lebanon's economy, al-Sabah acknowledged, would suffer should these funds be withdrawn, but no orders to that effect, he asserted, were given by the Kuwaiti government.¹⁵ On the Saudi front, Faysal reproached the political stance of the Lebanese government but dismissed accusations his regime was behind the banking crisis. "What do we have to do with the stoppage of payment of a bank?" he told Kuwait's Weekly *al-Siyasah*, "Something of this sort can happen in any country in the world when one of its financial institutions fails to abide by adhered-to scientific principles".¹⁶

Contrary to Faysal's public announcements, declassified US diplomatic cables concerning the Intra crisis suggest that the Saudi regime might have had a hand in prompting the withdrawal of funds from Lebanon in general and Intra in particular. Some of these reports emerged within days of Intra's closure but were second or third hand, hard to verify, and might have been

¹⁴ See Telegram 3292, Beirut to Department of State, October 14, 1966; File FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB.

¹⁵ See "Kuwait: La 'Alaqah lana bi Azmat Intra," *al-Hayat*, October 26, 1966, cover.

¹⁶ Faysal publicly stated that Lebanon had repeatedly "offended" Saudi Arabia and called on Lebanon's government to stick to a neutral foreign policy pertaining to Arab affairs. But the king added that "we did not punish Lebanon and we do not want to punish Lebanon." See "Faysal: La Yad Lana fi Azmat Lubnan," *Annahar*, November 3, 1966. A slightly different version of Faysal's statement was quoted by al-Hayat. According to this version, Faysal said "Such [crises] happen in every country when the balance of economic laws governing bank management is disturbed". Faysal did issue a couched threat towards Lebanon by telling his interviewee that "we wish Lebanon well unless, as the proverb goes, 'I wish life for him and he wishes me death', then I will have a different take on things"; see "Faysal: Tahammalna min Lubnan Isa' at Kathirah wa Narju 'An Yahtafith bi Hiyadih wa Asalatih al-Arabiyyah," *al-Hayat*, November 3, 1966, cover page.

exaggerated.¹⁷ More reliable accounts of some Saudi complicity, however, came directly from two high ranking Saudi officials. The first of these officials was Prince Muhammad, a son of Faysal. At the time, Muhammad held the position of Director of the Saudi Saline Water Conversion Office. On October 20, five days after the Intra closure, Muhammad told US embassy officials in Jidda that he had advised his friends to transfer their deposits out of Lebanon even before the Intra Crisis.¹⁸ The second official was Saudi acting deputy foreign minister Muhammad Ibrahim Mas‘ud. While discussing the Intra closure with US officials in Jidda, the longtime Saudi diplomat “acknowledged that Saudi withdrawals had been made and probably contributed to closure”. US officials, however, were not able in either case to confirm whether King Faysal gave clear instructions to withdraw the funds or simply had the foreknowledge and gave an implicit green light.¹⁹

Washington attempted to dissuade Riyadh from using investment funds as a way of punishing Lebanon. The US administration recognized that the failure of Lebanese banks would have a serious “depressing effect on the entire Lebanese economy” which was not in the geopolitical

¹⁷ These include private remarks reportedly made by Faysal’s son Abdullah in early October to a US official. According to Abdullah, Faysal was “extremely angry with Government of Lebanon unfriendly attitude toward Saudi Arabia” and “intended to take concrete action to force change” with the help of Lebanon’s Patriarch Boulus Meouchi without specifying what kind of action was planned. Meouchi in turn was allegedly told by a Saudi embassy official in Beirut that “on Faisal’s orders Saudi withdrawals of \$100M [~LL300M] had been made from Intra and other banks”. Abdullah’s remarks were allegedly made during an encounter he had with US State Department officer Camille Noufal who in turn relayed them to the US embassy. In a separate communication, Christian Science Monitor Correspondent John Cooley reported his conversation with Meouchi to the US embassy in which Meouchi allegedly made reference to unnamed Saudi embassy official speaking of Faisal’s orders to withdraw funds. According to Cooley, the Patriarch expressed his intention to exert all the power he had to bring about the fall of the Yafi government and force President Helou to adopt a policy more favourable towards Saudi Arabia and the United States and less so towards Nasser’s United Arab Republic, see Telegram 3446, Beirut to Department of State, October 20, 1966; File FN 6 LEB; Subject-Numeric File; RG 59; NAB.

¹⁸ Muhammad Ibn Faysal complained of the rise in prices in Lebanon and the alleged lack of guarantee of personal safety. The Lebanese, the Prince scoffed, had a tendency to profit at the expense of others and it was time Lebanon had a more responsible government. He told US officials he no longer wished to “live” there, see Airgram A-135, Jidda to Department of State, October 24, 1966; File FN 6 LEB; Subject-Numeric File; RG 59; NAB.

¹⁹ Reports circulating in Jidda and reported by US embassy of the size of Saudi withdrawals put the amount at roughly \$22M, the equivalent of over LL60M at the time. US Embassy personnel in Jidda requested the Mas‘ud, who was a special envoy to several Saudi kings, be protected as a source, indicating that he was not acting on instructions from Al Saud but was likely a well-placed source for Washington; See Telegram 1460, Jidda to Department of State, October 18, 1966; File FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB. Upon his death in 2000, the Saudi Daily al-Sharq al-Awsat described Mas‘ud as the “special envoy” of Saudi kings and one of the founders of the Kindom’s diplomacy, see Muhammad Samman, “al-Sa‘udiyyah: Wafat ‘al-Moufad al-Khass’ li Mulukiha wa Ahad Mu’assisi Diblumasiyyatiha,” *al-Sharq al-Awsat*, December 31, 2000 (Online edition).

interests of the US and its allies in the region. The US Department of State instructed its Jidda-based embassy to impress upon Saudi officials the fact that “the Lebanese free enterprise system has been a living refutation of the teachings of Arab socialism. Elements in area of support Arab socialism and are hostile to US and to Saudi Arabia will be greatly encouraged by any serious disruption of Lebanese economy and are already seeking to exploit Intra case in their propaganda”.²⁰ By the end of October, Riyadh seemed keen to dispel U.S. suspicions that Saudi withdrawals were to blame or that such withdrawals were motivated by political considerations. The bulk of withdrawals, Saudi’s top financial officer Anwar Ali told the US embassy in Jidda, were Kuwaiti.²¹

Kuwaiti capital deposited at Intra surpassed other Arab investments and consequently would have figured more prominently in steering the fate of Intra. The motivations behind and impact of Kuwaiti withdrawals from Intra illustrates the degree to which, Saudi connivance or lack thereof notwithstanding, the Intra closure was at least partly a product of the interaction of global financial developments at the local stage as opposed to merely that of malicious political activity. It is possible that Kuwaiti authorities were acting as proxies of or in cahoots with Saudi officials, but archival evidence of such intentions has yet to surface. More significantly, Intra’s consultant Paul Parker, who had no apparent interest in exonerating Kuwait’s government, privately attributed early withdrawals of Kuwaiti sums to high interest rates in Europe. Additionally, and according to Abdullah al-Ghanim, then VP of Kuwait’s Chamber of Commerce, Beidas and Parker made a discreet yet unsuccessful visit to Kuwait three weeks before the crash to stem the

²⁰ See Telegram 69262, Department of State to Jidda, October 19, 1966; File FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB.

²¹ Saudi’s top financial officer Anwar Ali, had told the embassy on October 20 that reports blaming King Faysal for the Intra debacle were “malicious and totally unfounded”. The bulk of withdrawal, he had pointed out were Kuwaiti. Eleven days later, Ali contacted the US embassy in Jidda to reiterate that Saudi withdrawals had been “negligible” and entirely private rather than due to government orders. Kuwaiti withdrawals, he added, were less than the earlier estimates of \$53M he had provided but still stood at LL20M. Anwar Ali also attributed earlier claims by Saudi Embassy in Beirut of the withdrawal of sizeable sums from Intra by Lebanese Member of Parliament and of Intra’s Board of Directors Najib Salha to unfounded “Beirut suq rumor”, see Telegram 1499, Jidda to Department of State, October 20, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB and Airgram A-143, Jidda to Department of State, October 31, 1966; File FN 6 LEB; Subject-Numeric File; RG 59; NAB.

tide of large-scale Kuwaiti withdrawals and to solicit short-term loans from that country's government.²²

The migration of Arab capital from Lebanese and regional financial depots to Western ones predated the Intra collapse by many months and was rooted in global forces of political economy. The mid-60s had seen a credit crunch worldwide accompanied by foreign exchange instability and a rush for gold.²³ Petrodollars were a sought-after commodity. By early 1966, U.S. and European financiers and bankers, including Chase Manhattan's David Rockefeller, were personally flocking to the Middle East to secure funds from Gulf sheikhs and rulers by offering record high interest rates.²⁴ Competition for surplus Arab capital was not restricted to initiatives by private agents of European and American capital. In the Arab world, the governments of Iraq and Egypt took proactive measures to facilitate Arab foreign investments in their countries despite their socialist rhetoric. In February of 1966, the governments of Egypt and Kuwait signed a joint declaration of "full economic cooperation" to encourage Kuwaiti capital investments in Egypt. Under the deal, Kuwaiti national banks would offer government-guaranteed credit facilities in the amount of KWD15M to Egypt's Central Bank.²⁵ Two months later, Iraq's government took new liberalizing measures to attract Arab capital. Bids to prevent the westward migration of Arab capital were also made by the private Arab banking sector based outside Beirut. In Jordan, the Arab Bank revealed its plan in June of the same year to establish an investment company that would "keep Arab monies for the Arabs".²⁶

²² On role of high interest rates in attracting Kuwaiti capital, see Telegram 3292, Beirut to Department of State, October 14, 1966; File FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB. Abdallah al-Ghanim shared news of the visit by Beidas and Parker to Kuwaiti-based US officials at a British Embassy dinner. Attendees included Kuwait's Ministry of Commerce Undersecretary Khalid Kharafi, see Telegram 351, Kuwait to Department of State, October 18, 1966; File FN 6 LEB; Subject-Numeric File; RG 59; NAB.

²³ On the global currency crisis and the gold rush during this period, see Harry G. Johnson, "The Sterling Crisis of 1967 and the Gold Rush of 1968," *Nebraska Journal of Economics and Business* 7, no. 2 (October 1, 1968): 3–17.

²⁴ See Kamal Dib, *Warlords and Merchants: The Lebanese Business and Political Establishment* (Reading, UK: Ithaca, 2004), 112–113.

²⁵ The joint declaration was signed in Kuwait on February 2, 1966, see "Bayan Mushtarak li Tashji' Intiqal Ru'us al-Amwal," *al-Masarif*, February 15, 1966, 6-7.

²⁶ In Iraq, Foreign Arab investors, whether individuals or companies, were granted the right to fully repatriate their net profits rather than necessarily invest them in Iraq as previously required, see "Tashilat li Ru'us al-Amwal al-

Beirut's banking sector was highly dependent on Arab capital. Its monopolistic role as an entrepot between Oil economies and Western financial centres coupled with its total lack of capital controls and banking secrecy practices sustained the inflow of this Arab capital throughout the 1950s and early 1960s. By 1966, however, European and American banks were attempting to bypass Beirut while other Arab capitals were playing catch up. With new channels of capital flows opening up both globally and regionally, Beirut was losing its privileged position and became highly vulnerable to capital flight. Little was done by the Lebanese banking establishment or the government to adapt to the new reality. Proponents of *laissez-faire* like Joseph Mughayzil peddled the same broken record that the Banking Secrecy Law was the key to ensuring that Lebanon becomes "the coffer of the Arabs". The secrecy law was suddenly framed in relation to Arab rather than Lebanese culture. Guarding secrets, Mughayzil argued, was a longtime Arab trait.²⁷ The lack of capital controls, however, is a two way street. Under the right conditions, capital exits a market as quickly as it entered. In 1966, such conditions had materialized and Beirut's money market was hit hard. In February alone, the holdings of Lebanese banks dropped by LL224M or 18 per cent. It decreased by an almost equal amount (LL209M or 20 per cent) the following month. Liquidity remained low throughout the summer.²⁸ Intra's liquidity shortage was one tip hiding many icebergs. The inability of the banking sector to curb this outflow exposed the precarious foundations of Lebanon's money market and much-touted banking sector. Several questions arise in this regard: What was the local response to this structural weakness? Was the Intra crisis a though-out scheme to scapegoat the largest bank in order to save the rest and was such a scheme predicated on nationalist sentiments that othered the Palestinian Beidas to justify the destruction of his bank? More significantly, was the BDL used

Ajnabiyyah," *al-Masarif*, April 15, 1966, 13. On plans of The Arab Bank in Jordan, see Mustafa al-Junaydi, "Abdul Majid Shuman Yatahaddath ila *al-Masarif*," *al-Masarif*, June 15, 1966, 10-13.

²⁷ Mughayzil cited several Arab proverbs to show the sanctity of secrets in Arab culture. Revealing secrets, he opined, was a cause of conflict and bloodletting. Mughayzil placed banking secrecy on par with the obligation of physicians not to disclose medical information pertaining to their patients, see Joseph Mughayzil, "Hatta Yakun Lubnan Khizanat al-'Arab," *al-Masarif*, May 31, 1966, 34-41.

²⁸ Estimates of the drop in the holdings of banks and low liquidity levels were presented by Yusif Sayigh at a panel convened following the Intra crisis. Participants included ABL president Pierre Edde, former Governor of Syria's Central Bank and Intra consultant Izzat Tarabulsi, head of AUB economists Ilyas Saba and Mohammad Atallah. See "al-Azmah al-Masrifiiyyah 'ala al-Mashraahah," *al-Masarif*, December 15, 1966, 12-17.

by these elites to implement their designs or was the BDL a victim of its own weak mandate and lack of experience? The following section seeks to provide some empirically-based answers.

7.1.2 Central Banking as Plotting Instrument of Local Elites: Sinking Intra or Saving the Banking Sector?

Yusif Beidas personally recognized the impact of the global credit crunch and interest rate wars on liquidity levels in Lebanon. In his open letter to the Lebanese people published a couple of weeks after Intra's closure, Beidas claimed that as early as eight months prior to his bank's collapse, he feared that the world credit crisis and rising interest rates were bound to affect Beirut and that he expressed his concerns to the competent authorities in Lebanon. Despite these worries, Beidas maintained that as late as September of 1966, when he left for New York to attend annual meetings of the World Bank, he had been confident Intra enjoyed adequate levels of liquidity to weather the international crisis. What he had not anticipated, he wrote, was that Intra would have to face an additional "domestically-provoked crisis aimed at controlling companies and utilities vital to our country and abetted by individuals with personal goals or private ends". Beidas thus assigned major blame to local and political rather than global and economic forces for the ultimate downfall of his financial empire. He framed the crisis as one about the control of national capital and resources and the failure of central banking authority to act according to national interest. Citing his worry that exposing these individuals and their machinations might endanger the recovery of the bank, Beidas contended himself with reproaching the Central Bank for failing to come to the aid of Intra. Meanwhile, he thanked President Helou for his efforts to reach an agreeable compromise to resolve the crisis.²⁹

In private, however, Beidas placed the Helou administration at the centre of the alleged conspiracy to destroy his bank. At issue were the proceedings of a fateful meeting between the two men that took place on August 23, 1966. Beidas and Helou provided contradictory accounts as to what transpired during their encounter. The prevalent conspiracy theory that was circulating at the time, and which Beidas relayed in more detail to Intra Board Member and chairman of Middle East Airlines, Najib Alamuddin, was that Helou had summoned Beidas to insinuate that

²⁹ Beidas's open letter, dated October 27, 1966 was published on October 30th in major newspapers. See "Beidas: Azmat Intra Mufta'alah Tahdif ila al-Tasallut ala Sharikat wa Marfiq Hayawiyyah fi Lubnan," *al-Hayat*, October 30, 1966 and "Yusif Beidas fi Bayan Rasmi," *Annahar*, October 30, 1966.

