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THE SHOCK DOCTRINE IN LEBANON: A HISTORY AND A CURRENT REALITY

by
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ABSTRACT

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This research delves into the diverse manifestations of shocks and their subsequent reactions within varying socio-political models. The focus is on comparing nations where legitimacy stems from formal institutional decisions, characterized by anticipated opposition where opposition is both feared and felt, with countries like Lebanon, where a fragile truce among sectarian militia-based communities forms the basis of legitimacy. The problem at hand lies in comprehending the intricacies of how shocks unfold and elicit reactions across different socio-political landscapes. In Lebanon, the absence of structured reactions to shocks is evident, as decisions are often accepted without formal mandates, contributing to a pervasive sense of numbness among the populace. The motivation for this study arises from the recognition that, despite the significance of the "Shock" and its implications, the field remains largely unexplored, particularly in a non-western context. This research aims to address this gap by focusing on Lebanon, where shocks are met with little opposition or structured reactions, providing a unique case study that can contribute valuable insights to the broader understanding of socio-political dynamics in the face of significant shocks.

TABLE OF CONTENTS

CHAPTER I

INTRODUCTION

A. Background of the Study

Exploring the diverse manifestations of shocks, within various socio-political models, we delve into the diverse reactions to shocks across nations drawing on case studies from Naomi Klein's "Shock Doctrine" in some instances. This inquiry draws parallels between countries characterized by formal institutional legitimacy, where opposition is both feared and palpable, and those like Lebanon, navigating a complex tapestry of peaceful coexistence among sectarian militia-based communities, which forms the basis of legitimacy. The contrast in responses to shocks becomes particularly evident with the latter often witnessing a pervasive numbness among its populace despite the magnitude of the impact. As a matter of fact, the catastrophic 4th of August Beirut explosion not only resulted in substantial loss of life, injuries, and displacement but also illuminated the stark differences in how shocks are managed across socio-political landscapes. In Lebanon's unique context, where formal decisions are often absent, the aftermath of such an event is marked by an absence of structured reactions, leading to a state of collective numbness that permeates society.

B. Liberal Democracy Model vs. Confessional Sectarian Model

The fundamental difference between the socio-political models described in the content lies in the source of legitimacy and the decision-making structures in other parts such as in the United Kingdom and the United States compared to Lebanon. The socio-political model in the former aligns with liberal democracy, characterized by the dominance of electoral processes, formal constitutional procedures, and the rule of law. In this model, legitimacy stems from electoral processes and constitutional procedures, providing a structured foundation for political authority. When faced with economic shocks, such as market crashes or natural disasters, decision-making structures rooted in established rules and public scrutiny play a pivotal role. Politicians in these systems often anticipate public reactions and are influenced by the imperative to maintain public support and legitimacy, as their decisions have tangible consequences with the risk of supporters switching sides if politicians fail to uphold the perceived common good. This dynamic fosters a responsive political environment with political actions theoretically shaping economic policies that address public concerns and aim at mitigating the impact of shocks.

On the contrary, Lebanon's socio-political model is characterized by a confessional sectarian system, where legitimacy is rooted in a truce among civil war militias, each holding their own legitimacy based on defensive identities, resulting in fragmented sources of authority. The lack of common legitimacy beyond preserving the truce arguably leads to a political environment that is static and less adaptive. It is therefore observed that in this model, legitimacy is fragmented among various civil war militias, and communities remain loyal to their political confessional parties/leaders due to a collective fear of confrontation deeply entrenched in past conflict traumas and a sectarian socio-political model that intensified after the civil war. In such a context, people practically never switch sides, contributing to a political stalemate. Ultimately, the absence of formal decision-making structures and the dominance of sectarian loyalty hinder the country's ability to implement necessary reforms and respond effectively to shocks as notably seen in the 2019 financial crisis and the 4^{th} of August calamity. This coupled with the lack of structured reactions or opposition to significant shocks, as also seen in the example of setting the current minimum wage, showcases the entangled challenges faced by a system where shocks are often accepted.

C. Problem Statement

The problem statement is that the challenge lies in comprehending the variations in the manifestation of shocks and reactions across different socio-political models. Particularly, understanding the dynamics in countries with formal institutional decisions and a palpable sense of opposition, in contrast to countries like Lebanon, where peaceful coexistence between sectarian militia-based communities often leads to a lack of structured reactions or opposition, fostering a widespread sense of numbness and confusion among the populace. The motivation for this study stems from the recognition that despite the relevance and weightiness of the "Shock" and its sequels, the area remains largely understudied and not explored in-depth, especially in a non-western context based on a thorough review of the literature. It is evident that there is a notable gap in knowledge and understanding, and therefore, there is a need for further investigation.

D. Research Question

"How do shocks and their subsequent reactions manifest in different socio-political models?"

E. Methodology

The research will adopt a qualitative approach, focusing on a comprehensive review of existing literature. This methodology aims to compare a series of shocks in Lebanon with global shocks, shedding light on the diverse reactions to crises. Utilizing literature as a foundational tool, the study will critically examine existing materials to gain insights into the subject matter. This will involve analyzing significant case studies globally, providing a contextual background for understanding the reactions to shocks.

