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ECONOMIC IMPLICATIONS OF SOCIAL SECURITY
FOR LEBANON

By

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P R E F A C E

Despite an enviable rate of economic growth, Lebanon is still faced with many economic problems. One of the most pressing of these problems is the great need for a better distribution of income amongst classes and occupational groups. Lately, a social security plan was formulated in the hope that it will serve to eliminate partially the inequality in incomes that is present. The necessity for this plan cannot be doubted. However, "the framing of a satisfactory scheme of social security depends on the solution of other problems of economic and social organization." It is on the former problems that I wish to concentrate, without forgetting that social security plans need not contradict other objectives (e.g. sustaining economic growth, greater emphasis on industrial sector etc.), but may then support them.

The aim from this study is to examine some of the more important practical implications for Lebanon that would accompany the enactment of the proposed social security scheme. By so doing it is the writer's hope to have contributed to a more thorough understanding of the important issues on hand.

Marwan Iskandar

A C K N O L E D G E M E N T

To Prof. Muhammad Diab, of the American University of Beirut I owe something much more significant than appreciation, - an attitude.

In his insistence on intellectual integrity and hard work Prof. Diab set an example, which is greatly responsible for the effort put into completing this work.

ABSTRACT

Social Security is recognized as a major part of social and economic policy. Its importance in the lives of people has increased tremendously since the 1930s as many countries drafted and enacted comprehensive social security schemes for eliminating want. This trend has not dissipated itself and is witnessed, today, growing in the underdeveloped countries of the world.

At present, official consideration in Lebanon is called upon to decide in favor or against a proposed social security plan. This study explores the various implications of the proposed scheme, for evaluating whether it conforms with general guiding principles of social security and social and economic objectives of the Lebanese society.

After setting out social security principles and examining social and economic objectives in Lebanon, the study concentrates on revealing the conformity or divergence between the proposed scheme and those principles and objectives. However, discussion probes into fundamental exogenous requirements for successful enactment of social security.

Apparently, and except for the lack of definitiveness on certain important issues, the proposed social security plan conforms by and large with social security principles and availabilities of economic resources and skills in Lebanon. The most important shortages in relation to successful operation of social security, which can reverse its effect in total, are imbedded in exogenous factors, especially taxation legislation and collection practices.

Once shortages singled out in this study are met, it would be much easier to enact the altered scheme without suffering serious regrets afterwards.

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CHAPTER I
NATURE AND DEVELOPMENT OF SOCIAL
SECURITY

The term "Social Security" has come to acquire a universal meaning, probably because it connotes an age-old desire: freedom from want. In order to discuss adequately, therefore, the economic and financial implications of social security for any country it is imperative that one should answer the following questions satisfactorily: a) What is the nature and meaning of "social security"? b) How has it developed and why? c) What are the techniques utilized in fulfilling social security?

A. What is Social Security?

Human beings share many objectives which they try to fulfill in order to feel happy and secure. Material security has always occupied a place of importance amongst the required assets for a satisfactory life. In their incessant search for freedom from want, men elevated this desire to the rank of a cherished and important social goal. The Declaration of Human Rights, formulated to picturize the status of man as it ought to be by defining common human goals, summarized the right of any individual to material security thus: "Every one has the right to a standard of living adequate for the health and well being of himself and his family, including food, clothing, housing, and medical care and necessary social services . . ." (1)

Conceptually then social security is a state of affairs in which everyone

(1) Article 25.

entertains a standard of living, the content of which is characterized by the adequacy of well-being and health. In our modern world with its present resources, demographic trends, and willingness to share wealth and abilities, achieving social security as conceptually viewed seems to be out of reach for most modern communities. However, important probable causes of economic distress can be singled out for the purpose of introducing corresponding remedies.

If some of these causes were eliminated or their consequences ameliorated through certain measures a corresponding degree of the desired security would be fulfilled. "Social security" then is "the result achieved by a comprehensive and successful series of measures for protecting the public (or a large sector of it) from the economic distress that, in the absence of such measures, would be caused by the stoppage of earnings in sickness, unemployment, or old age and after death; for making available to that same public medical care as needed; and for subsidizing families bringing up young children. This in effect is the definition implicit in the Social Security (Minimum Standards) Convention, 1952, adopted by the International Labor Conference in that year." (1)

According to the above definition social security is the result of a comprehensive and successful series of measures. One can term these causative measures as social security measures. They are usually designed to compensate members of certain defined groups when they suffer economic distress because of defined contingencies and are supplemented with public medical care. Available administrative and financial resources in a particular country might not, and most often do not, allow for the successful enactment of all the necessary

(1) International Labor Office, Social Security - A Worker's Education Manual
(Geneva: ILO, 1958), p. 11.

measures for alleviating economic distress. Choice has to be exercised concerning who - in some order of preference - are to be provided for and under what circumstances. Governments have been entrusted with the task of choice mainly because of two reasons.

First, Governments in democracies are institutions that stand responsible to promote the interests of their citizens on an equal footing. Moreover, the institution of Government has a juridic personality that exists continuously. Social Security ultimately offers similar benefits to similarly situated individuals. Its fulfillment requires successive enactment of comprehensive security measures over a relatively long span of time, unless the country under consideration is a highly developed one. Thus, the institution of Government seems to be particularly well equipped to meet the requirements of successful implementation of social security measures.

Secondly, the most distinctive feature of Governments as against other institutions is their unique right to exercise compulsion. Social security involves disbursement of benefits to members of defined groups when they face hazards because of enumerated contingencies. Funds from which these payments are made accumulate partially out of contributions compulsorily levied by Government on the beneficiaries to be and/or their employers. Hence regularity of contributions and uniformity of treatment which are essential for the successful functioning of any social security plan are only possible because of Governments' access to compulsion.

Another important characteristic of social security, in addition to governmental responsibility for the adoption and supervision of social security measures, is provision for subsistence or alleviating economic distress. Social

security, therefore, means elimination of need by provision of a basic minimum, no more. The term subsistence level or basic minimum is not used to denote a minimal physical quantity of food, clothing, shelter and medical care necessary for sustaining life itself. Rather, subsistence income is a function of the level of living of the society for which it is considered. It varies among countries, being higher for countries with high levels of living as contrasted with countries that have low levels of living, and vice-versa. In relation to a particular country, subsistence income or that level of income which carries one above economic distress, is defined as that level of income which enables a person to secure for himself and his dependents the essential ingredients of what is considered in that society a decent life. Social Security payments are provided, as will be shown later, in cash and in kind. For the former to be of any real value in maintaining subsistence as defined, they have to be based on, and varied according to, a cost of living index constructed to suit the purpose.