Intra, rather than foreign companies, invest in development projects that would contribute to Lebanon's prosperity. Beidas purportedly objected that Intra had already "over-invested" in Lebanon and did not wish to tie up more capital in the country given its plans for expansion abroad. Helou, Beidas contended, offered government assistance and suggested that Beidas place valuable Intra assets invested in Lebanese companies at the Central Bank as collateral in return for a loan of about LL150M that would then be used for local development projects. "Go and see Joseph Oughourlian", Helou reportedly told Beidas. When Beidas discussed the president's directive with Oughourlian at the World Bank meeting in New York in September, Oughourlian allegedly burst out at Beidas: "You are not Lebanese and Lebanon does not want your control of its economy". Shortly after, rumours spread that Intra was asking the Central Bank for help in the face of a serious liquidity crisis which sparked off the run on the bank.³⁰

In his memoirs, which were published three decades later, Helou claimed that it was Beidas who had requested the August meeting and volunteered to place his "vast resources" in the service of Lebanon's national economy and of development projects. Beidas allegedly offered to do so contingent on the Central Bank supplying Intra with the necessary funds in return for depositing stocks at the BDL as collateral. Helou allegedly told Beidas that such a request fell out of the president's jurisdiction since "the Governorship of Banque du Liban, under Lebanese law and international norms, enjoys autonomy in its dealings with banks". When, upon the insistence of Beidas, Helou allegedly inquired about the possibility of such a measure, he was told by the BDL's Governorship that it had taken a recent decision to cut down on issuance of loans in return for stock collateral in order to guard against a weaker Lebanese pound. Helou also claimed in his memoirs that in mid-September, his presidential chief of staff Ilyas Sarkis informed him that a special emissary was sent by Beidas to request immediate and discreet assistance from the government and the Central Bank. Two weeks later at the World Bank meetings, Beidas reportedly approached Oughourlian and requested that the Central Bank provide financial

³⁰ Oughourlian allegedly used to address Beidas in French even though Beidas only spoke Arabic and English, see Salameh, *Haddathani Y.S. Qal*, 71. Alamuddin, who had served as a minister under Helou, initially doubted Beidas' account of his meeting with Helou but later came to believe in the conspiracy. Beidas recounted Oughourlian's reaction in New York in his unpublished memoirs. Beidas was incensed by the remarks of Oughourlian who after all was an 'Armenian!', see Najib Alamuddin, *The Flying Sheikh* (London: Quartet Books, 1987), 136–137. The memoirs, which Alamuddin apparently had access to, were never published because Beidas and his children were allegedly threatened with assassination should the memoirs be published, *Ibid.*, 139.

assistance to Intra in return for the services renders by the latter to the Lebanese economy. The deputy governor allegedly cited strict rules by which the BDL operated but intended to consult with the BDL governorship regarding steps that could be taken to help Intra.³¹

Back in December of 1966, Helou had given a slightly different account of his reaction to Beidas to US Ambassador Dwight J. Porter. Helou did maintain that it was Beidas who proposed the entire scheme. But rather than lecture Beidas on the autonomy of the Central Bank as he narrated in his memoirs, the Lebanese President told Porter that he was “delighted” to hear the plans of Beidas for the Lebanese economy and “encouraged” by the banker’s proposition to make Intra’s portfolio available at the Central Bank to finance government-approved projects. Not long after, Helou told Porter that he received a “suspicious cable” from Beidas requesting “urgent financial assistance”. It was then that Helou realized, he told the ambassador, that aiding the country was nothing more than a “deceitful tale” concocted by Beidas to secure liquid funds from the Central Bank.³²

The infamous Beidas-Helou meeting might have been a set up. Beidas was equally, if not more, delighted with the BDL financing scheme. He might have been its originator according to his close confidant and brother-in-law, Yusif Salameh. Salameh, who was General Manager of Intra’s New York Branch, wrote in his memoirs decades later that prior to the Helou-Beidas meeting, Beidas told Salameh of a secret deal he had struck with the president’s Chief of Staff Ilyas Sarkis. If approved, the deal would secure Chehabist rule well after the end of Helou’s term and in return allow Intra to gain unprecedented control over political and financial life in Lebanon. Under the scheme, Intra would finance the presidential campaign of Sarkis with the surplus money generated due to the difference between interest returns on a LL100M loan secured from the Central Bank that would be deposited with Intra. Beidas, however, would have to gain the approval of Helou, who according to Beidas was not aware of the details. A meeting would be set up during which the scenario described above would be played out after which

³¹ For the memoir version of Helou’s account of events, see Helou, *Hayat Fi Dhikrayat*, 232–234.

³² Throughout their conversation which took place on December 24, Helou, according to Porter, was in a “tense and somewhat somber mood” and stated that he wanted to tell Porter “the true story” of the origins of the Intra crisis and the Lebanese government’s stance on it; see Airgram A-558, Beirut to Department of State, December 30, 1966; FN 6 LEB; Subject-numeric File; RG 59; NAB.

Helou would get his BDL deputy governor and brother-in-law, Joseph Oughourlian, to facilitate the loan.³³

If such a financially reckless plot did exist, why did the deal fall through given that both parties, Beidas and the Chehabist establishment, were in on it and stood to benefit? Two alternative, and more reasonable, hypotheses present themselves: The first is that Sarkis set Beidas up to precipitate a run on Intra. It is not clear however why Beidas would have so gullibly fallen into such a trap given the amount of ill-will he later said was harboured by the Lebanese ruling elite towards his enterprise. Moreover, if Beidas felt no shortage of liquidity, he could have easily financed the political campaign without such a roundabout way. News of a loan of such magnitude from the Central Bank was bound to leak out and possibly spark a run the way it eventually did given the international liquidity crises at the time. The second more probable hypothesis is that Beidas, or some intermediary, concocted the scheme to secure badly needed liquidity from the Central Bank without sounding alarm bells. Chehabist elements hostile to Beidas seized the opportunity and paved the road towards his own perdition.³⁴

While this second hypothesis absolves the Helou administration from hatching a malicious plot to destroy Intra, it does not exonerate the Chehabists from aiding and abetting its downfall. If, as Helou maintained, Intra were facing a serious liquidity shortage and sought assistance from the government and the Central Bank, neither did much to alleviate the crisis and might have exacerbated it. The Helou cabinet abstained from issuing public assurances to calm financial markets and was accused of fueling speculation by leaking news of Intra's troubles. The BDL's actions, meanwhile, resembled those of a loan shark rather than a bank of banks. When Intra's acting chairman Najib Salha approached Banque du Liban's First Deputy Governor Joseph

³³ Beidas boastfully told Salameh that he was "preparing for a major financial and political deal" after which "Lebanon's political future and governance will revolve within the orbit of [Intra] bank", see Salameh, *Haddathani Y.S. Qal*, 121. Financing the Chehabist would work as follows: Intra pays interest rates of 6 per cent and higher on large loans. The Central Bank would loan the LL100M for an interest rate of 3 per cent. Accumulated over four years – the period left for Helou in power, the difference of 3 per cent would generate the LL10M required to run the presidential campaign. These estimates and calculations were made by Edward Baroudy, Beidas' broker and liaison with Sarkis, for plot details as recounted by Salameh, see *Ibid.*, 140–144.

³⁴ The whole scheme might have been the brainchild of Edward Baroudy, who shadowed Beidas as a companion and entertainer and acted as the intermediary between Beidas and Sarkis. Baroudy had assured Beidas that the interest charged by BDL on the LL100M loan would hover around 3 per cent and told his boss that expenses for the next presidential campaign would not exceed LL10M, see Salameh, *Haddathani Y.S. Qal*, 141–142.

Oughourlian on October 6 for urgent liquidity relief, the latter imposed strict terms under which the BDL was willing to supply liquid funds. Under the deal concluded on the same day, the BDL was given the sole right to evaluate stocks mortgaged by Intra at the Central Bank as collateral for a line of credit that did not exceed LL15M with an interest rate of 7 %. The rate was subject to adjustment at the sole discretion of the Central Bank. The BDL also failed to execute these measures in a discreet manner to avoid a further market scare and may have deliberately pursued the opposite.³⁵

Within ten days of the deal, the BDL line of credit was exhausted and additional checks drawn on the BDL began to bounce. On Friday October 14, angry crowds of depositors gathered at Intra's Beirut branch and police were called in. A last-ditch attempt to save the bank was made by its Board of Directors. Intra's consultant, Rafic Naja, who was a former Minister of Economy, personally reached out to President Helou for help. In a meeting with Helou attended by Oughourlian, Sarkis, and Prime Minister Abdallah Yafi, Naja recommended that the government issue a statement to calm markets and loan Intra an additional LL50M in return for collectible guarantees. Sensing the gravity of the situation, Helou called in a council of ministers emergency meeting that commenced at 4 p.m. Friday and lasted until the early morning hours of Saturday. Intra's acting chair Najib Salha, along with Naja, was present at different intervals of the meeting. Despite pleas by Intra officials, the government decided against extending any further assistance. Salha and Naja returned empty-handed to meet with Intra's Board of Directors. Shortly after, Intra declared stoppage of payment.³⁶ The Helou cabinet found itself in a worse quandary. With Intra closed, the run began to spread to other banks. The Association of Banks in Lebanon (ABL) called an extraordinary general membership meeting. Fearing a total collapse of the banking sector which would inevitably lead to a crumbling of Lebanon's entire finance-dependent economy, the government scrambled to take concrete action. On Sunday, Helou convened a permanent session of the council of ministers with the participation of ABL president

³⁵ According to Salha, collateral bonds were to be hauled into the BDL at an early hour of the day and through a back entrance. On the assigned day however, the BDL's doors were not open until regular hours and trucks carrying the bonds were asked to unload them into the bank's main hallway, causing a sensational stir among BDL employees and spreading news of an imminent intra collapse into the larger financial community; see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 39–41.

³⁶ For a detailed account of the events on Friday October 14 leading up to and including the emergency marathon meeting held by the council of ministers that afternoon, see *Ibid.*, 51–54 and Helou, *Hayat Fi Dhikrayat*, 236.

Pierre Edde. The hands-off approach that left Intra to the mercy of market forces was replaced by heavy-handed state intervention at the very request of the banking barons of *laissez-faire*. The ABL demanded that the Central Bank provide adequate cash to banks in return for collateral and threatened that banks would go on “strike” starting Monday morning in protest of government and central bank inaction if the demands were not met. Acting on the ABL’s “recommendations”, as Helou put it in his memoirs, the government imposed a three-day bank “holiday” starting the next day, Monday. It also committed to a promise to pay under which the BDL vouched to supply all banks the liquidity they needed when they reopened for business on the following Thursday. Intra, however, was excluded from these measures.³⁷

Helou justified the decision to treat Intra separately by citing the actions of its management and distinguishing its legal and financial status from that of other banks. While trust in other banks was shaken, Helou argued, it had not been entirely lost as these banks had not declared stoppage of payment. Intra’s stoppage of payment, however, had created a crisis of trust in Lebanon and the rest of the world. Its debtors were certain to demand full repayment, Helou surmised, should the government extend its guarantee of payment to Intra. With Intra’s branches and obligations spread across the world, the president warned, that would mean paying hundreds of millions of Lebanese pounds. The uncertainty of how much liquidity was needed was another reason stated by Helou for giving Intra a separate treatment. During the emergency cabinet meeting on the evening of Friday October 14, Intra’s acting chairman, Najib Salha, had refused to sign and certify the bank’s balance sheet and was unable to provide a rough estimate of how much cash was needed. The absence of Intra’s founder Beidas and the apparent ignorance of Intra’s most

³⁷ On the meetings held by the ABL and the Council of Ministers as well as the decisions taken by the latter, see The Association of Banks in Lebanon, *Annual Report 1966* (Beirut: The Association of Banks in Lebanon, January 10, 1964), 11–12. On ABL threat to strike unless enough cash is provided by central bank, see Telegram 3307, Beirut to Department of State, October 17, 1966; File FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB. On ABL “recommendation” that bank close for a few days, see Helou, *Hayat Fi Dhikrayat*, 239. According to Hanna Asfour, Edde did not object to including Intra among the banks that would benefit from the government guarantees, but Philip Takla, Ilyas Sarkis, and Joseph Oughourlian opposed it, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 57–58.

senior officials of the financial status of the bank convinced Helou that extending aid to Intra exposed the Lebanese pound to worldwide speculation and rewarded those responsible.³⁸

Critics of the government's decision to exclude Intra from its aid package saw the measure as further proof of a conspiracy. Beidas' Palestinian origin was identified as the major source of this discrimination. The Lebanese establishment, the argument went, resented the fact that a Palestinian had managed to become the most powerful financial figure in the country. Lebanese Zionists, in cahoots with foreign ones, were purportedly in on the plot.³⁹ Associating Beidas with Palestinian national identity, however, misrepresents Beidas' own identification with Palestine. It also fails to capture the class and transnational dynamics of Beidas' project and the confessional framework within which the Lebanese elites operated at the time. The primary loyalty of Beidas was to profit not Palestine. There is little evidence he made a significant contribution to the political project of liberating Palestine that would have threatened the Lebanese establishment or international Zionism. Like other members of the Palestinian higher bourgeoisie such as Hasib Sabbagh, Beidas was on good terms with powerful international Zionists in the world of finance such as David Rockefeller.⁴⁰ Beidas was also in contact with the US embassy as early as 1958 and provided them with updates on foreign exchange transactions at Beirut's money market.⁴¹ As his business grew abroad, Beidas struck international financial deals that seemed to benefit different, and at times opposing, political agendas. When Washington and Paris were at odds over

³⁸ According to Helou, both Najib Alamuddin and Rafic Naja were completely in the dark as to the financial status of Intra which increased the president's doubts as to the reliability of the bank's declared balance sheet. On Helou's reasoning to exclude Intra, see Helou, *Hayat Fi Dhikrayat*, 236–239.

³⁹ Alamuddin blamed an “unholy alliance” of Lebanese Zionists and international interests for the deliberate destruction of Intra, see Alamuddin, *The Flying Sheikh*, 1987, 145. Yusif Salameh asked, rhetorically, whether the exclusion of Intra from liquidity guarantees offered by the Lebanese government to other banks was due to the Palestinian identity of Intra, see Salameh, *Haddathani Y.S. Qal*, 133. See also Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 23. Qubaysi, *Yusif Beidas: Filastini Halim Bi Majd Lubnan*.

⁴⁰ When Beidas recruited his brother-in-law Yusif Salameh to set up an Intra branch in New York, he enlisted the help of his “friend” David Rockefeller, head of the Chase Manhattan Bank, whose brother Nelson was New York State Governor at the time. Intra, Beidas told Salameh, had strong relations with several US banks, specially Chase Manhattan and Bank of America, see Salameh, *Haddathani Y.S. Qal*, 122. On the friendship between Hasib Sabbagh and David Rockefeller, see Mary-Jane Deeb and Mary E. King, eds., *Hasib Sabbagh: From Palestinian Refugee to Citizen of the World* (Lanham, Md: Middle East Institute/University Press of America, 1996).