CHAPTER II

SHOCKS ACROSS DIFFERENT REGIONS

A. Shock Doctrine Concept

Naomi Klein's concept of the "shock doctrine", elucidated in her seminal work "The Shock Doctrine: The Rise of Disaster Capitalism", delves into the strategic exploitation of crises to implement radical economic and political transformations. At its core, the shock doctrine posits that moments of crisis, whether stemming from economic collapse, armed conflict, or natural disasters, are opportune moments for those in power to push through policies that would encounter resistance under more stable conditions. Klein's analysis emphasizes how these shocks induce a state of collective disorientation, rendering affected populations vulnerable and more amenable to accepting policies that might otherwise be contested. The term "shock doctrine" encapsulates the intentional application of shocks as a means of bypassing democratic processes and implementing policies that serve the interests of a select few. According to Klein, these shocks can take various forms, ranging from economic recessions to military coups, and are not limited to natural disasters. The common thread lies in the exploitation of the ensuing chaos and confusion to push through neoliberal economic policies, privatization measures, and other transformative changes. Klein argues that the shock doctrine operates as a political and economic strategy to capitalize on the trauma and disarray experienced by societies in the wake of crises.

Klein's analysis draws on historical and contemporary examples to illustrate how the shock doctrine has been applied globally. She further points to instances such as the economic restructuring in Chile under Augusto Pinochet, post-Soviet Russia during the transition to a market economy, and the aftermath of Hurricane Katrina in the United States. In the aftermath of Hurricane Katrina, Naomi Klein observed firsthand the unfolding of what she termed the "shock doctrine" – a tactic exploiting public disorientation following a crisis to push through radical pro-corporate measures. This strategy, honed over more than 40 years, often involves creating an atmosphere of chaos and destabilization to implement neoliberal policies. Particularly, in the case of New Orleans after Hurricane Katrina, where private military contractors, such as Blackwater, descended on the city to exploit the disaster for profit, thousands of residents faced abandonment by their government, these contractors sought financial gains, emblematic of a trend observed in various disaster zones worldwide. The shock doctrine, as evidenced in New Orleans, often involves privatization of essential services, leading to controversies, subpar services, and questionable allocations.

The shock doctrine strategy is not confined to natural disasters but rather extends to crises induced by wars, coups, terrorist attacks, or market crashes. Political leaders, following the shock doctrine playbook, frame turbulent situations with sufficient hysteria to soften public resistance and implement radical measures. This could range from military interventions to economic policies that favor corporate interests. In the case of Hurricane Katrina, the shock doctrine was evident in a set of policies termed "Pro-Free-Market Ideas for Responding to Hurricane Katrina and High Gas Prices", formulated by the Republican Study Committee under the leadership of figures like Mike Pence, just 14 days after the levees were breached. [1] These policies adhered closely to the shock doctrine playbook, including waging war on labor standards, prioritizing the oil and gas industry, and pushing for environmental deregulation.

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[1] Klein, N. (2007). The shock doctrine: The rise of disaster capitalism. New York: Metropolitan Books.

Notably, the shock doctrine extends beyond immediate crises to long-term consequences. In the case of Hurricane Katrina, the push for radical policies included advocating for the privatization of education, resulting in the most privatized school system in the United States within a year. This exemplifies how the shock doctrine is not merely a response to immediate crises but a strategy to advance long-standing ideological goals. Furthermore, key figures in the Trump administration, such as Rex Tillerson, exemplify the intertwining of corporate interests with government roles. Tillerson, as the CEO of ExxonMobil, profited from war and instability while contributing to climate change denial. The appointment of individuals with ties to defense contractors and lobbyists to key government positions, coupled with the expansion of the Homeland Security and surveillance industry, signifies a concerning trend in profiting from crisis situations. Another aspect highlighted is the role of private contractors, like CoreCivic and the Geo Group, in exploiting crises related to wars and migration. The stocks of these private prison companies doubled in the aftermath of the 2016 election, showcasing the economic opportunities perceived in the expanding market for private prisons and security.

In each case, the shock doctrine was wielded to justify and facilitate policies that favored corporate interests and neoliberal economic agendas. The deliberate orchestration of these shocks, according to Klein, allows powerful actors to manipulate public opinion, override institutional checks and balances, and implement sweeping changes that might otherwise face resistance. Critically, Klein's exploration of the shock doctrine highlights the broader implications for democracy, social justice, and economic equality. By examining how crises are leveraged to advance political and economic agendas, Klein calls attention to the erosion of democratic processes and the concentration of power in the hands of a privileged few. The shock doctrine, in this regard, becomes not only a critique of specific policies but a profound analysis of the impact of crises on the very foundations of governance and society. Klein's work challenges readers to question the motives behind the implementation of policies during moments of crisis and to be vigilant against the exploitation of shocks for political and economic gain.