The craving for material security is found in every country. Everywhere we witness widespread demands for decent standards of living, but nowhere do we find social security as conceptually viewed. Different countries can enact only some of the necessary measures for social security. It has become the fashion to label these measures, which are approved by governments, in the name of their ultimate purpose, irrespective of the fact that they might not fulfill except partially the requirements of minimum material security for all citizens. Aside from technicalities, what differentiates one social security plan or combination of security measures from another, is the extent of its scope and plurality of its purposes. Scope is a function of the group or groups of the population covered by the plan. Purposes are enumerated probable causes of

economic distress or health conditions warranting benefits. If a certain plan provides old age pensions to all citizens upon reaching a certain age it is said to have an all inclusive scope for a particular purpose.

As indicated before, limited availability of administrative skills and financial resources imply choice about extent of scope and contingencies to be covered by a social security plan. Priority considerations should guide decisions of choice. In turn criteria for determining priority are urgency of needs and costs involved in meeting them balanced against other social objectives and their costs. Social security schemes for particular countries should be drawn as part of the over all social engineering design. It is imperative that their being put into effect should depend on their not contradicting or nullifying other objectives considered to be socially important. It is only after thorough weighing and balancing between present availabilities and needs and expected future developments that an adequate social security scheme can be formulated.

Recently a social security scheme was drafted for Lebanon and forwarded to all groups concerned for evaluation. Consequently the draft plan underwent important changes in the light of forwarded criticisms. A brief summary of the main features of the plan is included in the following chapters. It is the purpose of this study to evaluate the economic and financial implications of the proposed social security scheme for Lebanon and thereby to pass judgment on its adequacy, feasibility and desirability in relation to presently ruling and future desired economic and social conditions. Our task will be greatly facilitated by first reviewing the historical development of social security. Such a review will help illustrate the nature and evolution of measures that have

come to be widely employed for reducing or eliminating want.

B. Historical Evolution of Social Security

Family and communal cooperation for the satisfaction of material needs must have arisen at an early date in history. Strong kinship bonds united men in the face of economic and military hazards. With the emergence of recognized governments people became less dependent on one another for the preservation of life. A new concept of group organization within a framework of imposed regulations by a governing body emerged. Irrespective of the degree of cooperation for eliminating economic distress between individuals within societies, a society's responsibility for partially eliminating the evils of economic distress had to wait to be given official recognition until 1601. In that year, during the reign of Queen Elizabeth I, the "Poor Law Act" was passed in England. An individual suffering extreme need became eligible to receive help paid from public revenues. Loss of "civil rights" was the high price beneficiaries had to pay in return for the benefit. This law, with minor amendments, remained as the sole measure of public assistance in England until 1936 when it was readjusted.

Until the last quarter of the 19th century three other security methods were widely acknowledged. These were savings, workman's compensation, and private insurance. All three taken individually or collectively, failed to ensure any appreciable degree of social security. But each of the three methods left an everlasting imprint on the development of social security schemes. Governments undertook the formulation of social security schemes because of the failure of the previously mentioned methods and because these methods, when combined and supplemented with government resources and supervision, seemed to

promise a tolerable degree of security.

Savings:

Governments recognized that savings by individuals for better meeting their needs over a period of time could be greatly increased, especially amongst members of lower income groups if the act of saving was made easier. Governmental "Savings Systems" were established: These received savings by mail, no matter how small, and distributed profits or interest at regulated dates through the same channel. Payment on demand of accumulated savings was made very easy. First introduced in England in 1863 by the establishment of "Post Office Savings Banks" this method spread to France by 1881 and the United States by 1910.

The greatest shortcoming of this method is that for its successful operation as a means of combating want, great numbers of people must be left with something to save after meeting their immediate needs. This, unfortunately, did not prove to be the case. "Again, except for one's old age, saving is not by itself effective as a method of achieving social security. Illness, accident, unemployment and death may occur at any age in one's working life, though some of these risks are more likely at the higher ages." (1) Even if savings were possible they would be so meager for the greater number of workers as not to provide any tangible security.

A reminder of the savings method is the modern practice of retirement pension schemes. Employees contribute throughout their working life to a retirement fund from which they receive pensions upon retirement at an age when they are supposed to need rest. Contributions for these pensions accumulate

(1) ILO, Social Security, Ibid., p. 3.

over time in a fund from which pension benefits are disbursed. Though today such schemes are mostly compulsory, their origin is undoubtedly traceable to the notion of saving for future needs.

Workman's Compensation:

The development of juristic doctrines rather than direct government interference resulted in compensation for workmen injured at or because of work irrespective of responsibility for the injury. This principle has been adopted by all modern communities either in their labor legislation schemes or in their social security schemes.

Before compensation became justified solely by injury, any injured workman had to prove, if he was to collect any compensation, negligence on the part of the employer. In practice this was very hard to prove. Workmen with limited means, at a time when effective unions were not known, had to carry through and win a case against their employers before compensation for injury was due. Obviously workman's compensation under such circumstance was little more than an empty phrase. Jurists applied their genius to the invention of a doctrine that would impart content to workman's compensation. The principle of professional risk was introduced and interpreted to lay responsibility for employment hazards on the employer. An employer had to include within his cost calculations expenses for compensating workmen against injuries sustained at or because of work.

Absolute risk on employers was institutionalized through legislation by 1871 in Germany. Its partial, then complete, adoption took place in England by 1880 and 1897. "No longer" was "the employer's negligence a necessary condition for the award of damages; the workman was given an absolute right to compensation

for personal injury by accident arising out of and in the course of his employment." (1)

Employers began insuring themselves against the responsibility occasioned by the principle with private insurance companies. Those companies concentrated their efforts on interpreting the clause "arising out of or in the course of his employment" to their advantage against injured workmen. Mal-practices of private insurance companies and failure of compensation to provide adequate social security both implied the necessity to include workman's compensation as a part of more comprehensive social security schemes.

Private Insurance:

Germanic traders and manufacturers formed guilds before Christianity. These were rudimentary associations which aimed at promoting and protecting the economic interests of their members. Of the same nature were mutual insurance associations formed by traders and manufacturers during the 16th century. At that time trade witnessed great expansion because of discoveries of naval routes and new territories in the late 15th century. Hazards of theft and robbery threatened development of trade, and traders' and manufacturers' interests.

Mutual insurance associations were formed by traders and manufacturers who faced similar threats. These associations provided their members with compensation against loss and material damage. Membership depended upon payment of fees. Inherent in this practice was the principle of private insurance based on collective risk. The formation of mutual insurance associations represented a forward step in the development of social cooperation. But most individuals

(1) William Robson, Social Security (London: George Allen & Unwin Ltd., 1943), p. 48.

were left with no security. Moreover, the means and methods of mutual insurance associations did not enable them to provide their members with sufficient and continuous security. How was sufficient and continuous security to be achieved not only for members of a certain profession but for the whole population?

The answer to this question and its implication were obvious. Security could be achieved by widening the scope of mutual insurance associations to include all others not included previously in their membership, by multiplying their purposes, and by raising benefits to an adequate level. Aside from changing the nature of mutual associations all these recommendations necessitated a coordinating responsible authority that would stand to bear permanent responsibility for enacting required measures and be able to secure the necessary means at the same time. Undisputably, government was the only authority equipped with requisite qualities.