⁴¹ See Telegram 2678, Beirut to Department of State, February 7, 1958; File 883A.131/2-758; 1955-1959 Central Decimal File; NAB.

global currency regulations, Intra financed the import of US wheat into Lebanon while investing in French capital projects that earned him accolades from the French government. According to letters Beidas sent from his exile in Switzerland to Lebanese leader Kamal Jumblatt, the Intra founder had proposed a global monetary scheme to create an alternative currency to the US dollar, dubbed the Petro-dinar, to buy and sell oil. Beidas told Jumblatt that the proposal was enthusiastically received by French President Charles De Gaulle and Egyptian leader Jamal Abdel Nasser. Beidas cited the scheme as a reason behind a global conspiracy to destroy his bank. Another controversial scheme Beidas allegedly tried to facilitate was the financing of large transactions of gold purchases outside the established channels of international trade and the establishment of a gold refinery in Beirut with French blessing.⁴²

In terms of capital shares, Intra was largely a Lebanese, rather than a Palestinian enterprise. Close to 80 per cent of its shareholders were Lebanese, while most of the rest were owned by Gulf Arabs. At a personal level, Beidas was half Lebanese and married to a Lebanese. He was at pains to assert his Lebanese identity before and after the crisis.⁴³ In the context of Lebanon's confessional political system, his religious background (Christian) in the eyes of Lebanese ruling elites was likely a more relevant marker than his Palestinian origin. The latter identity, meanwhile, would have hardly mattered for some of his fiercest opponents like Abdallah Yafi and Saeb Salam who publicly identified with some form of Arab nationalism.⁴⁴

⁴² In February 1965, Intra financed the import of American wheat and feed grain via an agency of the US government in the amount of \$21M, see Thomas Brady, "Intra Bank in Debt To Agency of U.S.; Chairman Replaced," *New York Times*, Oct 27, 1966. In France, Beidas was granted the decoration of Legion Noire for his multimillion dollar investments that contributed to strengthening the value of French Franc, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 24. The Petro-dinar scheme was recounted by Muhsin Dalul, a close aide of Jumblatt who reportedly had read the letters at the time Jumblatt received them, see Muhsin Dalul, *Al-Tariq Ila Al-Watan: Rub' Qarn Bi-Rifqat Kamal Junblat*, al-Tab'ah 1 (Bayrut: al-Dar al-'Arabiyah lil-'Ulum Nashirun, 2010), 109–112. On claims of breaking into the international gold trade and the building of gold refinery in Beirut, see Rashid Shihab al-Din, *Daya' Al Arab Bayna Al-Naft Wa Al Dhahab* (Beirut: Wikalat al-Inma' al-Wataniyyah: Maktab al-Abhath wa al-Dirasat, 1980), 195–202.

⁴³ On the breakdown of stock ownership in Intra, see Alamuddin, *The Flying Sheikh*, 1987, 141. Beidas placed a Lebanese flag on top of the high-rise building Intra purchased on Fifth Avenue in New York, see Salameh, *Haddathani Y.S. Qal*, 118.

⁴⁴ On Oct 14, when Intra's collapse was imminent, Yaffi allegedly told Najib Alamuddin that Beidas was a "crook" and that he, i.e. Yafi, had in his possession a "confidential report" which showed that Intra was in bad shape and could not be saved. Yafi refused to share the said report with Alamuddin, see Alamuddin, *The Flying Sheikh*, 1987, 138. During Parliamentary debates, Saeb Salam blamed the banking crisis on Intra and its alleged mismanagement. He then distributed his speech as a booklet, see *Khitab al-Ra'is Saeb Salam al-Lathi Irtajalahu fi al-Majlis al-Niyabi*

What set Beidas apart from Lebanon's wealthy and powerful was his weak association with the country's ruling class families, whether those of the landed or commercial bourgeoisie. His influence had been entirely derived from wealth, and had begun to overshadow the very powerful elites he paid off, who in turn envied his success, resented his *nouveau riche* manners, and feared his encroachment on their economic privileges.⁴⁵ Beidas bought off political patronage through granting powerful figures posts in the management of his banking business, attending to their borrowing needs, or getting them to have a personal stake in his own success by enticing them into buying stocks in his ventures. But he had no social base of his own to fall back on in order to guard his financial interests when the market failed to do so or if his beneficiaries turned against him. The competitive Beidas also failed to join the "banking fraternity" that lay at the core of Lebanon's powerful mercantile-financial class and might have stood up for him. He only grudgingly agreed to register Intra as an ABL member and antagonized the association's powerful president Pierre Edde.⁴⁶

As Helou speculated, Beidas and Intra officials might have bet on the government's realization that failing to aid Intra is tantamount to putting the entire Lebanese economy at risk. The ruling clique surrounding Helou bet instead on being able to weather the risks of a national crisis in return for eliminating an adversary. To that end, they employed full state intervention, via the powerful instrument of Central Banking, which flew in the face of all things *laissez-faire*. Their machinations ensured that the banking sector, save Intra, escaped immediate harm and succeeded

bi Sadad Azmat Bank Intra, October 31, 1966, Special Collection, Jafet Library, American University of Beirut. Beidas allegedly turned down a request by Salam to finance a real estate development project of the latter in the region of Doha, see Salameh, *Haddathani Y.S. Qal*, 152. Beidas also decline to grant considerable loans to Abdallah Yafi, see George de Carvalho, "Fall of the 'Genius from Jerusalem'," *LIFE*, January 27, 1967, 87-89.

⁴⁵ In the eyes of the Lebanese banking establishment, Beidas displayed "obnoxious traits of nouveau riche." He was "abrasive, cocky, and overwhelmingly vain". See George de Carvalho, "Fall of the 'Genius from Jerusalem'," *LIFE*, January 27, 1967, 87-89.

⁴⁶ While in his exile in Brazil, Beidas told *Life* magazine that Pierre Edde "hates the sight of me...the story goes that he even taught his parrot to cackle 'Down with Bedas [sic]!'", see George de Carvalho, "Fall of the 'Genius from Jerusalem'," *LIFE*, January 27, 1967, 87-89. Back in 1959, Beidas allegedly refused to join the Association of Banks in Lebanon (ABL) unless he was guaranteed the position of President. According to Hanna Asfour, who later became Intra's representative at the ABL, it took a lot of convincing for Beidas to change his mind and register the bank with the association in 1962, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 44-45.

in preventing a massive flight of capital on the day of reopening of banks. If the aim however were to protect national interests and economic sovereignty in the long run, theirs was a Pyrrhic victory. Failing to nip the crisis in the bud meant its internationalization, which in turn opened the door wide open for increased foreign intervention in the financial affairs of Lebanon while the spat between local and foreign banks produced a heightened awareness of the national character of capital flows. The two main arenas in which the struggle for capital control played out were the process of refloating Intra and that of restructuring the banking sector and its relationship with central banking authority. It is to these two processes that I now turn.

7.2 Refloating Intra: International Crisis Resolution as a Substitute to State Economic Sovereignty

Refloating Intra was a messy affair. The Lebanese government's decision to exclude the bank from its aid package, along with several complicating factors, stood in the way of an orderly and consensus-based resolution of the matter. The international character of the bank's creditors created a slew of legal claims and counter claims over its overseas assets. Some of these top clients were formally or informally tied to foreign governments, namely those of the US, Kuwait, and Qatar, which politicized the process even further. Locally, Intra's control of major Lebanese companies such as Middle East Airlines (MEA) sparked fears of their takeover by foreign capital. In an apparent exchange of roles, the Beirut bourgeoisie, many of whose members were financed by Beidas, seemed willing to shoot itself in the foot by sacrificing a major bastion of free enterprise. Meanwhile, self-identified socialists like Kamal Jumblatt, whom Beidas had serious ideological disagreements with, insisted on supporting the banking system and on bailing out Intra or nationalizing it as a means of seizing or keeping control of these vital assets.⁴⁷ The size of Intra's business and its control of major Lebanese corporations like MEA also meant that saving Intra's assets if not the bank was a matter of national interest. The crisis had also coincided with, and further fueled, a swell of strikes and other union-based protest activities that

⁴⁷ Beidas was surprised by Jumblatt's defense of Intra. In one of the letters he later sent to Jumblatt from Switzerland, the exiled banker expressed his regret to the Shuf notable for having bankrolled his political adversaries all this while and thank him for his backing, see Dalūl, *Al-Ṭarīq Ilá Al-Waṭan*, 110..

threatened to paralyze the entire economy and destabilize the country.⁴⁸ To add to the quandary of those involved, there was no precedent in Lebanon of a bank collapse of this magnitude and the Law of Money and Credit was silent on the question of bankruptcy. In the absence of an experienced Central Bank and a fully sovereign national government immune to external influence, the task of untying all the financial, legal, and political knots became fraught with uncertainty and subject to dispute by a host of public and private forces acting within a supranational setting.

7.2.1 Private Initiative, Legal Remedies, and Partial Nationalization by the State: The Outward Dependency of Lebanese National Capital

The lack of a single authority, whether national or international, willing or capable of dictating the final outcome of the crisis resulted in the development of the case along three different yet interdependent tracks. The first track was composed of private initiatives, namely those of Intra officials, to seek market solutions such as finding a buyer. Given its exclusion from governmental financial assistance, Intra had to secure funds to stay in business or face the prospect of forced liquidation. The bank's top brass led by its new chairman Najib Salha scurried around to solicit support from a spectrum of potential benefactors. A second parallel track lay within the Lebanese court system. Two days after closing its doors, Intra was either persuaded or pressured into filing for bankruptcy protection through debt settlement.⁴⁹ Beirut's commercial court became the stage for the financial trial of the century. The third track unraveled in the power corridors of the Lebanese government. Intra's fate was too intimately linked to the fate of the country's economy, foreign relations, and domestic stability for the Helou administration to let the courts become its sole arbiter. The government stepped in with its own series of legislative and diplomatic action.

⁴⁸ On plans of a general strike across Lebanon in mid-October 1966, see "Al-Ittihad al-'Ummali Yabhath Taqrib Maw'id al-Idrab," *Annahar*, September 29, 1966.

⁴⁹ Prime Minister Yaffi allegedly pressured Intra's lawyers to file for debt settlement no later than Monday October 17 lest the government declare Intra bankrupt, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 59.

On the first track, early private initiatives included a stillborn scheme to use \$200M worth of Batista-era Pesos held by an American-French-Arab group to refloat the bank.⁵⁰ More serious efforts were exerted by Intra's post-crisis chairman Najib Salha. Salha's first instinct as soon as Intra was excluded from liquidity guarantees by the Lebanese government was to turn to the US government for assistance. On Monday October 17, the first day of the bank "holiday", Salha contacted the American Embassy in Beirut and played the Cold War card. He spoke of a Russian offer of assistance "which would be painful for him to accept" and hoped that, instead, American banks such as Chase Manhattan would step in to buy 50 percent or more Intra stock.⁵¹ The following day, Middle East Airline (MEA) President Najib Alamuddin, who was also a member of Intra's Board of Directors, "confirmed" to US embassy officials that a Russian offer of \$200M to refloat the bank had been made. Alamuddin, however, assured the embassy that in return for providing liquidity, he would "go a long way" to support a deal under which US business tycoon Daniel Ludwig, in association with Chase Manhattan Bank, would buy out controlling share of Intra, and consequently of MEA. A sale to Ludwig, Alamuddin lamented, would be akin to a deal with the "devil", but it would save Intra and the Lebanese economy and would be strictly preferable to dealing with the "communist devil".⁵²

Pleas by Intra officials for immediate US assistance bore little fruit. Rather than rush to the aid of Intra, American banks like Chase Manhattan refused to release Intra funds they held in New York while the US government lobbied its Lebanese counterpart to secure preferred payments of credit that Intra owed to the US Agricultural wheat-selling agency, the Commodity Credit

⁵⁰ The US government refused to convert the pesos declaring them invalid. For details on the Peso scheme, see Telegram 7730, Beirut to Department of State, Feb 28, 1967; FN 6 LEB; RG 59; NAB. On US government refusal to facilitate the scheme, see Department of State to Beirut, November 18, 1966; FN 6 LEB; RG 59; NAB.

⁵¹ Salha tried to impress upon embassy that Intra collapse had grave political as well as economic consequences. In an apparently coordinated campaign, Intra shareholder Victor Moussa, who was also broker of Intra wheat financing deal from US, called embassy "immediately after Salha" and repeated the same story, see Telegram 3349, Beirut to Department of State, October 17, 1966; FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB.

⁵² Alamuddin stipulated that the new owners of MEA guarantee the livelihood of MEA employees and that the controlling share would be somehow returned to Lebanese given that traffic rights would not be obtained in the future should the controlling interest be not a national one, see Telegram 3388, Beirut to Department of State, October 18, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB. Over a month later, Alamuddin adamantly told the US embassy, and the Lebanese press, that MEA was not for sale, see Telegram 4875, Beirut to Department of State, November 30, 1966; FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB and "Alamuddin: Tayaran al-Sharq al-Awsat Laysa lil Bay'," *Annahar*, November 29, 1966

Corporation (CCC). Washington pushed to violate Lebanon's banking secrecy law towards that goal.⁵³ Salha turned to Gulf capital, namely Kuwaiti, for a money lifeline.⁵⁴ Earlier, the Kuwaiti government had turned down a Lebanese government offer for a joint purchase of Intra in return for tax breaks and bad debt guarantees.⁵⁵ Salha's private-initiative made more progress. Throughout November, Intra emissaries including Salha, Ali Arab, and Rafic Naja shuttled between Beirut and Kuwait in a bid to strike a deal with the Kuwaiti government to refloat the bank.⁵⁶ Given the amount of Kuwaiti capital invested in Intra both as deposits and stocks (estimated at LL150M), Kuwait's Prime Minister Jaber al-Sabah seemed keen to work some arrangement with Salha. But the Kuwaiti royal had difficulty convincing private Kuwaiti banks and businesses of chipping in given the shaky financial position of Intra.⁵⁷ Al-Sabah turned to American banks for expertise and partnership. The Prime Minister called on Chase Manhattan to be part of the Kuwaiti buyout with a 10% contribution. In the last week of November, several meetings were held between top Kuwaiti, Intra, and Chase Manhattan Bank officials but no final

⁵³ Chase claimed that Intra's branch in New York had no credit balance with Chase since other offices of Intra owed Chase "substantially" more money. New York's superintendent of banks Frank Willie brought suit at the US Supreme Court against Chase, and the other two largest American banks, First National City Bank and Bank of America International, to release Intra funds. Foreign banks with branches in the US expressed concern over the actions of Chase, see Robert Walker, "3 U.S. Banks Sued in Beirut Crisis," *The New York Times*, October 20, 1966.

⁵⁴ Salha also approached the Qatari government and managed to sign an agreement with its ruler Ahmad Bin Ali Al Thani under which the latter agreed to freeze Qatari funds amounting to \$2.8M (1.9% of Intra deposits) for two years under certain conditions. Salha also secured a deal with the Greek shipping giant Niarchos for a \$10M (LL30M) loan in return for sales of MEA stocks, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 73–74.

⁵⁵ Under the deal, the Kuwaiti government would get a ten-year suspension of income tax on earnings on its shares. The Government of Lebanon would also guarantee up to LL25M in bad debts, see Telegram 359, Kuwait to Department of State, October 20, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

⁵⁶ Salha recognized the vital role of Lebanese government backing for his efforts. In late November, as news of an imminent deal emerged, he sought and secured a support letter from Helou. The president had sent his own emissary, Ilyas Sarkis, to Kuwait to test the waters and prepare for a state. On Helou's letter of support, see "Risalah min Helou ila Hakim al-Kuwait," *al-Hayat*, November 25, 1966. On the visit of Sarkis, see "Ada Rasul al-Ra'is Helou min al-Kuwait Mutafa'ilan," *al-Hayat*, November 20, 1966.