B. Shock Doctrine Case Studies

1. Thatcher Privatization

Under Margaret Thatcher's leadership in the 1980s, it was the Falklands War victory that gave her the political cover she needed to not only crush the coal miner strike but to bring a program of radical capitalist transformation to a Western liberal democracy. Accordingly, and for the first time, the United Kingdom witnessed an unprecedented wave of privatization, marking a dramatic shift in the country's economic landscape. Thatcher's government embarked on a mission to roll back the state's involvement in key industries, including telecommunications, transportation, energy, and healthcare. This ambitious privatization agenda aimed to unleash market forces, promote competition and drive efficiency and innovation in sectors previously dominated by state-owned enterprises. Thatcher and her supporters framed privatization as a means to break free from what they perceived as the shackles of socialism and bureaucracy, ushering in a new era of economic dynamism and individual empowerment. However, critics argue that Thatcher's privatization drive was driven more by ideological fervor than pragmatic economic considerations. They contend that the process was often marked by opportunism and a lack of transparency, with Thatcher's government exploiting moments of perceived crisis or vulnerability to push through radical reforms. While privatization may have led to short-term gains in terms of revenue generation and fiscal consolidation, critics point to long-term consequences such as declining service quality, job losses, and rising inequality. Moreover, the privatization of essential services raised concerns about accountability, democratic oversight, and access to public goods, particularly for marginalized communities.

The privatization shock under Margaret Thatcher's government elicited a range of reactions from various stakeholders, each with distinct interests and perspectives. Government officials and policymakers, particularly those aligned with Thatcher's conservative ideology, largely supported the privatization agenda as a means to reduce the role of the state in the economy and promote market-driven solutions. They viewed privatization as a mechanism for increasing efficiency, stimulating competition, and unleashing entrepreneurial dynamism in previously stagnant state-owned industries. Thatcher's government framed privatization as a crucial component of its broader project to roll back the welfare state and empower individuals through the forces of free-market capitalism. However, critics within and outside of government raised concerns about the social and economic implications of privatization, cautioning against the erosion of public services, the concentration of wealth in the hands of a few, and the loss of democratic control over essential utilities and infrastructure. International financial institutions, such as the International Monetary Fund (IMF) and the World Bank, generally viewed Thatcher's privatization initiatives favorable, seeing them as a model for other countries to emulate in pursuit of economic liberalization and structural reform. These institutions provided technical assistance and financial support to countries seeking to privatize state-owned enterprises and implement market-oriented policies. However, critics argued that the IMF and World Bank's promotion of privatization often prioritized the interests of global capital over the needs of local communities, exacerbating inequalities and undermining social cohesion in developing countries.

Business leaders and investors welcomed Thatcher's privatization agenda, seeing it as an opportunity to acquire valuable assets, expand market share, and generate profits in newly deregulated sectors. Privatization created a wave of investment opportunities, with initial public offerings (IPOs) attracting considerable interest from domestic and international investors. However, some critics accused Thatcher's government of favoritism and crony capitalism, alleging that well-connected insiders and corporate interests benefited disproportionately from the sell-off of state-owned assets, while ordinary citizens were left to bear the costs of privatization through higher prices, reduced services, and job losses. Trade unions and workers' organizations emerged as vocal opponents of Thatcher's privatization policies, mobilizing against what they saw as an assault on workers' rights, job security, and collective bargaining power. Privatization often led to layoffs, wage cuts, and deteriorating working conditions, particularly in industries such as mining, steel, and transportation. Trade unions staged protests, strikes, and industrial action to resist privatization and defend the interests of their members. However, Thatcher's government remained steadfast in its commitment to privatization, viewing trade unions as obstacles to economic progress and social transformation. Civil society groups, community organizations, and activists also voiced concerns about the social and environmental impacts of privatization, particularly in marginalized and underserved communities. They warned against the commodification of essential services, such as water, electricity, and healthcare, arguing that privatization could exacerbate inequalities and undermine access to basic human rights. These stakeholders advocated for alternative models of ownership and governance, such as public ownership, cooperatives, and community-led initiatives, as alternatives to the market-driven approach favored by Thatcher's government.

2. Ronald Reagan's Presidency

Ronald Reagan's presidency, spanning from 1981 to 1989, was marked by significant shifts in economic policy, social dynamics, and global affairs. During his tenure, Reagan pursued a conservative agenda centered on reducing the size of government, cutting taxes, deregulating industries, and confronting the Soviet Union in the Cold War. Reagan's policies, often referred to as Reaganomics, aimed to stimulate economic growth, increase individual freedom, and assert American power on the world stage. However, his presidency also sparked considerable controversy and debate, with divergent responses from various stakeholders. Reagan's economic policies were characterized by supply-side economics, which emphasized tax cuts, deregulation, and limited government intervention in the economy. Shortly after taking office, Reagan implemented substantial tax cuts, particularly for high-income earners and corporations, with the belief that reducing tax rates would stimulate investment, job creation, and economic expansion. Additionally, Reagan pursued deregulation across various industries, including finance, telecommunications, and energy, aiming to unleash market forces and spur innovation. Proponents of Reaganomics hailed these policies as catalysts for robust economic growth, pointing to declining inflation rates, rising stock markets, and increasing GDP during Reagan's presidency. However, Reagan's economic policies also faced criticism from various quarters, as critics argued that Reagan's tax cuts disproportionately benefited the wealthy, exacerbating income inequality and widening the gap between the rich and the poor. Moreover, deregulation contributed to financial instability, as seen in the savings and loan crisis of the 1980s, which resulted in hundreds of bank failures and billions of dollars in taxpayer-funded bailouts. Critics also contended that Reagan's policies led to the erosion of workers' rights and environmental protections, contributing to the decline of the American middle class and exacerbating social divisions.