A British minister by the name of John Arlond, recognizing the necessity for widespread material security and the Government's role in bringing this about, presented in 1786 the first official obligatory insurance plan against the main hazards of life. The British mentality at that time was not favorably oriented towards such plans. Arlond's project failed to receive the necessary support for its approval and enactment. (1) Effective Governmental intervention for provision against need had to wait until the 19th century. Social thinkers propounded the idea that governments are to be regarded as mere trustees of the welfare of their citizens. National governments were at the same time ascending the ladder of political power. Autocratic regimes withered in the face of

(1) Sadik Mehdi Assai'd, Social Security - A Comparative Study, (Dar Al-Fikr Al-Arabi, 1959), p. 26.

popular revolutions. Political leaders realized that they had to seek the support of the masses. Mass support or avoidance of its wrath had a price, satisfaction of popular demands.

At first governments sought to satisfy popular demands for material security by encouraging already present private institutions to widen the scope and purposes of their operations. Financial grants were given to mutual insurance associations in which membership was no more restricted to members of the same trade and profession. These associations, with the help of government grants, began to include in their scope people of all kinds irrespective of profession and provided help in case of sickness, disability and death. Old-age pension schemes were introduced by these associations around mid 19th century. Their introduction depended on governmental approval and encouragement through grants. Insurance, however, remained voluntary and rates were higher than most workers could afford. The need for comprehensive state supported insurance schemes was not eliminated by operation of private insurance associations.

Bismarck passed three laws in 1883, 84 and 89 which stipulated for compulsory insurance against sickness, work accidents, and old age and retirement. The scheme of social insurance introduced by Bismarck served ever since as a model for the formulation of social insurance schemes in other countries. Before the introduction of family allowances after World War I in France and Belgium from whence it spread to most countries, social security development was kept within the framework of Bismarck's measures.

Why were comprehensive social security measures first adopted in Germany before any other European country? Social insurance, as will be illustrated later, is a device intended to operate for the benefit of those who are most

likely to suffer from need, namely members of lower income groups. By the 19th century Germany's masses suffered the lowest social and economic conditions in Western Europe. Many factors collaborated to make Germany most vulnerable to the consequences of widespread economic disturbances. Germany had caught on rather late to the Industrial Revolution and its state of disunity prevented it from resorting to colonization as a means of securing essential raw materials for production and markets for the sale of German manufactured goods. Add to the above reasons poor agriculture, and it becomes clear why Germany suffered greatly from economic depressions that betook Europe in the second and third quarters of the 19th century. Socialist thought found a fertile soil in Germany for it appealed to people stricken with economic deprevity. In 1877 the German people elected twelve socialists to parliament though socialism was banned in 1875.⁽¹⁾ Bismarck, though a confessed believer in economic liberalism, foresaw in the development of social thought in Germany a threat to its political institutions. He considered the interference of the state in economic and social affairs to the advantage of the masses as the better alternative to anarchy. The same idea is expressed today by thinkers who propose that the establishment of an effective framework against the fear of insecurity is essential for the preservation of democratic capitalism.⁽²⁾

Savings, workman's compensation, and private insurance as methods for provision against need, though supplemented by governmental initiative and

(1) Ibid., pp. 55-56.

(2) Opinion expressed by Professor J. Douglas Brown of Princeton University. Cited by: William Haber & Wilbur Cohen, Social Security - Programs, Problems and Policies, (Illinois, Richard D. Irwin, Inc., 1960), p. vii.

contributions all failed individually and collectively to insure an accepted degree of material security. Governments were still faced with the challenge of adequate provision for the needy and they began to implement certain methods which helped them succeed, at least partially, in their endeavors. At this point we will move to consider these methods and their special attributes and shortcomings.

C. Social Security Techniques

Other than family allowances all social security measures can be classified under one of two institutions: social insurance or public assistance. The former is the more important of the two. But both are inevitable features of any system of social security. In fact, the invention of social insurance is regarded as having "indeed supplied the essential technique rendering possible the progressive realization of social security. Other approaches or techniques are either derivative or subsidiary."⁽¹⁾ Because of its importance, social insurance is dealt with first. It originated from the practice of private insurance and needs to be compared and contrasted with it. This will highlight the social character of social security and reveal that social insurance represents a radical practical step from the principle of free enterprise.

a. Social Insurance

"Social insurance is an institution designed to bring economic security to the worker."⁽²⁾ Through it, subsistence income is maintained intact for

(1) ILO, op. cit., p. 9.

(2) C. A. Kulp, Social Insurance (Philadelphia, The American Academy of Political and Social Science, 1933), p. 1.

workers and their dependents during periods of economic distress resultant from specified contingencies. Because disability, unemployment, old age, and death are contingencies responsible for most destitution, they are usually provided for in social insurance schemes. If social insurance is to be effective in curbing economic distress "it should be comprehensive, in respect both of the persons covered and of their needs . . . It should not leave either to national assistance or to voluntary insurance any risk so general or so uniform that social insurance can be justified."⁽¹⁾ This is why Sir Beveridge referred to his proposed scheme for social insurance, which he devised after reconsideration of the then existing social insurance and allied services in Britain, as one "designed of itself when in full operation to guarantee the income needed for subsistence in all normal cases."⁽²⁾

A social insurance scheme assures specified groups of workers of payments intended to meet their needs when these workers find themselves because of enumerated contingencies unable to earn an income or facing sudden expenses. These payments are made as of right. This right is dependent on inclusion within the scope of the plan. Ideally the scope of social insurance, i.e. who is to be included, ought to be all-inclusive. Practical considerations, such as limitation of financial resources, lack of trained personnel and adequate statistics exercise a limiting effect on the scope of social insurance and the contingencies it covers. Who are to be the beneficiaries from a social insurance scheme and under what circumstances are matters to be decided on according to priority

(1) Sir William Beveridge, Social Insurance and Allied Services, (London: His Majesty's Stationary Office, 1944), p. 12.

(2) Ibid.

considerations. The general principle is: a person receives social insurance benefits when he becomes the subject of any one or more of the hazards enumerated in the scheme, but only in case he or someone else instead of him, had paid a compulsory regulated contribution to the social insurance fund. There remains, however, an important precaution. Recipients of benefits might choose, out of laziness, to claim that they are or continue to be facing circumstances warranting receipt of benefits, when actually they are not. Safety valve measures for reducing to a minimum such tendencies ought to be included within a well designed social insurance scheme.