⁵⁷ Kuwaiti funds deposits with Intra were estimated by US officials at LL140M, LL30M of which were those of the Sabah family and the rest held by private Kuwaiti despositors. Hanna Asfour gave a similar total estimate, while the L, and Telegram 560, Kuwait to Department of State, December 2, 1966; FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB and Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 70–71. Al-Hayat reported that the deal stipulated the freezing of Kuwaiti holdings amounting to LL170M, see "50 Malyunan min al-Kuwait li Ta'wim Intra wa Tajmid Wada'i Kuwaitiyyah qimatuha 170 Malyunan," *al-Hayat*, December 2, 1966.

agreement was reached.⁵⁸ In lieu of a buyout, al-Sabah opted for an interim solution that was commercially conservative and state-mediated. In return for collateral stock, a quasi-government agency, Kuwait Foreign Trading Contracting and Investment (KFTCI), would lend Intra LL50M while the Sabah Family Government Holdings at Intra (LL30M) would be frozen for a few years. A letter of understanding to that effect was signed between KFTCI and Intra on December 1. Lebanon's Central Bank politics, however, stood in the way. Intra failed to obtain the release of its collateral from the BDL. One month later, KFTCI withdrew the offer.⁵⁹ The most serious offer had become itself collateral damage of bad diplomacy and BDL intransigence.⁶⁰

Prospects of an Intra-brokered settlement were fading fast as things developed on the second track. Court proceedings began in earnest on the same day that Intra filed for debt settlement. Two committees of certified experts were appointed to look into the case. One month after their constitution, the committees concluded that guarantees offered by Intra were insufficient to meet its debt settlement obligations. Intra was deemed insolvent, with a deficit of LL43M.⁶¹ The question of Intra's solvency was not put to rest with the court's findings. Due to the presence of many Intra assets overseas and the speculative nature of valuation of property before the conclusion of a sale, the hasty estimates produced by the court committee were disputed by Intra

⁵⁸ An important meeting in this regard was held on November 27, 1966. It was attended by Kuwaiti Prime Minister Jaber al Sabah, Intra chairman Najib Salha, and three Chase Manhattan top executives including the bank's Vice President Jacobson, see Telegram 546, Kuwait to Department of State, November 29, 1966; FN 6 LEB; RG 59; NAB.

⁵⁹ On details of deal signed between Intra and KFTCI, see Telegram 560, Kuwait to Department of State, December 2, 1966; FN 6 LEB; 1963-66 Subject Numeric File; RG 59; NAB. On the withdrawal of the offer, see Telegram 697, Kuwait to Department of State, January 5, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB. On reports in Reuters that Intra failed to release collateral stock from BDL to seal deal with KFTCI, see Telegram 111633, Department of State to Beirut, January 3, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB.

⁶⁰ Helou told US Senator Edward Kennedy when the latter was visiting Beirut that the Kuwaiti offer was the best one so far, see Telegram 111633, Department of State to Beirut, January 3, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB. For press coverage of Kennedy's visit to Beirut and his meeting with Helou, see "Edward Kennedy wa Zawjatuhu fi Lubnan," *al-Hayat*, November 27, 1966.

⁶¹ The first committee, composed of six accountants and retired judge Shawkat al-Munla, was tasked with auditing Intra's commercial books, producing a legally binding balance sheet, and examining its banking practices for any wrongdoing. The second committee was entrusted with evaluating of Intra's assets. The six accountants of the auditing committee were Joseph Taso, Ali Awada, George Baroudy, Michel Siryani, Adib Khoury, and Ghazi Shamma'. The valuation committee was composed of George Jirdaq, Muhammad Khayr Tabbarah, Jean Tohme, and Saadallah As'ad, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 62-64.

officials and Arab depositors. Price Waterhouse, then auditor of the World Bank, was tasked with conducting a parallel independent valuation to assuage the fears of foreign investors and provide further validity to the court decision. The Lebanese government, however, dismissed the firm after British journalist Patrick Seale reported in the *Observer* on November 5, 1966 that the firm's senior partner, Eric McMillan, told him Intra was likely to be solvent. The dismissal further fueled claims of government connivance to bring down Intra. On December 23, another internationally renowned auditing firm, the British Cooper Brothers, was commissioned by the Lebanese government to conduct yet another valuation.⁶² But the court did not wait for the new auditor to produce their report. On January 4, the court's presiding judge Abdel Basit Ghandour declared Intra officially bankrupt.

The court decision threatened to derail concurrent efforts by the Helou administration to take full control of the refloating process through a special piece of legislation. When the bankruptcy verdict was issued, parliament was in the midst of debating bill 2/67 which forbade the declaration of bank bankruptcy and came to be known as Intra's law. Under the new law, banks that were deemed unable to pay immediately fell under the management of a committee appointed by the commercial court at the instigation of the Central Bank. Within six months, the committee, composed of representatives of creditors and shareholders as well as state officials and independent experts, was expected to determine whether the bank was salvageable and should refloated or whether it must face liquidation. In order to overrule Ghandour's decision and evade a forced liquidation of Intra, the final version of the bill, which was passed on January 16, 1967, applied retroactively as far back as October 1, 1966.⁶³ Like every other aspect of the Intra crisis, the formation, mandate, and workings of the management committee was mired in controversy.⁶⁴ The committee failed to submit an official report within the six-month period

⁶² On the dismissal of Price Waterhouse and the appointment of Cooper Brothers, see Alamuddin, *The Flying Sheikh*, 1987, 148–149.

⁶³ Creditors and shareholders held a majority vote in this first committee. For the full text of Law Intra, see Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999, 2:28–35.

⁶⁴ Middle East Airlines chair Najib Alamuddin attributed the appointment of retired judge Shawkat Munla as head of committee to the latter's friendship with Prime Minister Abdallah Yaffi, a sworn enemy of Beidas, see Alamuddin, *The Flying Sheikh*, 1987, 148. Several committee members, including AUB economist Ilyas Saba, withdrew. Munla was accused of sabotaging the committee's proceedings when it transpired that a majority of members were leaning towards a favourable recommendation of refloating Intra. Hanna Asfour further claims that

assigned by law. Intra would have been set for liquidation had not the government intervened last minute on August 5 to amend the law and allow for the creation of yet another committee that would carry on the task of the first for an additional two months. The second committee was composed solely of state bureaucrats and experts. It was chaired, *ex officio*, by the Governor of the Central Bank. The committee's powers were expanded to include those of an extraordinary general assembly and commissioned to "find solutions that safeguard the interests of right-holders in the best and prompt ways".⁶⁵ As such, the Helou administration managed to wrest power from the courts and place it at the discretion of central bank management.

Intra's Law was the culmination of a series of legislative and diplomatic steps charted by the government on a track parallel to that of the commercial court proceedings. The most significant was the so-called LL50M law. To pre-empt any mobilization of small depositors by Intra stakeholders upset by the exclusion, the government authorized the payment of up to LL50M to depositors holding accounts of LL15,000 or less with a priority of payment to account holders with LL5,000 or less. In return for paying off small depositors, the law granted the Lebanese government all the rights and privileges of the depositors that were to be reimbursed.⁶⁶ In other words, the LL50M was not a loan by the BDL to Intra to pay off creditors, but rather a non-consensual and legally imposed transfer of creditors' rights from private hands to public ones. As a result, the Lebanese government became a major stakeholder of Intra. Upon the formation of the second committee in August of 1967, the Helou administration had also become the ultimate arbiter of the bank's fate. The three other top creditors were the government of the US, through its Agricultural agency the CCC, Kuwait and Qatar. As such, refloating Intra became an almost exclusively inter-governmental affair.

Munla became a depositor at Intra, in order to become eligible to serve on the committee, through an illegal transfer of debt from an actual depositor. The second committee was formed on February 2, 1967, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 96–100.

⁶⁵ The second committee, created under decree 44, was composed of the BDL governor as chairman and four other members: Chairman of Lebanon's State Council (highest judicial authority), Director General of the Ministry of Finance, a legal expert, and a financial expert suggested by the Ministry of Finance. See full text of decree in Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999, 2:80–82.

⁶⁶ See Helou, *Hayat Fi Dhikrayat*, 239.

7.2.2 US-Brokered Multinational Takeover: Supranational Policy Networks and the Political Roots of Global Financial Hegemony

The hierarchy of power relations that existed between the governments involved in refloating Intra and the financial circles attached to each proved a greater determinant than the logic of market forces when it came to which refloating offer made the cut. Based on the amount of credit owed by Intra to each government and on the nationality of the bank involved, the governments of Kuwait (the largest creditor) and Lebanon (the national government) should have held the most sway. Both, however, displayed some deference to US opinion and interests. The influence of Washington, to a large extent, did not materialize in the form of direct political pressure. It was rather due to the superior bargaining position of the US government thanks to what may be termed *supranational* policy networks that had developed in the region as an important instrument of US hegemony. These policy networks were arranged like concentrated loci or nodes of knowledge accumulation and power dissemination, with the US embassy in the centre and the majority of public and private actors involved linked to it through direct channels of communication.

These networks were of two types. The first were the extensive networks of informants and interlocutors developed by US embassies which penetrated deeply into the state bureaucracy, business circles, and research community of Lebanon and to a lesser extent Kuwait. The fact that the US government was a major stakeholder with direct interests in the outcome did not deter many of these informants, such as Lebanon's emissary to Kuwait Talha Yaffi or Director General of the Ministry of Finance Khalil Salem or appointed head of Intra Management Committee Shawkat Munla, from directly sharing information with Washington that prejudiced the negotiation process in favour of the American creditor, CCC.⁶⁷ In one instance, information of an imminent deal between Intra's branch in Beirut and its sister bank in Geneva passed on to the Americans led to direct action by Chase Manhattan to the US bank's benefit and to the detriment of Intra. The leaker of the Geneva-linked information was Roger Tamraz who was the

⁶⁷ AUB economist Talha Yaffi, who was also the nephew of then Lebanese Prime Minister Abdallah Yafi, provided Washington with details of the offer by the Government of Lebanon to its Kuwaiti counterpart for a joint buy out of Intra, see Telegram 359, Kuwait to Department of State, October 20, 1967; FN 6 LEB; RG 59; NAB. On the seemingly regular meetings between Shawkat Munla and The US Embassy's reporting officer in Beirut, see Airgram A-4, Beirut to Department of State, June 19, 1967; FN 6 LEB; RG 59; NAB.

point man of financial consulting company Kidder Peabody. The New-York based firm made one of three major offers to refloat Intra and eventually won the bid. Tamraz represented the second type of policy network at play. These were transient-type networks. They coalesced during the crisis thanks to the intimate coordination of US foreign policy and activity between the US government and powerful agents of American financial capital, namely banks and investment firms. The prestige of US financial expertise and the clout of US financial institutions in global money markets further empowered these networks in the eyes of regional government and private actors.

Members of this second type of networks, such as Tamraz or as I show below Paul Parker and Eugene Black, gained an advantage over other competing European actors. Tamraz was “discreetly” introduced into the high circles of power in Kuwait by the US government to represent “private US interests” after which US government officials would have less direct involvement to prevent the “erroneous impression [US government] has role to play re [sic] future of Intra”. Kuwaiti high officials, on the other hand, were keen to learn from Tamraz, who officially was serving as a financial consultant with the best business offer, whether his proposal had US government approval.⁶⁸ Back in November, before the court-appointed management committee was set up, Kuwaiti Prime Minister Jaber al-Sabah had withheld his approval of Najib Salha’s offer pending further consultation with US financier and foreign policy consultant Eugene Black. More so than Tamraz, Black’s role as a representative of US government and private business interests was augmented by his “independent” and institutionally secured role as consultant to the Kuwaitis. Black was a longtime advisor to John F. Kennedy on World Bank issues and a board member of Chase Manhattan. He simultaneously sat on the Kuwait Investment Advisory Board to which the Kuwaiti Prime Minister turned for advice.⁶⁹ The

⁶⁸ On Tamraz as discreet representative of US private interests, see Telegram 174798, Department of State to Kuwait, April 13, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB. On Tamraz explicitly asking US embassy in Kuwait to “contrive means for him to present a proposition in private to [Kuwaiti Finance Minister] Ateegi, see Telegram 1040, Kuwait to Department of State, April 12, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

⁶⁹ On the significance given by Jaber al-Sabah to Eugene Black’s advice and the latter’s multiple roles, see Telegram 546, Kuwait to Department of State, November 29, 1966; FN 6 LEB; RG 59; NAB. The American Manager of KTFCI also discreetly passed on information to the US embassy about his boss, chairman Abdul Aziz al-Bahar. Embassy cable identifies his last name, Paulding, and asks Washington to protect him as a source, see Telegram 725, Kuwait to Department of State, January 18, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

loyalties of Intra's acting manager, Paul Parker, were even further divided among three stakeholders. Parker, who was recruited by Beidas from Bank of America shortly before the collapse to put Intra's house in order, had served as Near East Representative for the US Treasury. Despite the conflict of interest involved, Parker regularly updated the US embassy in Beirut on Intra's condition and refloating efforts.⁷⁰

Parker's financial reputation also enabled him to draw in, and later dismiss, one of the major offers to buy out Intra by Fides, a subsidiary of Credit Suisse. The offer was made through Beirut-based Banque de L'Economie Arab (BEA) which hired Parker as a consultant. By the end of June 1967, a preliminary agreement had been reached under which BAE would take over Intra loans effectively becoming a reconstituted Intra bank.⁷¹ In the first week of August, a contract was drawn up but 11th hour disagreements with the Lebanese government placed the deal on hold.⁷² The Credit Suisse offer remained on the table and was discussed by US and French officials as late as September 20. The odds, nonetheless, had ceased to be in Credit-Suisse's favour.⁷³

The Credit-Suisse deal had already been on shaky ground after the US embassy raised suspicions over the financial integrity of BEA.⁷⁴ This prompted Parker to sever his ties with BEA and help

⁷⁰ Parker passed on sensitive information on Kuwaiti withdrawals to US officials on the day Intra stopped payment, see Telegram 3292, Beirut to Department of State, October 14, 1966; FN 6 LEB; RG 59; NAB.

⁷¹ Small Creditors would be given cash certificates for value claims redeemed at a future date while large ones will hold equity shares in the investment companies that would be spun off from Intra's major assets. On details of Credit Suisse offer, see Telegram 836, Beirut to Department of State, August 2, 1967; FN 6 LEB; RG 59; NAB.

⁷² The Helou administration sought a speedy transfer of liability to Credit Suisse before the first management committee's mandate expired on August 8. Credit Suisse final signature, however, was made conditional on a more extensive audit and on talks with large creditors, see Telegram 1011, Beirut to Department of State, August 8, 1967; FN 6 LEB; RG 59; NAB.

⁷³ According to Parker, the Fides offer went aground in September after the Lebanese government declined to provide full guarantees of the existence and value of Intra assets. On Franco-US discussions of the Credit Suisse offer and another French one by financier Jules Piquet, see Airgram A-250, Beirut to Department of State, September 20, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB. On why the Credit Suisse deal fell through according to Paul Parker, see Telegram 1848, Beirut to Department of State, September 7, 1967; FN 6 LEB; RG 59; NAB

⁷⁴ The US embassy in Beirut questioned the "dubious reputation" of Antoine Meguerdiche, the local banker representing Credit Suisse which was further "sullied" by the association with shady British banker Francis Richard

bring Kidder Peabody back into the picture by working more closely with Roger Tamraz towards an alternative offer. Rather than the traditional buyout under which the new owner assumes debt obligations of the defunct bank, Kidder Peabody proposed a reorganization of Intra through the conversion of large creditors into shareholders of a newly constituted holding company and a spin-off bank with a modest share capital. As such, Intra's liabilities would be "neutralized" by converting them into shares. By subordinating Intra's original shareholders to large creditors like Kuwaiti capital and CCC, Tamraz reasoned his offer would gain the support of powerful political elements. It did.⁷⁵

By late September, Tamraz had hammered out the details of the agreement with Lebanese finance officials and economists and got BDL support. Yet, he later tried to deprive the Lebanese government from becoming a shareholder by suggesting the money owed to BDL be converted to long term debt. Shortly after, Tamraz gained the consent of the three other large creditors, namely the Kuwaiti and Qatari Governments and the US agency CCC. On October 11, a protocol was signed between the court-appointed management committee on one hand and representatives of the three major creditors (Kuwait, Lebanon, CCC, and Qatar) on the other hand. The protocol outlined the terms under which the new holding company and bank were constituted.⁷⁶ The liquidation of Intra had been averted, but the bank was not saved and its global investment outreach was eliminated. In effect, it was turned into an international consortium under the name Financial Investment Company. The signed protocol transferred the titles, rights and interests of

Craddock, see Airgram A-250, Beirut to Department of State, September 20, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB.