In terms of foreign policy, Reagan pursued an aggressive stance against the Soviet Union, which he famously characterized as an "evil empire". He advocated for a massive buildup of military spending, including the development of advanced missile defense systems such as the Strategic Defense Initiative (SDI), also known as "Star Wars". Reagan's confrontational approach to the Cold War, combined with diplomatic initiatives such as arms control negotiations with Soviet leader Mikhail Gorbachev, ultimately contributed to the thawing of tensions between the two superpowers and the eventual collapse of the Soviet Union. Reagan's foreign policy initiatives were met with a mix of support and criticism, whereas supporters praised his assertive stance against communism and his role in ending the Cold War, crediting Reagan with bringing about the downfall of the Soviet Union and promoting democracy and freedom around the world. However, critics raised concerns about the escalation of military tensions, the risk of nuclear proliferation, and the human rights abuses perpetrated by authoritarian regimes allied with the United States, such as those in Central America and apartheid-era South Africa. Naomi Klein argues that Reagan and his administration exploited moments of crisis, such as economic downturns and social unrest, to push through radical free-market policies and deregulation. She suggests that Reagan's policies disproportionately enhanced corporate interests and the wealthy elite, aggravating income inequality and social divisions. According to Klein, Reaganomics represents a prime example of what she terms “disaster capitalism”, in which political leaders exploit crises and shocks as opportunities to further their own interests and consolidate power. She contends that Reagan’s policies were driven more by ideological fervor than pragmatic economic considerations, with little regard for the social costs and consequences of deregulation and tax cuts. Klein’s analysis highlights the multiple ways in which Reagan’s presidency reshaped the American economy and society, leaving a legacy of neoliberalism that patterns political debates and policy decisions to this day.

In response to Reagan’s economic policies, various stakeholders reacted differently based on their interests, perspectives, and positions of power. Government officials and policymakers aligned with Reagan’s conservative agenda generally supported his economic policies, viewing them as necessary measures to stimulate growth, unleash entrepreneurial dynamism, and assert American primacy in the Cold War era. Nevertheless, both critics within and outside of government voiced concerns regarding the social and economic repercussions of Reaganomics, warning against diminishing public services, the consolidation of wealth in the hands of a few, and the loss of democratic control over essential utilities and infrastructure. Business leaders and investors fostered Reagan’s economic policies, seizing the opportunity to expand market share, increase profits, and promote business-friendly environments. Privatization, deregulation, and tax cuts created favorable conditions for corporate growth and investment, leading to a surge of mergers and acquisitions and initial public offerings (IPOs). As seen under Thatcher, trade unions and workers’ organizations also emerged as vocal opponents of Reagan’s policies, mobilizing against what they saw as an assault on workers’ rights, job security, and collective bargaining power. Reagan’s attacks on organized labor, including his firing of 11,400 striking air traffic controllers in 1981, galvanized labor activists and fueled resistance to Reaganomics. Trade unions staged protests, strikes, and industrial action to resist privatization, deregulation, and wage cuts, defending the interests of their members and advocating for greater economic justice and equality. Civil society groups, community organizations, and activists also voiced concerns about the social and environmental impacts of Reagan's economic policies, particularly in marginalized and underserved communities. They warned against the commodification of essential services, such as healthcare, education, and housing, arguing that privatization and deregulation could exacerbate inequalities and undermine access to basic human rights.

3. Augusto Pinochet's Rule

Augusto Pinochet's rule in Chile from 1973 to 1990 was marked by authoritarianism, repression, and a radical transformation of the country's economy and society. Pinochet came to power in a violent coup on September 11, 1973, overthrowing the democratically elected government of President Salvador Allende. The military junta led by Pinochet justified the coup as a response to what they portrayed as Allende's mismanagement of the economy, the polarization of society, and alleged subversion by communist forces. However, the coup resulted in widespread human rights abuses, including mass arrests, torture, and executions of political opponents. Upon assuming power, Pinochet's regime implemented a series of neoliberal economic reforms under the guidance of a group of economists known as the "Chicago Boys", who had been trained at the University of Chicago under the influence of free-market economist Milton Friedman. These reforms, often referred to as the "Chilean economic miracle", aimed to dismantle state intervention in the economy, privatize state-owned enterprises, deregulate industries, and liberalize trade and investment. Pinochet's government argued that these neoliberal policies were necessary to revitalize the economy, attract foreign investment, and promote growth and development.