Summarizing the discussion presented about social insurance thus far one can say: social insurance is the institution designed for reducing the varying uncertain costs of handicaps to the worker's earning capacity or to his health and that of his dependents to certainty and uniformity. This is made possible because of distributing losses of individual workers over the whole wage earning group according to insurance principles. If social insurance beneficiaries receive benefits when faced with certain circumstances, in lieu of previously paid premiums, then how is social insurance different from private insurance and what is the significance of this difference?

b. Differences Between Social and Private Insurance

The most obvious similarity between social and private insurance is that both are institutions designed to provide against uncertainties for charges or premiums paid by the insured. In spite of this similarity there are differences between these two institutions with far reaching implications. In private insurance premiums have to be adjusted so as to cover the costs of risks. Participation in insurance schemes is voluntary. Different insurance companies,

unless they agree to adopt monopolistic practices, have to charge rates that will cover their costs, and attract customers. This means, that within the limits set by the degree of competitiveness in the insurance market actuarial calculations - adjustment of premiums at rates that will cover at least the cost of risks - have to be followed in private insurance. Differentiation between good and bad risks, under such circumstances, becomes a useful practice. Individuals, considered as good risks due to good health or young age . . . etc. . . are thus given better terms - lower premiums for the same benefits - than others.

Bankruptcy results whenever indemnity obligations exceed available resources. In private insurance expenditures are a function of contingencies and available resources are dependent on premiums. Social insurance is similar to private insurance in relation to expenditures but differs from it in regard to available resources. As social insurance represents essentially a device for combating one of the strongest social evils, it has been drawn up with a view to realizing social justice. Its financial basis, therefore, had to reflect its nature. Resources for social insurance disbursements are dependent, usually, on contributions by workers supplemented by government and employers contributions. This is why premiums paid by beneficiaries - workers - are not calculated on actuarial basis. Another manifestation of the social character of social insurance is that contributions are compulsory and are with benefits the same for all who are similarly situated. Sir Beveridge comments in this respect that "the term 'social insurance' implies both that it is compulsory and that men stand together with their fellows." He goes on to say that "the term implies a pooling of risks except so far as separation of risks serves a social purpose. There may be reasons of social policy for adjusting premiums to risks, in order

to give a stimulus for avoidance of danger, as in the case of industrial accidents and diseases."⁽¹⁾

Governmental participation in financing social insurance is, when viewed in the proper economic perspective, a grant to recipients of benefits. Most social insurance services result in "adjusting individual incomes more closely to individual, or family, needs during different periods of life."⁽²⁾ A government, therefore, in contributing and compelling employers to contribute to social insurance seeks to reduce income inequality or more precisely adjust recipients' income to needs throughout life. However, governments' intentions might be frustrated because of the ability of employers to shift the burden of their contributions to their employees.

Reasons for considering social insurance as the primary tool for achieving social security have been cited. Social security was shown to aim at sustaining a subsistence standard of living. "If it is accepted that national insurance is an integral part of a policy designed to maintain subsistence standards, then, unlike private insurance companies, it may be obliged to do more than merely cover the nominal amount of benefits."⁽³⁾ This suggestion raises a question of great importance. Through what means can social insurance benefits, designed to maintain subsistence standards, be adjusted so as to fulfill their purpose as the cost of living changes? Benefits in kind present no problem except in

(1) Op. cit., p. 13.

(2) Hugh Dalton, Principles of Public Finance (London: Routledge and Kegan Paul Ltd., 1957), p. 166.

(3) Alan T. Peacock, The Economics of National Insurance (London: William Hodge and Company Ltd., 1952), p. 44.

relation to financial resources, which, based on a previous level of contributions, might not prove adequate any more for acquiring the required amounts of goods and services to be forwarded in kind. Here a solution could be to increase contributions but "with a view to maintaining a stable level of employment."⁽¹⁾

Payments in cash of social security benefits present a more difficult or at least more controversial problem. Some suggest that in countries where wages are linked to a cost of living index fixing social insurance cash benefits as a percentage of the wage would maintain their adequacy inspite of rising prices. Another formula for achieving the same result of insuring adequacy of social insurance benefits at time of payment, is to adopt flat rates for benefits, to be adjusted to changes in cost of living. Both measures would accentuate inflationary tendencies by contributing mechanically and automatically to their development. A social security scheme, in case it adopts any of the two suggested measures for maintenance of adequacy of benefits, should incorporate other measures designed to counteract their probable effect in times of inflation.

c. Public Assistance

No matter how finely woven and widely spread the net of social insurance is, some individuals will continue to suffer from need. In particular circumstances need arises because benefits fall short of the required or are totally absent. Social insurance, then, has to be supplemented if a greater degree of social security is to be realized. Public assistance fills, almost practically, the gap between possible social security and the security achieved by an operating social insurance scheme.

(1) Ibid., p. 48.

Public assistance is an institution that operates to meet the needs of certain people not covered by social insurance because of particular circumstances. Assistance benefits are paid, out of public funds, only after a "means test" to which the beneficiary-to-be is subjected, proves his need.

The means test makes public assistance undesirable on two accounts. Inevitably the claimant to benefit suffers from humiliation for having to illustrate that means at his disposal are next to nill. This is why public assistance is generally disliked. Moreover, conducting a means test for appreciable numbers requires a large and highly trained staff. "The trend of social opinion" has been, therefore, "increasingly towards social insurance and other schemes without a means test. Public assistance is regarded as a last resort or a residual system to meet the needs of those not otherwise covered."⁽¹⁾

In spite of these shortcomings public assistance remains an indispensable instrument of social policy. Its nature is such that it insures a degree of flexibility very necessary for proper functioning of a social security scheme. Social insurance cannot be implemented to cover all possible uncertainties and contingencies that life offers. Where need is left untouched by insurance, assistance has to be injected. Occasional recurrence of economic phenomena like severe inflation and widespread prolonged unemployment enhance the importance and use of public assistance.

Severe inflation will make the rate of benefit received, especially if it is a flat rate, not enough for the subsistence of the beneficiary and his dependents. Then public assistance would be needed to supplement the benefits

(1) Henry Richardson, Economic and Financial Aspects of Social Security, (London, George Allen and Unwin Ltd., 1960), p. 51.

because they fall short of supporting subsistence. (1)

Unemployment benefits, disbursed in accordance with social insurance schemes are usually payable for a specified period of time. If insured members remain unemployed for a longer duration, benefits stop. Recourse to public assistance under such circumstances would become necessary.

Means and ways for avoiding public assistance because of inflation and widespread unemployment have been suggested. The fact remains, however, that public assistance cannot be avoided in particular circumstances for certain persons. For example, a compulsory savings pension scheme cannot apply from the start to all individuals older than the pensionable age. Beneficiaries must have contributed over a minimum number of years. People that can qualify for pension benefits age wise but who, obviously, have not been able to contribute for long enough cannot be disregarded. The solution to this dilemma lies, again, in public assistance.