⁷⁵ Tamraz had been building up such support since the preceding spring. By the first week of September, he managed to gain the approval of the Lebanese government which pledged its advance acceptance of the deal to help Tamraz bring other creditors on board. Prime Minister Rashid Karame also promised that the Central Bank's emergency discount facilities that had been provided for other banks would equally apply to the newly constituted institution. Hani Salam, nephew of several times Prime Minister Saeb Salam and Intra shareholder, was part of the collaboration between Parker and Tamraz, see Telegram 1848, Beirut to Department of State, September 7, 1967; FN 6 LEB; RG 59; NAB. On Parker's severance of ties with BEA, see *Ibid.* On Parker's "very helpful" role in reviving the Kidder Peabody offer, see Memorandum of Conversation, Subject Intra Bank, Enclosure 1, Airgram A-265, Beirut to Department of State, September 26, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

⁷⁶ See Airgram A-327, Beirut to Department of State, October 11, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB.

the former shareholders to creditors and depositors. Meanwhile, the original shares were declared void as a result of Intra's reported insolvency. Creditors and depositors had been redeemed at the full expense of Intra's original shareholders.⁷⁷

The Kidder Peabody settlement was as controversial as every other development in the Intra crisis with different stakeholders making different assessments of the fairness and profitability of the deal. Detractors condemned the reorganization as outright confiscation of profitable investments. In the words of Najib Alamuddin, converting creditors into shareholders by the force of law was “a master piece of legal hocus-pocus”.⁷⁸ Intra stakeholders in France, including some of the bank's employees, were among the most vociferous opponents of the deal and placed it in the context of rivalry between French and US financial interests. They launched a press campaign that criticized the French Finance Minister Michel Debre for failing to “lift one finger” to ensure that a French banking group, rather than an American one, was awarded refloating rights. Intra's role, they argued, had been to draw Kuwaiti funds away from “Dollar-Sterling tutelage”.⁷⁹

In contrast to Paris and Lebanese Intra sympathizers, Washington and Kidder Peabody were in a celebratory mood. Tamraz, who cashed in high fees for refloating and later managing the restructured company, saw the scheme as one step towards introducing Kidder Peabody into the

⁷⁷ Each of the four major creditors held shares equivalent to the amount of credit claims Intra owed them and was represented on the new Board of Directors. Half the deposits valued at LL250, 000 or less were also converted into shares. Tamraz found claims by original shareholders to be “appealing on both humane and political grounds”. But Lebanon's Prime Minister Rashid Karame, who was also finance ministers, had stipulated that “all former shares should be zero”, see Enclosure 2, Airgram A-265, Beirut to Department of State, September 26, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB. For a summary of finalized deal, see

⁷⁸ Hanna Asfour argued that the nullification of original shares was unconstitutional given that no actual sale took place. For a detailed legal argument against the Kidder Peabody scheme, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 113–129. Joseph Salameh ridiculed the Kidder Peabody scheme which in his view would have been laughed at within US financial circles, see Salameh, *Haddathani Y.S. Qal*, 138. For Alamuddin quote, see Alamuddin, *The Flying Sheikh*, 1987, 160.

⁷⁹ These articles appeared in *Le Figaro* and *Le Canard Enchaîné*. The Kidder Peabody takeover was also portrayed as an attempt to wrest control of valuable shipyard assets owned by Les Chantiers Navals de La Ciotat in which Intra had a controlling share. The value of La Ciotat were expected to grow after the termination of construction work on a new slipway that can handle the building of tankers up to 300,000 thousand tons, see Airgram A-412, Beirut to Department of State, November 7, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

Middle East money market as a pioneer of modern underwriting techniques.⁸⁰ Meanwhile, the US government, which sought to discredit French objections and “alert” BDL governor Sarkis of the “swindlers” behind the French group, became a major shareholder of the new holding company through CCC shares. The protocol even upheld CCC’s priority rights against Intra’s assets in the United States.⁸¹ As US embassy officials pointed out, the “financial stake of the USG has been protected in a highly satisfactory manner”. More broadly, the deal which involved three Arab governments (Lebanon, Kuwait, and Qatar) was seen as a significant step toward more constructive American-Arab relations. The US was “at long last” seen as “a force for economic development and order in the Middle East”.⁸²

7.3 The BDL as a Failed Model of Monetary Intervention: Parochialism, Legalism, and the Critical Outlook of Foreign Capital

The Intra settlement implemented by Kidder Peabody did not address the deep roots of the broader banking crisis of which Intra was one, albeit major, manifestation. These roots pertained to the two fundamental questions of sound banking practices and adequate banking regulation. The first question referred to matters such as a bank’s management structure, credit policy, solvency and liquidity status, and degree of specialization in short versus long term lending. Bank regulation, on the other hand, referred to the extent of regulation and control of private banking by the state, namely through the BDL or other state institutions. Both questions were intertwined and emerged as the object of heated public debate during the Intra crisis. They turned into the primary theme of central bank reform afterwards. Critics of Intra’s founder attributed the bank’s demise to bad management and unsound banking practices, namely the investment of short term deposits into illiquid assets with long term returns. Critics of state authorities, on the

⁸⁰ He also hoped to realize his “private dream” of eventually getting the holding company listed on the New York Stock exchange through share swaps. See Enclosure 2, Airgram A-265, Beirut to Department of State, September 26, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

⁸¹ See Airgram A-327, Beirut to Department of State, October 11, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB.

⁸² See Telegram 3084, Beirut to Department of State, October 13, 1967; FN 6 LEB; 1967-69 Subject Numeric File; RG 59; NAB.

other hand, blamed the lack of proper regulation and central bank inaction for the state of affairs that led to the collapse.

In terms of banking practices, there is little doubt that Beidas adopted a risk-taking approach to management and increasingly monopolized decision making in the few years prior to the bank's collapse.⁸³ The court handling the Intra case found that Intra had violated basic principles of sound banking.⁸⁴ There is equally incriminating evidence of the Central Bank in this regard. According to Intra official Hanna Asfour, the court did not find any evidence of correspondence between the BDL and Intra in which the former was urging the latter to get its house in order.⁸⁵ More significantly, the Law of Money of Credit had granted banks five years to comply with new financial regulations, which technically meant that Intra had at least two more years before it were liable for violating the law.⁸⁶ Intra's liquidity shortage and potential insolvency were also partly a result of lax central banking regulation. Thanks to lobbying by private banks, the Law of Money and Credit itself did not impose reserve ratio requirements that Intra would have had to abide by. As I also showed in the *Chapter 5*, attempts by the drafting committee of the Law of Money and Credit to classify banks based on short versus long term credit policy were equally scuttled. Such measures would have barred the investment of short term deposits into long term projects and thereby secured high liquidity and ensured quick solvency.

Al-Masarif editor Dhulfiqar Qubaysi, who had celebrated the inauguration of the BDL in 1964 as the final step towards full independence, fully recognized that the onus of preventing the Intra ordeal fell squarely on the Central Bank. On the day Intra closed its doors, Qubaysi wrote:

⁸³ On Beidas unilaterally confirming the issue of a loan guarantee in the amount of \$3M without consulting with Board of Directors, see Salameh, *Haddathani Y.S. Qal*, 125–126. According to Hanna Asfour, the only two people at the bank that had an intimate knowledge of its finances were Beidas and Beirut branch manager Iskandar Ayyoub, see Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 50.

⁸⁴ Such bad practices included advances to executive board members beyond prescribed quotas, the generation of illusory profits and divestment of capital into fake real estate companies, as well as low liquidity levels due to a high rate of investment in real estate. See Asfour, *Bank Intra: Qadiyyah Wa 'Ibar*, 245–247.

⁸⁵ See *Ibid.*, 30.

⁸⁶ Beidas brought in financial consultants to help put the bank's books in order. These included former governor of Syria's Central bank Izzat Traboulsi, former Lebanese minister of Economy Rafic Naja, see *Ibid.*, 35–36. and

Lebanon is a big bank. Its largest branch (Intra) stopped payment. Who is responsible? Is it the government (*al-dawlah*)? No. The government does not understand the science of banking... Who else but the Central Bank? Since its founding, the Central Bank has been content with acting as an observer... The Central Bank did not act prior, during, or after the Intra incident and it will not act. Many wonder why. Is it waiting for the right moment? The answer is no. The Central bank does not know how to act. It does not know what to do. The answer is simple: The lack of expertise. We say it bluntly to the Lebanese and we take full responsibility for doing so. There is not a single official at the Central Bank who has studied the science of banking.⁸⁷

Lack of expertise at the BDL was an important factor. But it was not as simple as Qubaysi suggested. Qubaysi's distinction between the government and the Central Bank was a precarious one. Since its creation, central banking in Lebanon remained largely controlled by a tense alliance between the big bankers and the Chehabists. The fact that foreign minister Philip Takla continued to hold the post of governor in clear violation of the Law of Money and Credit was a clear sign of the politicization of the BDL. The decision-making process that unfolded following the Intra collapse, which I described earlier in this chapter, also reflected the degree to which the BDL lacked autonomy vis a vis the government and the banking lobby. Sensing the gravity of the Intra run, the BDL's top technocrat, Joseph Oughourlian, had immediately deferred to the government when the bank faced the threat of closure. The government in turn did not act before consulting the Association of Banks. At the time, and as discussed above, marathon meetings between government and ABL officials on the weekend of the Intra collapse led to the decision of providing immediate financial relief and monetary guarantees to banks other than Intra following a three day bank "holiday". These measures, administered by the BDL, were aimed at restoring trust in the money market to avoid large scale capital flight. But as was the case with the signing of the Franco-Lebanese monetary agreement two decades earlier, the Lebanese ruling elite did not have confidence in their own ability to self-manage monetary crises without external help. President Helou and Governor Takla reacted in a manner consistent with the time-honored Lebanese approach they were accustomed to in the sphere of politics. Their first instinct was to seek the assistance of foreign governments rather than IFIs such as the IMF. They immediately appealed to Lebanon's former colonial ruler, France, and the world's great power, the US.

⁸⁷ See Dhulfiqar Qubaysi, "Ba'da Intra Ila Ayn," *al-Masarif*, October 15, 1966, 6-7.

The responses of both foreign governments to Lebanese appeals for help, however, were lukewarm. Despite Lebanese press reports of France coming to Lebanon's aid, confidential diplomatic records indicate that the French government and the Bank of France had chosen to stay aloof from what they saw as a domestically-charged financial quagmire. They redirected Lebanese officials to international financial institutions. According to Bernard Clappier, then Deputy Governor of the Bank of France, French authorities deemed the Bank of International Settlement (BIS) as more capable of providing a "disinterested, international cover" for assistance and if need be recruit a "consortium of central banks to associate themselves with the operations". The BIS responded with enthusiasm to French requests and dispatched its top managers to Beirut. Beirut, however, continued to demand the technical assistance of the Bank of France in uncovering the causes behind the crises and making the relevant recommendations towards recovery. Technocratic advice did not involve financial cost. The Bank of France ultimately obliged albeit half-heartedly. The move was largely a symbolic show of support aimed at restoring confidence in the Lebanese pound within international financial circles.⁸⁸

Washington was likewise reluctant to extend any direct financial assistance. Instead, the Department of State vigorously pursued the recovery of the money Intra owed to the US agency, CCC, and decided against actively "persuading American banks to purchase shares in IntraBank [sic] or otherwise extend funds to meet current crisis". Like Paris, Washington had also preferred international mechanisms of aid to bilateral ones. While the former approached the Basel-based BIS, the latter inquired into the possibly role the IMF might play. Few days into the crisis, the IMF was willing to provide expert advice should the Lebanese Government seek any, but none had been sought until then.⁸⁹ Several weeks later, Lebanese President Charles Helou reportedly concurred with John Gunter, Chief of the Middle East Department at the IMF, that due to

⁸⁸ The Bank of France finally agreed to send the manager of its discounting department, a Mr. Brousse, to Beirut to be followed by a team of technicians. Once it transpired that withdrawals after the banking "holiday" were less than expected and did not precipitate capital flight, the momentum for major intervention waned, see Airgram A-659, Paris to Department of State, October 26, 1966; FN 6 LEB; Subject-Numeric Files 19663-66; RG 59; NAB.

⁸⁹ See Telegram 68394, Department of State to Beirut, October 18, 1966; FN 6 LEB; Subject-Numeric Files 1963-66; RG 59; NAB.

Lebanon's very small IMF quota (\$6.57M), there was "very little" the Fund could do to help resolve the banking crisis in Lebanon.⁹⁰

With little international material support came a lot of globally-oriented policy advice from public and private financial quarters. Ian Michie, VP for Near Eastern Affairs at Chase Manhattan Bank, urged BDL Acting Governor Joseph Oughourlian to include Intra among the blanket liquidity guarantees extended to other banks *before* the audit results of Intra came out and *regardless* of such results. Only then would foreign confidence in the banking system be restored and capital flight held in check.⁹¹ The IMF's Gunter, meanwhile, lamented that there were few people with central banking background. BDL Acting Governor Joseph Oughourlian, Gunter added, did understand the technique of central banking. But Oughourlian's bad relationship with the commercial bankers, Gunter warned, posed a serious obstacle to effective operations since a successful central banker needed to have the commercial bankers on board. Takla, Gunter thought, would do the trick.⁹²

The BDL's handling of Intra's foreign branches was also an object of criticism. Jordan's Central Bank Governor, Khalil Salem, described the Lebanese government's reluctant attitude to speedily transfer funds abroad to save Intra's foreign branches as too "legalistic". Under the newly-minted Intra's Law, any such transfers had to be approved by the court-appointed Management Committee. US ambassador in Beirut Dwight Porter saw the opposition of certain members of Karame's government such as Raymond Edde to such transfers as "parochial". These officials, Porter contended, displayed a "curious unwillingness to grasp the idea that

⁹⁰ Helou and Gunter met on November 11, 1966; see Airgram A-405, Beirut to Department of State, November 15, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

⁹¹ See Memorandum of Conversation, Lebanese Banking Crisis, Department of State, November 15, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

⁹² Gunter added that members of the banking community had engaged in dangerous banking practices, which in Gunter's opinion, had also been a major factor in Lebanon's rapid economic growth, see Airgram A-405, Beirut to Department of State, November 15, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB. Gunter continued to be consulted about central banking in the following year. In August of 1967, he told US embassy officials that the Government of Lebanon "must learn proper use of central bank" but acknowledged that new BDL governor Ilyas Sarkis and Director General of the Ministry of Finance, Khalil Salem, were talented are starting to catch on, see Telegram 1382, Beirut to Department of State, August 21, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

[transferring funds abroad] is not ‘paying off foreigners’...but rather to preserve assets essential to refloating the bank for the benefit of all, including the Lebanese”.⁹³

In the wake of the Intra crash, the BDL’s two top officials, Joseph Oughourlian and Philip Takla, seemed largely impervious to the barrage of criticism hurled at them. Oughourlian reportedly reacted “blandly” to Michie’s advice cited above. When Oughourlian updated the US embassy on the status of commercial banks ten days after the crisis, he sounded bitter not remorseful. He told US officials that had he agreed to extend further funds to Intra, which he argued were well beyond what existing banking laws permitted, he would have landed in jail.⁹⁴ Likewise, Governor Philip Takla was the least bit critical of his role and overall economic policy including BDL performance. On October 31, two weeks after Intra stopped payment, Takla assured his US embassy interlocutors that Lebanon’s economic policy worked well *except* for Intra. The latter, Takla surmised, might have been too big and over-extended worldwide for a “small country” like Lebanon. Takla conceptualized the problem as one of having to “catch the thieves” and those seeking to create instability. As for the BDL’s performance, what *al-Masarif* editor Dhulfiqar Qubaysi saw as central bank “inaction”, Takla described as a “policy of flexibility” necessary for the period of transition from a completely *laissez-faire* regime to one of limited supervision and controls. In this regard, Takla conceded that BDL reform would have to take place, but in a way that would not affect any change in the principles of “free exchange, free trade, and free enterprise”.