The response to Pinochet's shock therapy from different stakeholders was varied and complex, supporters of Pinochet's regime, including conservative elites, business interests, and foreign investors, generally welcomed the economic reforms as a means to modernize the economy, promote entrepreneurship, and restore stability and prosperity to Chile. They saw Pinochet as a strong leader who was willing to take bold measures to confront economic stagnation and ideological threats posed by socialism. However, Pinochet's economic policies also faced significant opposition from various quarters as civil society groups, labor unions, and leftist organizations mobilized against what they saw as an assault on workers' rights, social welfare programs, and democratic governance. The privatization of state-owned enterprises and deregulation of industries led to layoffs, wage cuts, and deteriorating working conditions, sparking protests, strikes, and labor unrest. Critics of Pinochet's regime accused the government of prioritizing the interests of wealthy elites and multinational corporations at the expense of the majority of Chileans, exacerbating inequality and social divisions.

Naomi Klein's analysis of Pinochet's regime in The Shock Doctrine: The Rise of Disaster Capitalism offers a critical perspective on the economic and social consequences of Pinochet's shock therapy. Klein argues that Pinochet's regime exploited the shock of the coup and subsequent repression to impose a neoliberal economic model on Chile, despite widespread opposition and human rights abuses. She contends that Pinochet's policies were driven more by ideological zeal than pragmatic economic considerations, with little regard for the social costs and consequences of privatization and deregulation. According to Klein, Pinochet's economic reforms disproportionately benefited corporate interests and the wealthy elite, exacerbating inequality and social divisions in Chile. The privatization of state-owned enterprises and deregulation of industries led to the concentration of wealth and power in the hands of a few, while ordinary Chileans faced job losses, wage stagnation, and declining living standards. Moreover, Klein argues that Pinochet's regime relied on repression and authoritarianism to suppress dissent and maintain control, stifling democratic freedoms and undermining social justice and human rights. In response to Pinochet's shock, various stakeholders reacted differently based on their interests, perspectives, and positions of power. Supporters of Pinochet's regime generally welcomed the economic reforms as necessary measures to revitalize the economy and confront ideological threats posed by socialism. However, domestic and global critics raised concerns about the social and economic implications of Pinochet's policies, warning against the erosion of democratic governance, social welfare programs, and human rights.

C. Icelandic Banking Crisis

The Icelandic banking crisis of 2008 was a cataclysmic event that reverberated throughout the small island nation and sent shockwaves across global financial markets. At its core, the crisis stemmed from the rapid expansion and aggressive lending practices of Iceland's major banks, namely Glitnir, Landsbanki, and Kaupthing. These institutions had embarked on an ambitious international expansion, accumulating massive debts in the process. However, when the global financial crisis struck, the banks found themselves unable to roll over their short-term debt, exposing the fragility of their balance sheets. As the crisis unfolded, the Icelandic government scrambled to contain the damage, initially attempting to rescue the banks through various measures. However, the scale of the crisis overwhelmed these efforts, and the government ultimately had to make the difficult decision to let the banks fail. The collapse of these financial institutions sent shockwaves through Iceland's economy, leading to a severe economic downturn characterized by plummeting currency values, soaring inflation rates, and a sharp rise in unemployment. The once-thriving economy of Iceland was plunged into turmoil, and its citizens faced unprecedented challenges as they grappled with the fallout of the crisis. The Icelandic banking crisis also had broader implications for the global financial system, serving as a stark reminder of the risks associated with excessive risk-taking and leverage. Investors worldwide were rattled by the collapse of an entire banking system in a developed country, prompting a revaluation of investment strategies and risk management practices. Additionally, the crisis highlighted the interconnectedness of the global financial system, emphasizing how events in a small, seemingly isolated economy could have far-reaching consequences. In the aftermath of the crisis, Iceland embarked on a long and arduous path to recovery, implementing reforms to strengthen its financial sector and restore confidence in its economy.

The Icelandic banking crisis of 2008 triggered a wide array of reactions from various stakeholders, each responding differently based on their interests, roles, and perspectives. These stakeholders encompassed government officials, regulators, investors, creditors, citizens, international financial institutions, and neighboring countries. Understanding their reactions provides insight into the multifaceted nature of the crisis and its deep implications. Government officials and regulators in Iceland initially struggled to grasp the magnitude of the crisis, leading to a sense of disbelief and hesitancy in taking decisive action. As the crisis unfolded and the banking system teetered on the brink of collapse, authorities were compelled to intervene forcefully. Emergency measures such as bank nationalizations, capital injections, and the imposition of capital controls were implemented to stabilize the financial system and prevent further contagion. However, the crisis exposed weaknesses in Iceland's regulatory framework and oversight mechanisms, prompting calls for reforms to prevent a recurrence.

International financial institutions, including the International Monetary Fund (IMF) and the European Union (EU), played pivotal roles in responding to the crisis, whereas the IMF provided financial assistance to Iceland through a bailout package aimed at stabilizing the economy and restoring confidence in the financial system. Alternatively, the EU offered support and guidance to Icelandic authorities as they navigated the complex challenges of managing the crisis and implementing reforms. However, tensions emerged over Iceland's relationship with the EU and disagreements over financial regulation, underlining the complexities of international cooperation in times of crisis. Investors and creditors faced significant losses as the value of Icelandic assets plummeted and the banks defaulted on their obligations. Many international investors who had poured capital into Iceland's booming financial sector were caught off guard by the sudden collapse and faced steep losses. Creditors of the failed banks, including bondholders and depositors, found themselves embroiled in lengthy legal battles over the recovery of their investments, exacerbating the turmoil and uncertainty surrounding the crisis. The aftermath of the crisis prompted a reassessment of risk management practices and investment strategies, particularly in high-yield markets like Iceland.