Public assistance has been shown to have serious shortcomings. But being of a versatile nature it still remains an important and inevitable part of any social security scheme. Because of its shortcomings public assistance has to be regarded as an inferior substitute to social insurance. Opportunities for enlarging the scope of insurance at the cost of assistance should not be overlooked. Until the time comes, if at all, when social insurance can fulfill social security by itself, public assistance will remain of indispensable, though perhaps shrinking, use. In the meantime it is essential to improve public assistance by entrusting its administration to properly trained personnel, raising

(1) Ibid., p. 48.

its benefits and minimizing the degrading restrictions and procedures that it entails.

d. Family Allowances

Family allowances are benefits given to workmen in correlation to the number of children they have until the children are of a certain age and/or out of school. Already most social security schemes include family allowances with social insurance and public assistance. "Despite their peculiar nature family allowances have been incorporated as a rule in the social security system because they have to be coordinated with other cash benefits and because the machinery already existing is often used for financing and distributing them."⁽¹⁾

Where wages are low family allowances are of great importance. A workman earning a low wage can spare very little over his immediate needs. Special benefits designed to help him bring up his children assures the family relative security. In most Western European countries where levels of living and wages are high, family allowances are paid only as of the second or third child and on. In sparsely populated countries family allowances can be utilized as an incentive for procreation. Contrariwise, overpopulated countries should draw out family allowance plans, if they are to be introduced at all, with a view to their exercising a disincentive effect. In this connection, however, one ought to remember that procreation is not so much a function of personal choice except in highly educated societies.

D. Economic and Financial Implications of Social Security

There is a concensus of opinion on the desirability of social security.

(1) Op. cit., ILO, Social Security, p. 10.

Methods and means for achieving material security in any particular country have to reflect ruling economic, political and social conditions. In this section, it is intended to present an outline of some general economic and financial implications of social security with the hope that this will help us in evaluating the probable impact of the Lebanese draft plan on the economic and social structure of Lebanon.

One ought to point out, at the outset, that social security expenditures and finances are to be regarded as part of the flow of expenditure and income of the public sector. Through this way one can trace the effect of social security on the strategic economic aggregates: consumption, savings and investment, and other important factors such as, income distribution, incentives for work, productivity, employment, etc.

Social security, because of its nature, retains a very important characteristic of great significance to the economy at large. Security payments help maintain the flow of purchasing power especially in times of depression when it is most needed. The very nature of social security schemes implies "that total income exceeds disbursements in periods of high employment and that disbursements to individuals and families increase in periods when economic activity slackens."⁽¹⁾ Automatically, therefore, the operation of a social security scheme contributes towards maintenance of economic stability. There are two reservations concerning this argument.

a) The logic of the argument presupposes a comprehensive social security scheme that includes insurance against unemployment. Including unemployment as

(1) William Haber & Wilbur Cohen, op. cit., p. 23.

one of the contingencies covered by social security is likely to prove beyond the capability of most countries that have had but little experience with social security, and especially would this be the case, if the countries in question are economically underdeveloped. Historical evidence indicates that unemployment, considered as a contingency, was always given official recognition last. In fact, unemployment cannot be covered in countries where it is structural and widespread as is the case in underdeveloped countries.

b) "To the extent . . . that contributions and taxes used to finance benefits themselves curtail consumption, they serve to offset the stimulating effects of payments."⁽¹⁾

Another economic advantage of social security is that, in so far as total contributions exceed total expenditures, it serves to increase the savings of the community. But the increase in the savings of the community is not equal to the excess of contributions over expenditures. Increased savings would equal the excess minus whatever savings the contributors would have been able to make after incurring costs in procuring benefits similar to the ones offered by the social security scheme. Everything said, the potency of increased savings in promoting economic welfare would depend on their being channelled into necessary and effective investment openings.

Since social security signifies a minimum subsistence level of living it should entail a minimum and a maximum benefit. The former's level, at any one time, is determined by what is needed for subsistence. As has been already illustrated, cash benefits, if they are to fulfill their purpose, have to be

(1) Ibid.

adjusted to changes in the cost of living. Disbursing benefits above the prescribed minimum and up to a set maximum has its justifications. By and large individuals adjust their expenditures to their incomes. Future financial commitments are undertaken because of warranted optimism about continuity of present incomes. In the face of contingencies covered by social security, individuals entertaining substantially different levels of living corresponding to their income, cannot revert immediately to the same subsistence level of living. Benefits are, therefore regulated within set limits according to the beneficiaries' particular circumstances but without extravagance, because high benefits might impair willingness to work and carry the system beyond its purpose. Social insurance, as the keystone of social security, does not attempt to substitute private insurance entirely. It attempts, basically, to provide a subsistence minimum and leaves individuals at their will to secure higher benefits for themselves. That social security, under certain circumstances, does provide benefits above the required minimum should be viewed as a courtesy rather than an obligation.

Benefits have to be paid in cash and in kind. Cash benefits are easier to distribute and preserve a greater sense of responsibility in beneficiaries. They are left free to allocate their cash benefits as between different wants. Professor Peacock claims, subject to a qualification, that cash benefits (direct subsidization) results in greater welfare than benefits in kind (indirect subsidization). In this connection he says: "any form of discrimination in indirect subsidization distorts individual preferences, while direct subsidization allows the individual to distribute his additional income as he pleases." (1)

(1) Peacock, op. cit., p. 75.

But we are warned against accepting this suggestion as a rule of thumb. The qualitative nature of direct and indirect methods of subsidization when taken into consideration might alter the picture.

Benefits in kind remain, mostly because of qualitative considerations, of great importance. Certain categories of people such as the infirm, orphans and aged people without relatives, etc. . need institutional accommodation and care. Money spent on subsidizing free milk to schoolchildren is certainly more creative of welfare than if it were distributed to their parents. Services to equip and/or re-equip individuals with abilities to face changing patterns of production are receiving wide acclaim. All these considerations contribute towards maintaining a well entrenched position for benefits in kind in any social security scheme.

Economists agree that there are two overall economic objectives. Improvement in the quantity and quality of production, and greater equality in distribution. Social security pertains to the second objective. The degree of success of a social security scheme in redistributing income is largely dependent on two factors: 1) the form of financing followed; 2) Pattern of investment of surplus social security funds. In what follows we shall propound successively some theoretical arguments concerning each of the two factors.

Employees' contributions in regard to themselves and their dependents are actually poll-taxes, and as such, are regressive in nature. Employers' contributions in regard to their employees represent a tax on employment or an indirect tax that can be shifted to consumers and/or workers depending on market conditions of demand for the product of labor and the supply of labor. In an underdeveloped country if labor skills are not highly differentiated, labor unions weak, and tariff barriers low, it is likely that employers will shift their contributions

backward. Finally, on the revenue side, there is the government's contribution to the social security fund made out of public revenue. The redistributory effect of government's contribution would depend on the source constituents of public revenue. If contributions to public revenue are adjusted to ability to pay, then social security disbursements exercise redistribution effects in favor of lower income groups and vice-versa.