For Takla, central bank reform would be largely limited to boosting the technical competence of its personnel to be able to detect dishonest banking practices and “perhaps” amending the laws of currency and banking. Takla did not question his own financial competence despite public criticism. The veteran diplomat allegedly conveyed to Gunter his wish to remain at the helm of the BDL. Rather than quit his financial post and remain in his diplomatic one, Takla did the reverse. On November 28, he resigned as foreign minister in order to devote his attention to

⁹³ According to Porter, Beshara Francis, the temporary director of Intra’s court-appointed management committee shared Edde’s concerns and viewed efforts by his predecessor to save Intra’s foreign branches as “illegal”, See Airgram A-682, Beirut to Department of State, February 1, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

⁹⁴ See Memorandum of Conversation, Lebanese Banking Crisis, Department of State, November 15, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB and Telegram 3782, Beirut to Department of State, October 28, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

central banking reform.⁹⁵ The reforms that ensued were well beyond what Takla might have envisioned. In the following section, I analyze the main elements of these reforms. I argue that the restructuring process failed to fundamentally alter the function of the BDL and its ability to reassert its authority vis a vis the private banking sector. It reproduced the *laissez-faire* system that sustained the banking sector by adjusting the legal framework and bureaucratic practices related to banking regulation to better resist future shocks. Instead of the state penalizing bad banking behaviour, it was turned into a public guarantor of private loss. The full weight of the state had been invoked to prolong the life of a *laissez-faire* system that defined itself as the anti-thesis of state intervention.

7.3.1 Bureaucratization, Technocracy, and the ABL Campaign against Foreign Banks: Reinventing Central Banking as the Last Refuge of *Laissez-faire*

Pressure for state intervention to fix and regulate the banking sector beyond minor modifications suggested by Takla continued to mount throughout the ensuing months. As was the case in the formative period of founding the BDL, financial experts and technocrats resurfaced as authoritative advocates of reform. Calls for the introduction of expertise into the central bank served to consolidate the authority of the technocrats in this regard. AUB institutionalists, especially third generation members like Ilyas Saba, Talha Yaffi and Salim Hoss, were at the forefront of these efforts.⁹⁶ The Association of Banks was equally keen to play a formative part to ensure that the vested interests of its members are not significantly compromised by any new legislation. Throughout 1967, over a dozen pieces of banking legislation (both parliamentary laws and presidential decrees) were enacted.⁹⁷

⁹⁵ Takla had also carried the justice portfolio in the Yaffi government. He resigned from that post on September 7; see Majid, *Tarikh al-Hukumat al-Lubnaniyyah*, 161.

⁹⁶ A highly publicized panel that dissected the Intra crisis was convened by AUB's Yusif Sayigh and included Ilyas Saba as a panelist, see "al-Azmah al Masrifiiyyah ala al-Mashraha," *al-Masarif*, December 15, 1966, 12-17. On the contribution of Hoss and Yaffi, see discussion below.

⁹⁷ For a list of the major laws and decrees, see Banque du Liban, *Annual Report for 1967* (Beirut: Banque du Liban, May 30, 1968), 17. For full texts see Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999.

Three of these laws, and their amendments, constituted the pillars of the new regulatory regime that governed the banking sector and the constantly evolving institutional relationship between private banks and central banking authority. One of these laws (bill 22/67 passed on April 24, 1967) decreed for the first time the classification of banks, based on their credit policy, into either commercial banks or specialized in medium and long term lending. As discussed in *Chapter 5*, the ABL had successfully resisted such attempts when the Law of Money and Credit was drafted. Despite incentives to encourage the creation of such banks and several future amendments, the new 1967 law failed to end the dominance of *commercial* banking in Lebanon.⁹⁸ The other two laws, of more relevance to the question of central banking, laid out a multilayered legalistic framework that addressed two fundamental aspects of banking regulation. The first was the active monitoring and control of the regular activities of banks to prevent their collapse and to manage their bankruptcy proceedings should regulatory measures fail to prevent such an outcome. The second was the provision of a sector-wide insurance scheme that would protect depositors from financial loss and the banking system from capital flight.

Due to the outbreak of the Intra crisis, the legislation dealing with bankruptcy was promulgated prior to that dealing with day-to-day operations of a functional bank. Intra's Law (Bill 2/67) was catered to prevent the outright liquidation of Intra and allow the Helou administration to gain control of the Intra's future. This law, briefly discussed in *Section 7.2* above, eliminated the ability of banks to file for bankruptcy. It *institutionalized* the procedures by which the state, through its Central Bank and the judiciary, was empowered to take immediate management control of *any* bank that found itself in a position of stoppage of payment. Specific criteria were put in place under which a bank was deemed to have stopped payment.⁹⁹ Once any of these criteria were met, an automatic process of takeover by state institutions would be initiated by the

⁹⁸ Passed on April 24, 1967, law 22/67 created a new category of banks, those of midterm and long term lending, which operated under a different set of rules than commercial ones. These investment-oriented banks had to have a minimum share capital of LL15M, which was fivefold that of commercial banks. They were barred from hosting time deposits that matured in less than two years and given incentives include 7-year tax breaks and the authority to issue debt certificate which did not have to conform to commercial code guidelines, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 215.

⁹⁹ A bank was declared to have stopped payment if the bank declared stoppage, or failed to pay off a debt it owed to the BDL on its due date, or drew a check on the BDL without sufficient consideration, or did not provide adequate consideration to cover a debit account that had arisen out of clearing operations, see Article 2 of Law Intra, Yafi and Yafi, *Majmu'at Al-Naqd Wa Al-Taslif*, 1999, 2:28.

Central Bank. A management committee, composed of state-appointed members and those representing creditors and shareholders of the bank, would assume the full powers of the bank's general assembly and the board of directors. The committee was given six months to file a report to the court recommending that the bank resume its operations or undergo liquidation. Failure to submit a report automatically led to liquidation under a newly constituted liquidation committee.¹⁰⁰

Intra's Law, however, was amended on August 5, 1967 (Decree 44) after the first management committee struck to handle the Intra case failed to produce such a report and the Helou administration wished to avoid liquidation. Under the amended legislation, the council of ministers was authorized to form a second management committee that would be granted two additional months to deliberate and issue its verdict if the first committee failed to file its report on time. The amendment altered the *nature* of state intervention. Both committees typified the Chehabist approach of public-private partnership in the administration of regulatory bodies with members hailing from both the private sector and the bureaucracy. The committee's makeup under the new amendment, however, indicated a shift in authority from the private to the public sector. While creditors and shareholders held a majority vote on the first committee, the second committee that would take over after six months was exclusively composed of state officials of legal and financial backgrounds. In addition, the first committee's chair had to be a creditor while that of the second was, *ex officio*, the Central Bank Governor. Lastly the second committee was struck by the sitting government, not the commercial court. In effect, thanks to the outcome of the Intra case, the Central Bank and the state bureaucracy became the mandatory adjudicators *of last resort* for all bank bankruptcies.¹⁰¹

¹⁰⁰ Ibid.

¹⁰¹ Members of the first management committee, numbering six to ten, were nominated as follows: One by the minister of finance, one by the BDL governor, one or more, of known financial or banking expertise, by the BDL's Central Council, one or more creditors, and one or more shareholders. The committee chair had to be a creditor or shareholder. Under the amended law, the second management committee was composed of: BDL Governor (Chair), President of the State Council, Lebanon's highest judicial body, the Director General of the Minister of Finance, and a financial or economic expert nominated by the Minister of Finance. For full text of original and amended law, see Ibid., 2:28–35.

Intra's Law was rushed through to deal with the impending liquidation of Intra by the commercial court. As a result, it regulated the very last stage of a crisis rather than its roots and left much to be desired in the way of a major overhaul of banking regulation and practices. To address banking crises in a more fundamental and long term manner, the Helou administration drafted an omnibus bill on banking that became the cornerstone of banking "reform" for decades to come. This was the third of the three laws mentioned above. Bill 28/67, which was passed by the Chamber of Deputies on May 5, 1967, created three new institutional bodies, which together with the Central Bank, formed an integrated yet labyrinthine bureaucratic apparatus that insured, monitored, and regulated banking. The first of these bodies was the National Deposit Insurance Corporation aimed at guaranteeing all private deposits in Lebanon against loss. The other two, which dealt with regulation, were the Banking Control Commission and the Higher Banking Commission.¹⁰²

As was the case with the formation of the Central Bank a few years prior, the administrative structure and financial function of these three institutions were the culmination of public debates and power struggles between different political and economic actors. In this phase of central bank restructuring, contestation coalesced around two major axes of disagreement. The first had also been present during the drafting of the statutes of the Central Bank. This was the decade-old antagonism between the banking community, represented by the Association of Banks (ABL), and elements within the state bureaucracy, now populated by Chehabist technocrats, over the extent of state regulation of the profession. The second axis was a manifestation of the more recent rivalry between domestic banks and foreign ones. It existed during the heydays of the 'Merchant Republic' but was much less pronounced and grew into outright conflict in the wake of the Intra crisis. Socialists and Arab nationalist forces in Lebanon had constantly railed against the domination and machinations of foreign, especially European and US, banks. But it took a crisis of the caliber of Intra to bring the high-pitched anti-foreign bank discourse to the midst of the *laissez-faire* loving banking community. Local bankers, including prominent and Western-friendly ones like Pierre Edde and Sami Choucair, became increasingly bitter at the sight of branches of foreign banks weathering the Intra crisis unscathed, even at times allegedly

¹⁰² For full text of law 28/67, see *Ibid.*, 2:36–58.

exacerbating it by facilitating capital flight, while Lebanese banks teetered towards an uncertain future.¹⁰³

By early 1967, the opposition to foreign banks among Lebanese financial circles turned into a press campaign with nationalistic undertones. Sami Shoucair, the veteran banker and influential ABL member, attacked the foreign banks for the unfair advantage they held in the market given their virtually unlimited ability to draw on liquid funds from abroad. Their foreign headquarters were acting as a banker's bank and escaped any regulation. The campaign took on an institutional dimension when the ABL, itself a champion of *laissez-faire*, pushed for the regulation of foreign banks through *private* channels. In its effort to combat foreign bank hegemony, the ABL entrusted its chair Pierre Edde to seek a "gentleman's agreement" with branches of foreign banks that would regulate the operations of the latter.¹⁰⁴ Beirut-based managers of foreign banks brushed the ABL demands aside. American bankers deferred to US law while one British bank manager told Edde that foreign bank deposits in Lebanon were a favour to the country and that his Gulf clients' money could be moved directly abroad "without ever touching Beirut". Short of state regulations, the British banker added, there would be no compliance with ABL requests.¹⁰⁵

The British banker, US officials surmised, had bet that no such state regulation would be imposed.¹⁰⁶ But the rare confluence of interest between local bankers and anti-imperialist

¹⁰³ A few days after Intra's closure, Edde urged the US embassy to address "the negative attitude" adopted by US correspondent banks that Edde claimed were delaying transactions for Lebanese banks. Meanwhile, the American member of the ABL's board of directors relayed similar sentiments to branch managers and representatives of US banks in Beirut. According to US embassy officials, Edde himself experienced delays, see Telegram 3484, Beirut to Department of State, October 20, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

¹⁰⁴ Choucair's press campaign was carried on the pages of *Le Commerce du Levant*. Choucair suggested a series of measures as part of the "gentleman's agreement" including the requirement that foreign branches publish their balance sheet, refrain from paying interest rates on deposits *not* invested in Lebanon and possibly turn down deposits from Lebanese. Some of these rules were ironically more stringent than those imposed by the BDL on domestic banks, and which the ABL had vociferously resisted, see Telegram A-694, Beirut to Department of State, February 6, 1967; FN 6 LEB; RG 59; NAB.

¹⁰⁵ The ABL entrusted Edde with negotiation the gentleman's agreement on January 13, 1967. The ABL chair then summoned foreign branch managers for one-on-one meeting and "grilled" them on the issues in question, see Telegram A-694, Beirut to Department of State, February 6, 1967; FN 6 LEB; RG 59; NAB.

¹⁰⁶ See *Ibid.*

elements in Lebanon compelled the Lebanese government to push ahead with such legislation. Towards the end of February, branches of foreign banks found themselves pitted against the Central Bank and its governor Philip Takla. The stickiest issue was getting foreign banks to contribute financially to an insurance fund to cover failing banks. Local small banks were particularly vulnerable to failure as money advanced by the Central Bank was quickly finding its way into larger banks through client withdrawals.¹⁰⁷ Initially, Takla envisioned a voluntary insurance scheme with private banks (both domestic and foreign) contributing 60% and the remainder financed by the Central Bank. Based on US embassy reports, the degree of resistance to such a scheme varied among foreign banks. Among “foreign-foreign” banks, i.e. US and European ones, Anglo-Saxon branches exhibited the fiercest opposition while Italian and French ones were less antagonistic despite reservations. “Foreign-Arab” banks, including the large ones like the Arab Bank, however, were sympathetic to Takla’s proposal.¹⁰⁸ Unable to bring foreign banks on board in a consensual manner, the BDL turned to state legislation to enforce such a scheme and create the National Deposit Insurance Corporation (NDIC).

One of the immediate aims of the NDIC was to pay off depositors of banks that were slated for closure by central banking authorities. These banks were assigned for liquidation by the two other institutional bodies that were created, the Banking Control Commission and the High Banking Council discussed below. Foreign bankers protested to Takla for having to make contributions before the first premium was assessed and when the losses were known in advance and described the scheme as “no insurance”. Takla retorted that the US Federal Deposit Insurance Corporation (FDIC) was set up under identical conditions during the depression.¹⁰⁹ Takla’s prompt invocation of US banking regulations was no coincidence. Less than two weeks after Intra collapsed, the Lebanese government and the BDL had requested from the US embassy documentation detailing the principles and procedures under which the FDIC operated so they

¹⁰⁷ Some small bankers, according to ABL’s vice president Anis Bibi, were even calling for nationalization of their banks; see Airgram A-764, Beirut to Department of State, February 23, 1967; FN 6 LEB; RG 59; NAB.