Citizens of Iceland bore the brunt of the crisis impact, experiencing economic hardship and social dislocation on a profound scale. Unemployment soared, household incomes plummeted, and public services came under strain as the government grappled with the fallout of the crisis. Many Icelanders faced foreclosure on their homes and struggled to make ends meet as the economy contracted and inflation soared. The crisis also sparked widespread public anger and disillusionment with the country's political and economic elite, leading to calls for accountability and reform.

The crisis sparked widespread social unrest and protests across Iceland. Citizens took to the streets to voice their anger and frustration over the mismanagement of the economy and the failure of the banking sector. Demonstrations demanding accountability and reform became a common sight in Reykjavik and other cities, reflecting a deep-seated sense of disillusionment with the country's political and economic elite. The economic turmoil and uncertainty triggered by the banking crisis led to a wave of emigration as some Icelanders sought better opportunities abroad. Many young professionals and skilled workers left the country in search of employment and stability, contributing to a brain drain that further strained Iceland's economy and social fabric. Despite the challenges they faced, Icelandic citizens demonstrated remarkable resilience and solidarity in the face of adversity, communities rallied together to support those most affected by the crisis, organizing grassroots initiatives to provide food, shelter, and assistance to those in need. The spirit of solidarity and mutual aid helped bolster social cohesion and foster a sense of collective resilience during this challenging time. As the banking crisis prompted a revaluation of Iceland's economic model and development trajectory, many citizens and residents advocated for a shift towards greater sustainability and self-sufficiency, emphasizing the importance of local production, renewable energy, and environmental conservation. The crisis served as a wake-up call to reduce reliance on volatile financial sectors and prioritize long-term resilience and sustainability in economic planning. In the aftermath of the crisis, there was a surge in political activism and civic engagement among Icelandic citizens, as grassroots movements emerged to advocate for political reform, transparency, and accountability in government. Moreover, citizens became more actively involved in the democratic process, participating in elections, public debates, and initiatives aimed at reshaping the country's political landscape and governance structures.

The Icelandic banking crisis was a defining moment in the country's history, shaping its trajectory for years to come and leaving a lasting imprint on its society and economy. The Icelandic banking crisis of 2008 prompted government officials and regulators with the monumental task of stabilizing the financial system and restoring confidence in the economy to avoid total collapse, while international institutions provided support and guidance in navigating the crisis. Ultimately, investors and creditors faced significant losses, prompting a revaluation of risk management practices and investment strategies, and meanwhile, citizens of Iceland endured the brunt of the crisis' impact, experiencing economic hardship and social dislocation on a profound scale. The crisis served as a wake-up call for Iceland and the global financial community, weighing the perils of excessive risk-taking and the importance of robust financial regulation and oversight.

CHAPTER III

SHOCKS ACROSS LEBANON

A. Did Klein's Doctrine Manifest in Lebanon?

Naomi Klein's paradigmatic examples of the shock doctrine, encompassing Chile, post-Soviet Russia, and Hurricane Katrina, collectively highlight the strategic leveraging of crises to implement neoliberal economic policies and consolidate power. In these instances, authoritarian figures or external advisors actively exploited the disorientation following crises to push through transformative measures. The commonality lies in the intentional imposition of policies, such as privatization and austerity, during moments of societal vulnerability. However, the application of the shock doctrine in these cases was marked by relatively clear power structures and decisive actors, setting a distinct backdrop against which the situation in Lebanon can be examined. One key departure in Lebanon's case is the absence of a singular authoritative figure or external advisory body orchestrating the shock doctrine. Unlike Pinochet in Chile or external advisors in post-Soviet Russia, Lebanon features a fragmented political landscape and legitimacy with multiple factions, including sectarian militias; a byproduct of the notorious 1975 Civil War. This complexity raises questions about the coherence and coordination of policies in Lebanon's post-crisis scenario, suggesting that the application of the shock doctrine may manifest in a more decentralized and nuanced manner. The absence of a strong central authority implementing policies may result in varied responses from different political entities, further complicating the analysis.