Arguments relating to investment of surplus social security funds seem to be less subtle. In short, if these funds were invested in projects that benefit mostly members of lower income groups, then social security would contribute towards a fairer distribution of income and vice-versa. In practice, however, the matter is not so simple. It could be that certain projects, though not highly beneficial to poorer members of society, are considered of top priority. Investment policy has to be oriented in the light of production and distribution considerations towards fulfilling desired objectives for a particular country.

The scope and purposes of a social security scheme are largely determined by what a particular country can afford, out of its national income, for social security. Absolutely, and as a percentage of national income, the cost of a comprehensive social security scheme decreases as economic and social development proceed. Higher incomes enable people to better provide for themselves. At this point, however, an important clarification has to be made. In severely underdeveloped countries, the cost of social security, absolutely and as a percentage of national income, will increase rather than decrease as the process of development begins to take its course. This will continue to be the tendency until social security appropriations catch up with needs, and the process of economic development reduces needy situations appreciably. Finally, the cost of

a social security scheme, cannot be regarded as a totally new demand on available resources. In so far as social security reduces the burden of individuals who support elderly members in their families, these individuals would be better able to meet their needs and those of their younger dependents. Moreover, elderly persons, who are provided for as of a certain age, have to leave the labor market as of that age, thus opening employment opportunities for the younger and more productive members of society.

CHAPTER II

MAIN FEATURES OF LEBANON'S

ECONOMY

The purpose of this chapter is to set a defined framework for later evaluation of the economic and financial implications of social security for Lebanon. In order to avoid superfluous discussion of what has often been repeated, concentration is here laid on the main features of the Lebanese economy and social security plan which are relevant to the object of this study.

A. Structure of Lebanon's Economy

It has become customary to label different countries as either economically developed or backward. Lebanon, qualifies under the latter category but its economic problems are not only those or all of those peculiar to underdeveloped areas.

In the past 10 - 15 years the Lebanese have succeeded in developing their economy to the point of attaining the highest income per capita in the whole of Asia and Africa, excluding Israel and the Sheikhdoms of the Gulf. National income increased since 1948 and up to 1958 at an average rate of 6 per cent.⁽¹⁾ This increase in the national income caused the income per capita to rise, though the rate of increase of the population was relatively high, 1.9 - 2.3 per cent.⁽²⁾

(1) Albert Badre, "Towards New Economic Horizons", LES CONFERENCES DU CENACLE, No. 34, March 1960, p. 140.

(2) Former figure is given by Ministry of Interior and reflects adjustment of the difference between birth and death rates by taking into consideration, emigration and the granting of Lebanese citizenship to foreigners. The latter figure is the rate adopted for population figure projections by IRFED - abbreviation for - Institut International de Recherche et de Formation en vue de Developpement Harmonise.

Presently, it appears from income per capita statistics (1) that Lebanon has already entered the stage of economic development when the process of growth becomes self sustaining. One cannot help but wonder whether Lebanon's social and economic development will follow a smooth upward trend or meet with hindrances because of special circumstances?

The Lebanese economy is characterized by two particular features, which are the result of economic trends that have been largely responsible for past prosperity and are, today, cause for alarm. It is contended that the structure of the Lebanese economy as it stands with its inheritance from past trends has come to be unfavorable for future economic development at a rate that would insure higher standards of living, or even maintain the level of living already attained. (2)

Viewing the distribution of income and employment as illustrated in the following table, one can draw a picture of the relative importance of the

TABLE I
DISTRIBUTION OF INCOME AND EMPLOYMENT (1956)

	<u>Employment (Percentage)</u>	<u>Income (Percentage)</u>
Agriculture	50	15
Industry	11	15
Construction	8	4
Commerce, Finance & Rent	14	46
Transport	5	5
Government	4	7
Other Services	8	8
	<u>100</u>	<u>100</u>

(1) By 1950 income per capita was about \$250. Today estimates vary between \$320 - \$340.

(2) Yusif A. Sayigh, "Lebanon: Special Economic Problems Arising From a Special Structure", Middle East Economic Papers, 1957, p.

(3) Higgins Report (Typescript), p. 3.

different economic sectors especially because no substantial variations in these relative figures have taken place since 1956. The most striking fact with respect to income distribution, as between the different sectors of the economy, is the overwhelming contribution of the trade, services and financial sector to the national output. Whereas these sectors create about 2/3 of the national product, the commodity producing sector of the economy (Industry and Agriculture) yields half that much. In no other country is such a situation witnessed. This is not to say, however, that having a unique sectorial distribution of income is per-se bad. It is a cause of alarm for Lebanon because of the probability that it will exercise, in the light of economic trends in Lebanon and neighboring Arab states, a repressive effect on future development. In order to unveil the reasons that prompt one to think in such a pessimistic manner it is necessary to cast a look on the evolution of this lopsidedness in the Lebanese economy.

Lebanon is poor in agricultural resources and has no mineral resources to speak of. The Lebanese, however, in their efforts to raise their living standard capitalized on a comparatively advantageous geographical position, and most importantly, on their resourcefulness. Faced with a small market in a small country and cognizant of Lebanon's advantageous geographical position for carrying on trade and services for other surrounding countries, the Lebanese directed their trade and services to foreign markets (mostly Arab markets) and met with great success.

Many factors contributed to the success of the Lebanese role. It is not our purpose to review these factors in detail but it is essential to note that the strength of their effect in promoting Lebanon's economic activity is

dependent on choices in the grasp of the countries, which together with their residents have depended largely on, and thus promoted, Lebanon's trade and services. Of late a trend towards self-sufficiency has set in in this part of the world and is gaining momentum at an accelerated rate. By its nature such a trend is liable to exercise an adverse effect on Lebanese endeavors by limiting their traditional sphere. The development of Aqaba, Latakia and Basra ports was due partly to a desire by Jordan, Syria and Iraq to rid themselves of the practical monopoly which Lebanese brokers and transit operators exercised over a sizeable portion of their foreign trade.

Aside from external trends imbued with threats to the development of the trade and services sector of the Lebanese economy, these sectors seem to be also very allergic to internal strains. It is estimated that the national income dropped by 12 per cent in 1958 from its 1957 level, due to the disturbances that occurred in that year. The rate of decrease in income arising from the trade and services sectors, however, exceeded by far the general rate of decrease. These sectors suffered a loss of one quarter of their income, whereas the commodity producing sectors witnessed a drop that amounted only to 6 per cent. (1)

In addition to dubious future prospects of growth, the trade and services sectors contributed, and still contribute, to a maldistribution of income. This is because the share of profits in the income of these sectors is relative high and that of wages rather low as is clear from the following table.

(1) Badre, Ibid., p. 138.