¹⁰⁸ See Airgram A-764, Beirut to Department of State, February 23, 1967; FN 6 LEB; RG 59; NAB

¹⁰⁹ See Airgram A-859, Beirut to Department of State, March 20, 1967; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

may draw on it to draft Lebanese laws for banking insurance.¹¹⁰ This reflected the ongoing influence of US banking, both as a principle of managing risk and as an administrative structure linked to the state, on the formation of parallel institutions in Lebanon. Meanwhile, US-educated AUB institutionalists like Salim Hoss and Talha Yaffi impressed upon public opinion and financial elites the usefulness of such a scheme. Yaffi proposed a draft law on deposit insurance to the Association of Banks while Hoss outlined the benefits of adopting the US model in the press.¹¹¹ Hoss also actively took part in consultations at the Ministry of Finance and recommended the creation of the Banking Control Commission, of which he became the first head, and the Higher Banking Commission.¹¹² Together, these two institutional bodies were charged with restructuring the banking sector and monitoring its operations.

While the insurance mechanism and financial function of the NDIC were inspired by US banking regulation practices, the administrative organization of Lebanon's insurance scheme was fine-tuned to reflect the specific configuration of power relations that existed at the time between the barons of banking and the Chehabists. In that sense, it typified the public-private partnership that had defined central banking legislation a few years earlier. In the post-Intra case, however, the banking sector maintained the upper hand. Thanks to ABL lobbying, the state agreed to provide an annual contribution that equaled the total contributions of the banking sector even though it was assigned a minority of seats on the NDIC's board of directors. This mixed administrative structure was also adopted in the make-up of the two other bodies created by Law 28/67 and dedicated to the monitoring and regulation of banks. The Banking Control Commission (BCC) and the Higher Banking Commission (HBC) were co-managed by representatives or appointees of the Central Bank, the Ministry of Finance and the Association of Banks. They were linked

¹¹⁰ See Telegram 3723, Beirut to Department of State, October 27, 1966; FN 6 LEB; Subject-Numeric File; RG 59; NAB.

¹¹¹ Hoss proposed that the insurance covers deposits in all denominations, including US dollars. See Salim Hoss, "Daman al-Wada'i' al-Masrifiyyah fi Lubnan," *al-Masarif*, February 15, 1967, 10-17.

¹¹² Hoss was brought in as a consultant by his close friend Khalil Salem, who at the time was Director General of the Ministry of Finance, see Zuhayr al-Mardini, *Salim Hoss: Qissat Haytuh* (Beirut: Mu'assasat al-Inma' al-Sahafi wa al Tiba'i, 1989), 55.

administratively to the NDIC through chairing committee members who served on more than one board.¹¹³

In the short term, the control and higher banking commissions were granted extraordinary powers to clean up the banking sector by a *deus ex machina* style takeover of banks that were deemed financially unviable.¹¹⁴ In the long term, however, the creation of these two institutions, whose members were sworn to banking secrecy, did not introduce any innovative mechanisms to banking practices in Lebanon the way the NDIC did. Nor did they significantly strengthen the authority of the BDL vis a vis the banking sector. The control commission was tasked with monitoring banks and ensuring the proper implementation of the Law and Money and Credit. The latter had long stipulated the creation of a “control department” which, like the control commission, was to be answerable directly to the governor.¹¹⁵ But it was not activated. The newly-formed control commission also acted as a consulting body recommending best practices to banks and filing updated reports on their financial standing to the Higher Banking Commission. The latter, in turn, had the authority to take disciplinary action against the banks, but within the penal provisions already prescribed by the Law of Money Credit.¹¹⁶

The two commissions did have a function. The creation of these new and ostensibly authoritative bodies linked to the BDL and the state bureaucracy restored an aura of economic sovereignty that had all but eroded during the crisis. State intervention, however, was more about salvaging the reputation of the banking sector than it was about an actual restructuring of power relations between the state and the market. The reputation of the banking sector was a major tenant of the ruling class’s power and prestige that facilitated the largely consensual control of economic life of the country. Prior to the Intra crisis, positing banks as the source of Lebanon’s prosperity enabled the barons of banking to enjoy their privileged status with little public opposition. It was thus paramount that the reputation of the banking sector did not fully erode as a result of the Intra

¹¹³ For a comparative analysis of the functions and composition of all three bodies, see Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 210–212.

¹¹⁴ For a list of banks that were taken over by the High Banking Council, see *Ibid.*, 213.

¹¹⁵ See Article 148 of the Law of Money and Credit, Yafi and Yafi, *Majmu’at Al-Naqd Wa Al-Taslif*, 1999, 1:60.

¹¹⁶ See Ashi and Ayache, *Tarikh Al-Masarif Fi Lubnan*, 210–212.

crisis. On a more material level, Lebanese banks found themselves unable to shoulder the substantial financial burdens required to bring the sector back on its feet.

The three new state-linked institutions (NDIC, BCC, HBC) were all structurally tied to, but at an arm's length from, the BDL. Under such a configuration, they were able to attend to the material needs and to the broader aspirations of preserving the political hegemony of the financial class. The price of preserving the *status quo*, however, was translated into a further expansion and complication of the system of checks and balances that kept the whole thing running. At the micro level, the new institutions did transform the way central banking operated. The bureaucratic apparatus in charge of banking regulation was enlarged through weaving a wider web of joint public-private administrative structures that were tied to the BDL but cast their threads beyond its bureaucratic borders.

The overly legalistic dimension of these new structures also meant that managing the system, from the state side, and coopting or abiding by it, from the private banking side, required highly sophisticated legal expertise and specialized knowledge of the science of banking. The banker-bureaucrat capable of deciphering the plethora of regulations and the banker-technocrat capable of designing macro financial policy became indispensable actors in Lebanon's economic life and financial management. The duo of Ilyas Sarkis and Salim Hoss, who became respectively Central Bank Governor and head of the Banking Control Commission in the middle of 1967, eventually embodied these two types of personas. The first was a seasoned judge and top administrative bureaucrat while the latter was a highly educated and professional economist. Their partnership at the central banking level would turn into a political one a decade later when the former became president and the latter his prime minister. Back in 1967, the first encounter of the two was on the 5th of June during the swearing ceremony for the newly-appointed members of the Bank Control Commission headed by Hoss. Sarkis was in attendance as Presidential Chief of staff before having been appointed BDL governor. President Helou, as Hoss recalled many years later, entered the room with a sullen face and conducted the affair in a hasty manner while standing. But before he departed, the seemingly troubled president advised the new appointees to take caution when evaluating the banks rather than clamp down on them.

The banks, Helou told his audience, will be facing yet another crisis and will have to operate under sensitive conditions. Earlier that morning, the six-day Arab Israeli war had broken out.¹¹⁷

¹¹⁷ On the ceremony's proceedings as narrated by Hoss, see al-Mardini, *Salim Hoss: Qissat Haytih*, 55–56.

8 Conclusion

The founding of Banque du Liban (BDL) was not a single event or a series of events. It was a process that lasted over a century and spanned three different social formations: proto-colonial under Ottoman rule, colonial during French occupation, and neo-colonial following WWII. Consequently, the BDL's administrative constitution and monetary function evolved over time in accordance with the evolution of political and economic ideas and alterations in global and local power relations that governed each of these periods and as a result shaped the context and content of the bank's formation. My study aimed to provide a better understanding of this complicated process and to highlight its historical specificity. The study probed the interaction of various socio-economic and political forces that contributed to the crystallization of central banking into a specific set of rules and mechanisms that came to govern monetary policy and regulate banking operations in modern day Lebanon.

My discussion of the origins of Lebanon's central bank traced the genealogy of central banking practices which predated and shaped the BDL. These earlier institutional practices were embodied in the Banque Imperiale Ottomane (BIO) and Banque de Syrie et du Liban (BSL). I have situated their creation and operation in the larger context of financial dependency and monetary colonization that took place under Ottoman rule starting in the mid-1800s and later under French occupation in the interwar period. The main object of my inquiry, however, was the transition from the privately French-owned BSL to the Lebanese state-owned BDL that coincided with a transition from a colonial to a neo-colonial conjuncture in the post-WWII era. This transition was triggered by the delinking of currency from France in 1948 and spanned the 1950s and 1960s. By providing this historical account, I simultaneously sought to question major assumptions about the political economy and state formation of post-WWII Lebanon and probe the concrete process of its state-building with an emphasis on its institutional dimension. The study also aimed to furnish some insights into the workings of finance as a multi-layered site of shaping political economy. I have explored the meaning of finance as a site of colonial dependency, a medium of refashioning international monetary systems and local responses to them, and a pillar of modern nation-state building in a Middle Eastern context. More specifically, my probe into central banking in Lebanon explored the role of state finance as a precarious

instrument of economic sovereignty and national independence which can often be co-opted by powerful political actors, such as the banking community, to their own end.

The structural empiricist approach I employed to narrate this history, as I hope the content of this study attested to, should not be confused with economism and the determinism or hyper-structuralism associated with it. Economism reduces social reality to economic relations and quantitative data.¹ Structural empiricism, on the other hand, is a concerted effort to critically interrogate the historical record in its totality, as much as that is possible, in order to understand the impact of all relevant forces and actors on the social formation *as a whole*. In a post-colonial universe of scholarship highly sensitive to quantitative methods and the functionalist bias of structural analysis, structural empiricism might be easily dismissed in favour of *purely* discursive methodologies. In the pursuit of understanding the past, particularly in relation to conceptualizing finance as a site of colonial and post-colonial history making, such a *wholesale* dismissal of detailed empirical inquiry might be throwing out the baby with the bath water.²

An analytically inclined empirical inquiry, which in this case drew on a diverse array of Arabic primary sources and untapped archival material, can produce very concrete results in relation to specific questions about what actually transpired in the past and the role of different social groups and individual actors in its making. This in turn can question major assumptions and theoretical models about the way this history was conceived, periodized, and rationalized. It can also point to new avenues of research. In the next section, I summarize these major empirical and analytical findings and illustrate how they call for a rethinking of Lebanon's post-WWII political economy and deepen our understanding of institution-building and state sovereignty in relation to finance and banking. I end with some comments on how these findings might open up new avenues of research about post-Ottoman state formation and central banking in Lebanon and the larger Arab world.

¹ Decried as an ideology, economism is associated with the capitalist mode of production as an *exclusive* and not merely *dominant* mode of production, which holds truer in the centre than the periphery, see Amin, *Accumulation on a World Scale*, 21.

² For a constructive critique that seeks a common ground between post-colonial theory and structuralist ones of economic development in the interest of a more comprehensive historicism and more progressive political project during a critical conjuncture of the region's history, see Cheryl McEwan, *Postcolonialism and Development* (New York: Routledge, 2009).

8.1 The Political Economy of post-WWII Lebanon Reinterpreted: Strong State, Weak Sovereignty

Recent studies of Lebanon's post-WWII political economy highlighted the much-neglected economic dimension of Lebanon's history. They re-introduced politics and planning as essential elements in the survival of the *laissez-faire* regime and discussed the role of social groups and structural transformations in its consolidation.³ But their accounts did not fully challenge dominant narratives of how this political system was constructed, both as a collection of state institutions and an evolving set of political practices. In relation to state formation, these studies re-inscribed the division of this history into a *laissez-faire* period under the 'Merchant Republic' of Presidents Bishara Khoury and Camille Chamoun and a later planned phase under Fuad Chehab. In relation to political agency, they reproduced classical claims about the way the mercantile-financial class constructed the 'Merchant Republic' and conducted its business on a day-to-day basis. My study sought to challenge the binary of *laissez-faire* and dirigisme through the adoption of an institutionalist approach which questioned this periodization and its underlying assumptions. It emphasized the continuous process of state-building as integral to the formation of the Lebanese polity by focusing on how market and other forces shaped state institutions and not vice versa.

This approach brought to light several aspects of Lebanon's political economy and institution building. The standard narrative surrounding the rise of the 'Merchant Republic' largely depicted the construction of the 'Merchant Republic' as the construction of the free market, not of the foundations of the republic itself, i.e. its state institutions. A series of government edicts and laws promulgated between 1948 and 1952 were designated as the founding moment of this republic. These were measures that liberalized commercial and money markets and rolled back WWII restrictions on trade and price controls.⁴ According to this narrative, a decade of unfettered *laissez-faire* then ensued, only to be interrupted by a brief period of increased state planning and bureaucratic reform under President Fuad Chehab. My thesis, by contrast, reframed the problem

³ These include the works of Toufic Gaspard, Carolyn Gates, and Irene Gendzier which I have discussed in *Chapter 1, Section 1.3*.

⁴ On the year 1948 as a founding moment of *laissez-faire* that is completed with the removal of all exchange controls in 1952, see Gaspard, *A Political Economy of Lebanon, 1948-2002*, 143.

as one about the *type* of state intervention rather than its presence or absence. More significantly, I reversed the direction of inquiry from one concerned with how state intervention shaped the market to one that traced how private, as well as public, actors – both local and global - shaped the state. In short, I implicitly argued that it is misleading to ask whether Lebanon was a weak or strong state. A more useful analytical question would be when and how its sovereignty was upheld or compromised. This reframing of the question has revealed that the construction of the ‘Merchant Republic’ was not merely a matter of issuing laws and decrees governing market relations. It was also, if not more so, about designing and negotiating deeper and more permanent state institutions that would reproduce this market bias in favour of the ruling class and in a manner less dependent on the whims of sitting governments or governing parliamentary blocs.

The BDL was a key institution in this state-building process. As early as 1953, widespread public calls for setting up a central bank were made by major political parties and workers’ syndicates. These calls reflected the general consensus of the times that a central bank was a guardian of economic sovereignty and financial independence as well as an engine of economic development. Public demands to found a central bank, however, went largely unheeded. BSL-linked French capital and complacent or complicit state officials managed to derail such plans. By the end of the 1950s, BSL-linked finance capital was waning in favour of US, Arab, and BSL-independent Lebanese banks. With the BSL concession nearing its end in 1964, an emerging conglomerate of bankers led by Beiruti politician-turned-banker Pierre Edde, took on the role of private lobbying to shape the making of the proposed national bank, the BDL, which was slated to replace the BSL. As a result, the final incarnation of the BDL, whose construction and inauguration in 1964 was reported as a testimony of attaining full economic independence, was geared more towards consolidating the vested interests of the banking sector rather than to broadly-defined national objectives. The bureaucratic bias of Chehabism did leave its imprint on the administrative structure of the BDL, but did not produce an institution that posed a veritable challenge to *laissez-faire* economy. Lebanon’s mercantile financial bourgeoisie including Beirut’s bankers had built, celebrated, and relied on this economic configuration for maintaining their power and prestige. Economic development was also assigned marginal value as an objective of BDL monetary policy compared to preserving a stable currency. The BDL’s weak mandate and the private sector’s strong resistance to change preserved the *status quo*. The Intra crisis, which broke out under Chehab’s successor Charles Helou in 1966, shook the deep

foundation of the *status quo* to a point that threatened the *laissez-faire* system itself. But state-intervention came to the rescue, albeit under the guise of reform and increased supervision. Banking restructuring that involved the creation of a banking control commission thereby reaffirmed the role of the state in the reproduction of *laissez-faire*. In effect, state intervention through the BDL became a political *and* market necessity. As with the push to create the BDL a few years earlier, the barons of banking sought to impose the path of least intervention that would protect their vested interests while satisfying public demand for accountability and state supervision. They found in the Helou administration a willing ally.