The rapid implementation of neoliberal policies characterizes Klein's examples, reflecting a hallmark of the shock doctrine. However, the extent to which Lebanon adheres to a strict neoliberal agenda akin to the examples provided by Klein remains improbable. The intricacies of Lebanon's confessional political system, marked by diverse political and sectarian factions, introduce complexities that may mitigate the straightforward application of a uniform neoliberal approach. A crucial divergence lies in the nature of the crises themselves. Klein's examples involve distinct crises such as military coups, economic collapses, and natural disasters. In contrast, Lebanon faces a complex amalgamation of longstanding political instability, economic crisis, and the sudden catastrophic event of the explosion. Moreover, the multifaceted nature of Lebanon's challenges introduces layers of complexity, making it challenging to predict the precise contours of the shock doctrine's application. As a result, while similarities exist between Klein's examples and Lebanon, the fragmented political environment, the absence of a clear authoritative figure and common legitimacy, the potential for decentralized responses, and the multifaceted nature of Lebanon's crises contribute to an insignificant application of the shock doctrine. Analyzing these distinctions is essential for a comprehensive understanding of how crisis exploitation unfolds in Lebanon's intricate socio-political landscape.

B. Navigating Post 2019 Meltdown

Lebanon's experience with shocks differs significantly from the examples mentioned earlier, as it navigates a complex landscape of sectarian politics and weak central governance. The shocks in Lebanon, while potentially surpassing the scale of those in other instances, unfold within a unique socio-political context. As a matter of fact, the 2019 downfall emanated from multiple crises/shocks, where opposition and conflict are avoided at all price, as acutely depicted by the World Bank in their 2020 Beirut Rapid Damage and Needs Assessment ensuing the 4th of August explosion, which included: "(i) spillovers from the conflict in Syria, which led Lebanon to host the largest refugee per capita population in the world; (ii) a financial and economic crisis that has induced systemic macro financial failures, including, impairment of the banking sector and risk of deposits; an exchange rate collapse; a default on sovereign debt; triple-digit inflation rates; and a severe economic contraction; and (iii) impacts from the COVID-19 pandemic; Lebanon, not unlike other countries, responded with lockdowns that further exacerbated economic and financial stresses."[2] This, compounded by the August 4th explosion, which destroyed most of the port and severely damaged heavily populated areas, leaving more than 200 dead and thousands injured and homeless, slashed physical and financial capital, annihilated purchasing power, and exacerbated the country's entrenched inequality and poverty, where the rate surged from 28 percent in 2019 to 55.3 percent in 2020, bringing the total number of poor Lebanese to about 2.7 million.[3]

The ramifications of these shocks are significant, extending to the economic, social, and political structure of the nation. For instance, and in addition to the aforementioned example, the economic crisis in 2019 also sparked a cascade of subsequent minor shocks, such as: (i) subsidies that were either fully or partially lifted, i.e., fuel, medications and medical supplies, commodities, etc., (ii) additional tariff imposed by the government, i.e., electricity, water, customs duties (iii) deep cuts in public spending, for instance, the decision not to hire new public servants despite the thousands of vacancies resulting from migration of government personnel (Civil and Armed forces) to the private sector (both local and abroad), the decision not to increase the salaries of

[2] World Bank Group, European Union, & United Nations. (2020). Beirut Rapid Damage and Needs Assessment.

[3] World Bank Group, United Nations, & European Union. (2020). Lebanon Reform, Recovery, and Reconstruction Framework.

government employees, despite the severe devaluation of the LBP, halting most public works and projects due to lack of funding, and (iv) serious deliberation on full privatization of state-owned companies (water, electricity, transport…) which can be observed as limiting or shrinking the state's function, and last but certainly not least youth and talent migration where in 2018, a joint report by the Central Administration of Statistics (CAS) and the International Labor Organization (ILO) highlighted a significant disparity in youth unemployment rates, with figures indicating a rate of 23%, twice the national average of 11.4%.[4] Additionally, subsequent assessments stemming from the same survey data reveal a notable surge in youth unemployment, reaching 47.8% in 2022 amidst a series of crises, while the national unemployment rate climbed to 29.6%.[5] Furthermore, what is particularly striking but expected is that 77% of Lebanese youth between the ages of 18 and 24 expressed a desire to emigrate, a figure surpassing those recorded in conflict-ridden countries like Libya, Iraq, and Yemen.[6]

In sum, what sets Lebanon apart is the absence of formal decisions or actions by the government and politicians, leading to shocks that generally encounter little or ineffective opposition, devoid of a resistant attitude. For instance, in 2019 Lebanese citizens took to the streets in mass protests against government corruption, economic mismanagement, and social inequality, demanding accountability, transparency, and meaningful reform which in fact was in vain arguably in fear of escalated confrontation, hence threatening the confessional truce. At the same time, the political response to the

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[4] *Lebanon's youth: Barriers for growth and unfolding opportunities*. UNDP. (2022, October 5). https://www.undp.org/lebanon/blog/lebanons-youth-barriers-growth-and-unfolding-opportunities

[5] Ibid.

[6] Ibid.

economic crisis has been fragmented and ineffective, as successive governments have struggled to implement meaningful reforms or address the root causes of the crisis. Political leaders have faced accusations of prioritizing their personal interests and sectarian agendas over the welfare of the nation, thereby intensifying public disillusionment and distrust in the political establishment. Nevertheless, politicians operate with a sense of assurance, aware that they are unlikely to encounter opposition from their constituents, particularly within their limited fragment of popular legitimacy, since an alternative narrative reminiscent of sectarian violence rapidly takes precedence in the social and economic discourse.