TABLE II⁽¹⁾

SHARE OF WAGES, RENT, PROFITS
AND INTEREST IN THE SERVICES
AND TRADE SECTORS

	<u>Services</u>	<u>Trade</u>
Wages	38 percent of total	10 percent of total
Rent	14	5
Profit and Interest	48	85

The disproportionately large share of profit and interest in the trade sector, which alone accounts for 28 - 30 percent of the national income, needs to be modified, in so far as part of the earnings considered as profits represent the opportunity costs of family employed members. "However, the fact remains, even after due adjustment, that the share of wages is very small as compared with that of profits, or with wages in industry and construction."⁽²⁾ The same is true, though to a lesser degree, of the services sector. Moreover, the trade, services and financial sectors are much less labor intensive than the industrial, agricultural and construction sectors. By this is meant that for equal amounts of value added labor's role and reward is much greater in agriculture and industry as compared with the other sectors. This further intensifies the maldistribution of income occasioned by too much dependence on trade and services producing sectors to the detriment of the commodity producing sectors. Thus, according to estimates (See Table I), 27 percent of the working population

(1) Data secured from Yusif A. Sayigh's Economic Development of Lebanon, Its Prospects and Problems - (Typescript) Baltimore, 1955, p. 20 and 28.

(2) Yusif A. Sayigh, "Lebanon: Special Economic Problems Arising from a Special Structure", Middle East Economic Papers, 1957, p. 78.

employed in the trade, services and financial sectors derive about 60 percent of the national income, whereas about 69 percent of the working population employed in industry, agriculture and construction, earn some 34 percent of this income. It is evident that great unevenness in the distribution of income exists between different sectors. As we have witnessed before, there is also within the high income earning sectors a distribution prejudiced against wage earners and favoring the relatively few profit earners.

Under such circumstances where a small fraction of a relatively small minority earns the larger absolute share of income, the evil consequences of vast differences in the distribution of income were apt to emerge, unless the fiscal system, was such as to exercise a balancing effect. Rather than ameliorate the present unfair distribution, the Lebanese fiscal system accentuates it because "Indirect taxes play the most important part in the public finance of Lebanon. The commodities taxed are largely necessities. This reflects the emphasis laid on tax yield with little regard to the unfavorable effect on cost of living, and distribution of income. The very high taxes on inflammables (Kerosene and benzine) and tobacco provide a good illustration of this policy."⁽¹⁾ On the average indirect taxes account for 2/3 of total tax receipts, which in turn amount to about 87 - 90 percent of total revenue. Receipts from the income tax, the most important of direct taxes and a device originally intended for redistributing income in favor of lower income groups, have on the average, ranged between 9.5 - 10.5 percent of total revenue. The redistribution effect of the Lebanese income tax has been minimal because: aside from its very low

(1) Raja S. Himadeh, The Fiscal System of Lebanon (Beirut: Khayat's, 1961), p. 25.

proportion to total revenue as compared with most other countries, the inefficient manner of its collection leaves the greater part of its burden to fall on salaried employees and wage earners. This in turn means that consequential adjustments in the distribution of disposable income resulting from the collection of the income tax are mostly of a horizontal nature, which type of change in distribution is much less effective than vertical distribution - distribution as between higher and lower income groups - and for that reason, is less desirable in a country like Lebanon where income inequalities are great.

In addition to all the above factors militating against a higher level of economic welfare for the greater mass of the Lebanese a more subtle but no less effective force has been operant since 1955. As of that year the cost of living has been rising. The effect of higher prices was felt most by members of the lower income groups. A cost of living study made by the Economics Division of UNRWA early in 1955 and extended to 1959, utilized three different consumers spending patterns based on level of income: L.L. 100 - 150; L.L. 225 - 275; and L.L. 450 - 500 per month. The rise in the cost of living for each of the three groups, taking 1955 as the base year, show successively the following figures for 1959: 115.5 for the lowest income group, 112.8 and 108.0 for the two higher income groups. ⁽¹⁾ Estimates for the rise in the cost of living up till the end of 1961 for the lowest income group stand at 123.0. It must be noted that rent was not "weighted" for the lowest income group as most of its members' housing accommodations were provided by UNRWA. It is the opinion of the writer, that even if rentals were given a weight for the lowest

(1) UNRWA's - Position Classification and Compensation Survey (an unpublished report prepared by the Department of Political Studies and Public Administration) p. 10 and Appendix No. 3.

income group, this would not alter the present picture, as important changes in rents which occurred during the period of the survey, related to rentals of ultra-modern apartments, which are, by virtue of the exorbitant rates charged for them, outside the scope of capability for the absolute majority of those covered by the study.

The significant conclusion remains; the rise in the cost of living index has burdened greatly those who can bear the burden least. During an interview in the month of August with an official in the Ministry of Social Affairs, the writer was informed that preliminary surveys to determine the average wage in the district of Beirut revealed that it is about L.L. 170 - 190 per month. It is evident, therefore, that most of those provided for by the social security plan - since in its first stage it will be extended, with few exceptions, as we shall see later, only to those employed in non-agricultural enterprises - fall within the income earning range that has suffered foremost from rises in the cost of living. Budgetary deficits, and a great increase in loans and discounts, the greater share of which went to the private sector, contributed towards accentuating the trend of rising prices. The numerical magnitudes of these developments are illustrated in the following table.

TABLE III(1)

BUDGETARY DEFICITS AND LOANS AND DISCOUNTS (IN MILLIONS OF L.L.)

<u>Year</u>	<u>Budgetary Deficits</u>	<u>Loans and Discounts</u>
1956	26.7	513.0
1957	38.6	600.0
1958	58.9	613.0
1959	75.0	743.0
1960		996.0

(1) Data secured from (a) Higgins report (Budgetary Deficits up to 1959), (b) Bulletin Statistique Trimestriel, and (c) Ministry of National Economy.

Fiscal policy effected through taxation and expenditure cannot play a decisive role in fulfilling major economic objectives unless supported by monetary policy. The latter's functioning depends on a properly operating government-controlled central bank. In Lebanon there is no such institution. The issue of currency and the role of state bank are performed by a private bank. Anyone acquainted with economics will realize that this is a queer situation indeed. Private banks, because of having to play safe, lend easily when prospects are good and limit credit facilitation when depression looms ahead; central banks ought to function so as to check these more commercial tendencies. Aware of the need for a central bank the Lebanese government has drawn up plans for establishing one as of 1964; but until then effective control over availability of credit whether for stimulating the economy, or combatting inflation will be difficult to achieve.

Before moving to the discussion of the situation of Lebanon's balance of trade and payments, a word of caution is necessary. The evaluation of the sectorial distribution of income revealed many liabilities peculiar to the trade and services sectors. Yet one should not conclude that these sectors are presently totally without assets promising further development. Tourism as a productive enterprise which is essentially dependent on services has received little serious attention till very recently. As a result, income from tourism has been far less than it can be. The authorities have now established a special board for promoting tourism.

There is another particular feature of the Lebanese economy with far-reaching implications that has not been discussed. Lebanon's balance of visible trade has reflected consistently a ratio of 5 - 6/1 to the advantage of imports

over exports.⁽¹⁾ One would expect, under such circumstance, the value of the Lebanese pound to depreciate in terms of other currencies. Instead, there has been a marked tendency for the Lebanese pound to appreciate in terms of other currencies. Whereas in 1950 L.L. 3.47 exchanged for \$1, the rate of exchange in August 1961 had dropped to L.L. 3.05 to the dollar. Obviously then the demand for Lebanese pounds during this period has exceeded the demand for foreign currencies in terms of Lebanese pounds.