This process of contestation and negotiation, which straddled the both periods of the ‘Merchant Republic’ and the Chehabist phase, was of an *institutional* nature, i.e. involving organized and rule-based forms of political agency. This cast doubt on the second underlying premise of the rise of the ‘Merchant Republic’ paradigm; namely the depiction of elite politics in Lebanon as largely a function of informal nepotism and nefarious clientalism. Two major institutional forces which I brought to light in this regard were those of the Association of Banks in Lebanon (ABL) and the AUB-based network of economists I referred to as developmental institutionalists. The latter had been influenced by the US-based doctrine of economic institutionalism, pioneered by Wesley Mitchell, and sought to apply their version of it to the Lebanese context as means of reform monetary policy. Their ideas and interventions deeply penetrated elite intellectual circles such as the influential Cenacle Libanais that was set up to provide intellectual credence to the notion of a viable Lebanese state in a global order without French tutelage. The AUB institutionalists also made inroads into the state bureaucracy and government ministries. In both spaces, that of public discourse and public policy, they sowed the seeds for central banking reform with modest if not mediocre success in translating those ideas into actual policy. Their limited ability to overhaul the system and seriously undermine its *laissez-faire* bias was partly a function of their own reformist views. The AUB economists’ narrow conception of underdevelopment reduced the question of central banking reform in Lebanon to that of dealing with underdeveloped money markets rather than underdeveloped economies. This led them to seek conservative rather than radical policies of central banking reform such as cash reserve ratio requirements that did make it into the BDL’s mandate but was never implemented until the late 1960s. In sum, the AUB institutionalists ultimately furnished the ruling class, including its financial faction, with the technical and administrative tools to incorporate new banking

regulation mechanisms that exuded a semblance of state authority without fundamentally undermining the privileges enjoyed by the private banking sector.

The role of the Association of Banks (ABL), on the other hand, was of a highly politicized and more efficient nature. The ABL (est.1959) was the institutional embodiment of the collective political will of the banking sector. This will was not an expression of some form of economic nationalism. Membership in the ABL was initially drawn along the lines of alliance with or opposition to BSL-linked capital with the latter camp composed of local, Arab, and US banks. The association, however, quickly turned into the sole representatives of all banks in Lebanon as calls for regulating the sector and setting up a central bank reached a crescendo under Chehab. The ABL's own formation was thus largely a reaction to plans for setting up a central bank. It was also a response to other perceived threats such as union activism among bank employees. In that sense, the making of the central bank was also the making of the ABL – and vice versa. Through ABL lobbying, the bankers resorted to a variety of mechanisms, including self-organization, legal cooptation, managerial participation, and outright public protestation, to resist central banking regulation or mitigate its effects. They also vehemently resisted any form of classification of banks based on credit policy (long term vs short term lending). The bankers only succumbed to such regulation following the general banking crisis of the mid-1960s and the collapse of Intra. The role of the ABL and the activities of its leading members such as Pierre Edde recast the Lebanese banker as a highly politicized figure, one that was as concerned with state-building, albeit in line with his parochial interests, as he was occupied with private profit making. The manipulation of the central bank for private gain became most apparent in relation to the Intra crash. The BDL turned from an instrument of averting financial bankruptcy into a suspect of precipitating it.

ABL efforts to impose a particular central banking configuration did not take place in an institutional vacuum or free from foreign interference or influence. The BDL was being grafted onto an already existing structure of central banking embodied in the BSL. Joseph Oughourlian represented monetary continuity between the two stages. He was a longtime consultant to the BSL, became the first deputy governor of the BDL, and was largely credited with drafting the Law of Money and Credit. While both financial institutions adhered to conservative principles of monetary policy, comparative analysis of their respective charters revealed significant continuities in relation to monetary policy. In fact, the BDL, founded under an ostensibly

sovereign government, had a more restrictive mandate in relation to government lending and financing economic development compared to the BSL. The BDL's ownership, administrative, and management structures, however, marked a rupture of sorts. The BDL's first governor, Philip Takla, had little banking experience and hailed from the political establishment. Meanwhile, the BDL's governing bodies enjoyed relative autonomy but were institutionally tied to the ministry of finance. This reflected bureaucratic tendencies towards public-private partnership of the Chehabist era. Takla's appointment, and later that of his predecessor Ilyas Sarkis, also betrayed a desire by government officials to retain ultimate control of the day-to-day management if not the mandate of such an important instrument of governance vis a vis autonomous technocrats or powerful bankers.

The extent of government control of the BDL raises the question of state sovereignty and the ability to exercise it within the domestic sphere and free from external interference. In practical terms, this is the question of the role of the government in the making of the BDL vis a vis other domestic political actors such as the bankers or foreign governments and international organizations. Domestically, such sovereignty was severely curtailed by the interests of the barons of banking who exerted significant influence on the state apparatus. The first major act in this respect was the banking secrecy legislation of 1956. The formation of the ABL three years later ensured that no future banking regulation reverse this gain or further undermine private banking autonomy from state intervention. It is important to note that the ABL and the political authority embodied in the state's governing bodies were not two distinct institutions. The financial oligarchy based in Beirut constituted an organic and influential part of the ruling class and its agents in government. Leading bankers such as Pierre Edde and Hussein 'Uwayni embodied this fact. If sovereignty were curtailed as I argue, it was so in as much as sovereignty is interpreted as the political authority of *representative* government, i.e. political authority expressing some sort of public will. The latter, in terms of BDL history, was subordinated to the special interests of the financial clique close to the circles of power.

The question of external interference is a more complicated one. The historical evidence I was able to examine points to various instances of foreign influence both at the formal and informal level in the making of the BDL. These influences were of a diverse nature and varied in impact. They ranged from IMF missions in the 1950s that pushed for banking regulation, to the shaping of public debate and mid-level public policy through the intellectual contributions of the AUB

institutionalists, to direct US and other government interference in the resolution of banking crises such as Intra. They also included direct technocratic advice. The Lebanese government surveyed European central banking practices in the run up to drafting the Law of Money and Credit and solicited copies US banking laws on deposit insurance. The extent to which this advice was incorporated into policy requires further probing. Ascertaining the overall impact of this foreign influence and whether it amounted to a clear impingement on state sovereignty also requires further empirical research.

One possible explanation for the lack of tangible evidence of such impingement is that by and large, the Lebanese financial class and their allies in government saw their interests as aligned with those of the Western capitalist camp and the liberal economy it espoused. Put differently, there was rarely a clash of sovereignties within the hegemonic order for us to be able to observe the impact of such hegemony within the historical record. In the post-WWII period under study, Lebanon's foreign policy was more anti-communist and anti-socialist than the US might have hoped for in an Arab world teeming with nationalist and socialist sentiment and political currents. Lebanon's economic and financial policy was equally in line with Western designs for the region. Concerns by US officials that a collapse of Lebanon's banking system in the wake of Intra would embolden socialist economic doctrine in the region lend credence to such a possibility. Prior to the 1960s, the Lebanese mercantile-financial class, including its top ideologue Michel Chiha, did resist the transition from a French-linked financial system to that of the post-WII Bretton Woods one. But such resistance remained within the same ideological camp and was not long-lived. When IMF directives and missions indicated it was time they conformed to the latter, Lebanese financial experts like Joseph Oughourlian ridiculed such advice while Gabriel Menassa, chief economist at La Société Libanaise d'Économie Politique, doubted the efficacy of IMF rules. Multiple exchange rates opposed by the IMF were eventually removed in 1952. IMF recommendations for regulating banking and setting up a central bank were also eventually heeded, albeit after ensuring that local banking interests were relatively safeguarded.

Another attribute of Lebanon's political economy that might explain the paucity of concrete archival evidence of the operations of this hegemonic order is the lack of sovereign lending in the Lebanese case. For centuries, government debt, particularly by foreign credits, was and remains a mechanism of undermining state sovereignty and inviting foreign interference. These mechanisms ranged from colonizing by lending during imperialist times to 20th century IFIs

conditionality and left a paper trail that demonstrated the degree of such interventions.⁵

Lebanon's ultra-conservative monetary policy in the post-WWII period advocated balanced budgets and eschewed state borrowing even for economic development. This made it less susceptible to financial conditioning by IFIs, but it did not imply a guarantee of independence from the influence of foreign capital. As was illustrated with the Intra crash, Lebanon's banking system was every bit tied to global capital flows and vulnerable to its fluctuations. The Lebanese banker's margin of freedom to pursue his parochial interests was thus more due to his lack of antagonism to foreign capital needs than due to his ability to contest its power. His interests and those of foreign capital were often aligned. Petrodollars lay at the heart of his prosperity and a closed national economy was never on his agenda. When a divergence of interests did occur between native bankers and foreign capital or its banking agents such as the one following the 1966 Intra crisis, the Lebanese banker tried painstakingly to balance his parochial interests with the exigencies of global forces. He unhesitatingly sought state intervention to prevent foreign banking from totally taking over his enclave in the domestic money market. The political agency of the Lebanese banker was thus conditioned by the global financial setting that he relied on and operated within.

The Lebanese banking lobby has continued to play a pivotal part in the shaping of Lebanon's central banking policy well into the 21st century. The extent of its influence waxed and waned in tandem in with the vicissitudes of the BDL. The 15-year civil war that erupted in 1975 and the long-term Israeli occupation made for turbulent economic times and brought the banking regulatory system to near collapse. The BDL was one of the few state institutions that escaped total cooptation by sectarian militias.⁶ This highly volatile period in BDL and banking history as well as the age of neo-liberal restructuring that ensued starting in the 1990s might offer further

⁵ On the history of government borrowing as a means of undermining state sovereignty, see Chapter 5 on Sovereign lending in Stephen D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton, N.J.: Princeton University Press, 1999), 127–151. On the concept of “colonization through lending,” see Birdal, *The Political Economy of Ottoman Public Debt*, 1. Conditionality is “the practice of attaching policy-change requirements to loans” by IFIs, see Madhura Shashwati Mitu Sengupta, “The Politics of Market Reform in India: The Fragile Basis of Paradigm Shift” (Ph.D., University of Toronto (Canada), 2004), 38, <http://search.proquest.com.myaccess.library.utoronto.ca/pqdtglobal/docview/305070699/abstract/8ED664274D994E24PQ/1?accountid=14771>.

⁶ On the currency collapse and banking crises during the Lebanese civil war, see Ghassān ‘Ayyāsh, *Azmat Al-Mālīyah Al-‘āmmah Fī Lubnān: Qiṣṣat Al-Inhiyār Al-Naqdī*, al-Ṭab‘ah 1 (Bayrūt: Dar al-Nahar, 1997).

insights into the long-term evolution of Lebanon's state formation and speak to the larger question of war and the resilience of state-endorsed financial institutional arrangements. Another avenue of inquiry, which I hope my study will open up, addresses the question of central banking beyond the Lebanese case. It is to these final thoughts that I turn in the following section.

8.2 Central Banking Histories: Mapping Monetary Decolonization and State Institution-Building in the Middle East

As I argued in *Chapter 2*, central banks were conceived as essential in the making of the modern nation-state as early as the interwar period. With the outbreak of WWII, central banks had become indispensable state institutions of planning and managing national economies. In the context of national liberation in “third world” countries, central banks were emblematic of economic independence and financial autonomy. Analytical histories of the making of different central banks and of the formation of overlapping monetary spaces in the Middle East would thus go a long way in furthering our understanding of de-colonization and state formation in the region. Such empirically-inclined histories would complement and build on recent histories of the political economy of the region which paid particular attention to the role of the state as an institutional framework of laws and regulations linked to global forces in the making of national economies.⁷ Adopting a country-by-country approach within a global context would explicitly identify national economies as the basic unit of analysis. This would reinforce the role of the state in their making and the historical specificity of their evolution.⁸

Histories of central banks in the Middle East would further probe this role of the state and the specific configuration it took in different countries. It might also set the stage for a more adequate theoretical conceptualization of monetary space formation in the periphery of the

⁷ See Roger Owen and Şevket Pamuk, *A History of Middle East Economies in the Twentieth Century* (Cambridge, Mass: Harvard University Press, 1998), xvii. See also, albeit with a less state-centric focus, Alan Richards and John Waterbury, *A Political Economy of the Middle East: State, Class, and Economic Development* (Boulder: Westview Press, 1990).

⁸ See Owen and Pamuk, *A History of Middle East Economies in the Twentieth Century*, xv–xvi. Owen employed alternative ways of understanding the political economy of the Middle East in his paper titled “The Middle East National Economy: Imagined, Constructed, Protected.” The paper was presented at a workshop on “Political Identity in the Arab Middle East in the Twentieth Century” at the Center for Arab and Middle East Studies, AUB, Beirut from 16 to 19 December 1997. It was published in *Configuring Identity in the Modern Arab East* (Beirut, Lebanon: American University of Beirut Press, 2009).

capitalist world order. Rethinking de-colonization and state formation in the Arab world through the lens of finance and central banking would also supplement recent studies of other (de)colonizing projects that I mentioned in the introduction and that were largely confined to the study of institutions of education, law, and the military. The large number of Arab states that emerged after the break-up of the Ottoman empire and the fact that most, if not all, did not establish a central bank until after their independence from European colonial rule in mid-20th century makes for a challenging yet promising start. Some of these central banking histories move beyond the typical contours of European links to European economies and intersect with those of East Asia which makes the endeavour all the more interesting.⁹

How amenable is the historical record for such an expansive inquiry? In the course of my research into the Lebanese case, I came across a handful of studies, most dating back to the mid-20th century, of monetary systems and central banks in Syria, Jordan and Iraq.¹⁰ The Beirut-based magazine I drew on for my BDL study, *al-Masarif*, also contained reports published in the 1960s about the setting up of central banks in newly independent Arab countries including Jordan, Sudan, Algeria and Libya. Scholarly and public interest in central banking during that period indicated the significance of central banking to nationalist and state building projects in the post-WWII era. Further examination of contemporary press archives in these countries might unearth relevant material in this regard. The 1983 encyclopedic study of the historical evolution of monetary systems in the Arab world penned by Abdul Munim Sayyid Ali is also a highly valuable resource with rich data about central banks of over a dozen Arab countries.¹¹ Christopher Clay's tracing of the origins of modern banking in Greater Syria to the branch

⁹ One the inclusion of some Gulf regions in the monetary space of the rupee issued by India's central bank, see Sayyid Ali, *Al-Tatawwur Al-Tarikhi Lil Anzima Al-Naqdiyya Fi Al-Aqtar Al-Arabiyya*, 41–43. For a more recent insightful study into the political economy of Gulf capital, see Adam. Hanieh, *Capitalism and Class in the Gulf Arab States* (New York: Palgrave Macmillan, 2011).

¹⁰ On monetary policy and central banking in Syria, Achi, *Al-Nizam Al-Naqdi Fi Suriya*. On the founding of Jordan's central bank, see George N. Sfeir, "The Central Bank and the Banking Law of Jordan," *Middle East Journal* 20, no. 3 (July 1, 1966): 352–60. On the history of the Iraqi central bank, Lajnat Bahithin, *Al-Bank Al-Markazi Al-'Iraqi* (Baghdad: Matabi' Thanyan, n.d.).

¹¹ See Sayyid Ali, *Al-Tatawwur Al-Tarikhi Lil Anzima Al-Naqdiyya Fi Al-Aqtar Al-Arabiyya*.

network of the BIO provides a useful starting point for that sub-region.¹² IMF archives and those of respective colonial governments per country, particularly correspondences pertaining to economic development and banking, are also likely to yield additional raw material beyond statistics and chronologies to draw from. When exploring these largely uncharted territories in the history of Middle East state formation, I hope that the studies that emerge aim, as Roger Owen and Sevket Pamuk put it, to explain actual historical outcomes rather than evaluate hypothetical paths.

¹² See Christopher Clay, “The Origins of Modern Banking in the Levant: The Branch Network of the Imperial Ottoman Bank, 1890-1914,” *International Journal of Middle East Studies* 26, no. 4 (November 1, 1994): 589–614. Clay later wrote an intricate history of late Ottoman finance which I drew from to narrate the history of the BIO, see Clay, *Gold for the Sultan*.

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