Politicians, particularly influential sectarian leaders, orchestrate changes in alignment with prevailing political parties without facing significant resistance. As such, events embodying the nature of shocks do not lead to confrontation since informal decisions to implement changes arising from these shocks are agreed upon by influential political elites (particularly sectarian leaders) in such a manner that no major conflict would ensue, with the aim to uphold the truce, especially from the Lebanese populace who are deeply connected to their sectarian representatives. Hence, public response is muted. For example, no one asserted ownership and insisted on ratifying the IMF staff-level agreement to date arguably to avoid disrupting the truce among the sects and ultimately avoid escalated confrontation. On April 7th, 2022, the IMF announced that its staff had reached a preliminary agreement with Lebanon on a comprehensive economic reform policies program supported over a 4 year 3 billion dollars extended fund facility (EFF) package, which aims at allegedly supporting the authorities' reform strategy to restore growth and financial sustainability, strengthen governance and transparency, as well as increase social and reconstruction spending. Surprisingly, the Lebanese authorities have failed to undertake critical prerequisites stipulated by the IMF rendering the agreement void.

Furthermore, obstruction to proposed changes is managed to prevent escalation. While disagreements among sectarian leaders may lead to mobilizing supporters for short-term objectives, there is a cautious approach to avoid major conflicts as there is a collective fear of confrontation among the involved parties. A prominent example is the leader of Amal political party and speaker of the house, Nabih Berri's intervention in the fuel subsidy issue, with the consent of Hezbollah, where a temporary mobilization of his supporters on the ground ultimately led to a resolution from other parties due to the fear of escalated conflict. This phenomenon can be attributed to the close connection between individuals and their confessional representatives, who are seen as caretakers. It is a consequence of Lebanon's weak central government which contributes to the dominance of sectarian loyalty, compelling individuals to align themselves with their confessional representatives and form congregations based on sects as a primary means to lead a stable life. This allegiance takes precedence over voting and ultimately assessing political parties based on their agendas and holding them accountable if they fail to fulfill their promises, as observed in other contexts. This dynamic often deters politicians from even formulating proper public policy agendas.

To that end, any proposed change must receive unanimous agreement from all parties, or it will face obstruction. Albeit, this obstruction is typically managed to prevent escalation, again as there is a collective fear of confrontation among the involved parties, which is made possible due to the absence of a need for common legitimacy or decision-making undertaken at the national level.

Moreover, as political elites strive to avoid confrontation and maintain the existing redistribution scheme to preserve their power and positions, they intentionally mislead the public about decision-makers. This is evidenced by the port explosion inquiries and notably the banks closure, *de-facto* new LBP rate, as well as subsidy implementation and removal, leaving people uncertain and confused about where to direct their underlying objections. Coupled with the realization that their efforts may be futile; individuals are hesitant to oppose their own sect leaders. The primary repercussion would be fruitless media opposition from other parties, primarily serving as populism. Despite shocks occurring and being actualized *de facto* without being declared as a mandate or decision, confrontation and violence never ensued; and even if some did, one would greatly question their effectiveness, a remarkable yet typical aspect of Lebanon's political landscape.

CHAPTER IV

CONCLUSION

The comparison of shock responses between Lebanese society, characterized by a confessional sectarian model, and other regions governed by liberal democracy reveals stark differences rooted in political, social, and institutional structures. For instance, in liberal democracies like the United Kingdom under Thatcherism and the United States under Reaganomics, shock responses were shaped by the interplay of governmental policies, market dynamics, and civil society activism. Privatization and deregulation agendas were driven by ideological commitments to free-market principles, leading to mixed reactions from various stakeholders. While government officials and business leaders generally supported these measures, opposition from trade unions, civil society groups, and activists raised concerns about social welfare, inequality, and democratic accountability. In contrast, Lebanese society's response to shocks such as the 2019 Economic Crisis and the Beirut blast reflect the unique dynamics of the confessional sectarian model, where political power is divided along sectarian lines. Moreover, the absence of structured reactions in Lebanon, characterized by a lack of formal mandates and widespread numbness among the populace, stands in stark contrast to the more dynamic responses observed in countries with formal decision-making processes. In sum, the institutional framework of liberal democracies provides avenues for formalized governance and institutionalized responses to crises, such as when the Icelandic government stepped in and asserted control over the national banking system to avert total collapse, whereas the confessional sectarian model in Lebanon lacks centralized authority where sectarian politics often prioritize communal interests over broader societal needs. Lebanon's legitimacy is unfortunately rooted in a fragile truce among sectarian militia-based communities where decision-making is primarily driven by the imperative to maintain sectarian coalitions rather than being subject to public scrutiny or anticipation of resistance. And while this dynamic may prevent large-scale confrontations it also obstructs the nation's capacity to enact essential reforms and adjust to evolving conditions. Finally, I would like to close with a quote from the movie, *Lord of War*: "Evil prevails when good men fail to act. What they ought to say is that Evil prevails".[7] Such is the case in many third-world countries and most certainly our beloved Lebanon.

[7] Niccol, A. (Director). (2005). *Lord of War* [Motion picture]. Entertaining Manufacturing Company et al.

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