In summary, despite the great deficit in the balance of trade, the more important index of the balance of payments has continuously yielded a surplus. Is this situation likely to continue or not? It is contended "that the trade deficit was met roughly half from sales of services and half from net capital inflow, including foreign aid, emigrant remittances, and other donations".⁽²⁾ We have already discussed the threats to future development inherent in the services sector and it only remains, if we are to answer satisfactorily the above question, to enquire about the likelihood of continuity of demand for Lebanese pounds on account of net capital inflow.

Taken individually the constituents of net capital inflow do not seem to promise continuity. Foreign aid and donations of the kind cited, are vulnerable in so far as they are dependent on decisions taken by non-Lebanese governments and institutions. The more it becomes apparent to concerned governments and institutions that Lebanon can, through a more efficient utilization of its resources, provide for its growing needs, the harder it will be to persuade

(1) For exact figures see: Development of the Lebanese Economy 1959, (Beirut: Chamber of Commerce and Industry, 1959), pp. 102 - 103.

(2) Higgins, op. cit., p. 3.

them to maintain their contributions. There are signs that an awareness of the sort is developing.

Emigrant remittances are currently a very important source of demand for Lebanese pounds. It is estimated that Lebanese emigrants, other than those employed in Arab countries, number about 1,134,040. Estimates of the latter group reach the 70,000 figure.⁽¹⁾ Because many of the countries in which Lebanese emigrants are concentrated, especially in Africa and South America, exercise exchange control, and due to the loosening strength of ties between Lebanese residents and emigrants, the contributions of the latter have been dwindling and are likely to continue following an accelerated downward slope. The Lebanese employed in Arab countries have, probably, contributed more in terms of absolute amounts of money than did other emigrants. Such a statement needs qualification if it is to have any merit. Two reasons comfort one who passes such an assertion: First - Lebanese emigrants to Arab countries have gone there lured with the hope of making quick money, and never with the intention of permanent residency. Second - The Arab countries enriched at short notice and very meagerly equipped with human skills and knowledge necessary for advancement demanded these in great quantities and paid those equipped with requisite qualities handsomely.

Thus Lebanon's emigrants to oil-rich Arab countries, were mostly skilled and semiskilled individuals who received high wages and secured substantial profits. Intending to come back to Lebanon, they saved as much as they could and poured it into their home country. Of late employment opportunities for

(1) Figures presented as a summary of IRFED findings. "Al-Nahar" newspaper, issue No. 7781, April 23, 1961.

foreigners in oil-rich Arab countries have been narrowing. For all the above reasons it seems that, in the absence of an organized emigration policy, emigrant remittances from Arab countries and elsewhere, will play in the future a less substantial role in buttressing Lebanon's economy than they have done up till now.

For our purpose we need to comment finally on the flow of capital occasioned by wealthy non-Lebanese seeking the security of their fortunes in Lebanon. Most of the capital inflow into Lebanon comes from neighboring Arab countries since policies oriented towards self-sufficiency in these countries serve to leave foreign non-Arab investors with limited opportunities for productive investment in Lebanon, due to the limitedness of its market. The flow of refugee capital is liable to decrease as restrictions on capital movements are imposed in the countries which have been mainly responsible for allowing the free channelling of capital into Lebanon. Aside from uncertainty attached to future continuity of capital inflow the pattern of its employment has not contributed to economic stability in Lebanon. It is characteristic of refugee capital that it does not seep into ventures entailing commitments for relatively long periods of time. Therefore, most of the capital flow into Lebanon from the Arab countries has tended to be employed in the purchases of real estate, and of late in the services sector. Whatever was not invested took the form of demand deposits allowing banks to extend credit but only of the kind that could be secured at short term notice - loans and discounts to private sector. However looked at, therefore, the type of capital inflow, that has upheld the value of the Lebanese pound in exchange, and its pattern of employment, has not been conducive to greater economic stability, but rather accentuated the present

unfavorable trends - inflationary tendencies and too much dependence on the services sector.

Though closing the gap on Lebanon's trade balance has the virtue of upholding the value of its pound in exchange, surpluses in the balance of payments have caused it to be overvalued. In turn this encouraged import trade and militated against further growth of the commodity producing and services sectors.

There are going to be on the average thirty four thousand more individuals in Lebanon per year.⁽¹⁾ Even if we allow for the school leaving age reaching a higher average because of further development and for emigration at the rate it has attained in the past ten years,⁽²⁾ some 11,000 individuals per year will have to be provided with employment opportunities. The agricultural sector is already burdened with too many people for its resources and thus suffers from underemployment. Only 27 percent of Lebanon's area is cultivated and as much cultivable but at costs that are near prohibitive. There are opportunities for increasing irrigated area, which improvement however, would still leave the agricultural sector unable to support 50 percent of the population without suffering from unemployment. Unfortunately "it does not seem likely that the economy in its present form can provide the 11,000 new jobs needed annually to absorb the growth in the labor force, and permit a gradual improvement in agricultural techniques by withdrawing surplus population from land".⁽³⁾

(1) Estimate is provided by Higgins and can be deduced from figures by IRFED concerning total population in 1959 (1,626,000) and rate of increase 2.3 %.

(2) Between 1951-60 inclusive 26,944 emigrants left Lebanon. In other words, the yearly average of emigrants has been about 2,700. Data supplied by Lebanese Bureau of Statistics.

(3) Higgins, op. cit., p. 97.

Direct and indirect intervention by the Lebanese government to orient Lebanon's economic order according to defined objectives has been minimal. Consequently, "the unbridled capitalism of Lebanon has left many people inadequately housed, clothed and fed, and public health and educational facilities are not on a satisfactory level for the majority of the people".⁽¹⁾ For various reasons it was one religious group, namely the Christians, that benefited most from Lebanon's economic and social development in the past few years. Members of other religious groups, naturally desired to share in this improvement. Their past experience implied to them that the best way to make government responsive to their demands, was to present these demands in sectarian forms. Calls for diffusion of economic welfare acquired accordingly a very touchy character. For the preservation of unity and maintenance of democracy, it has become increasingly important for the Lebanese government to intervene wisely and judiciously in order to insure continuity in the increase of production and better distribution.

B. Desired Objectives

The problems of the Lebanese society are receiving much attention by concerned organizations. Expert opinion and effort has been increasingly relied upon for diagnosis and suggested remedies. In the preceding part of this chapter an attempt was made to illustrate the Lebanese scene and indicate important variables therein. Today, Lebanon aspires to maintain the rate of economic progress it has enjoyed recently and wishes at the same time to achieve greater diffusion of benefits by reducing present social and economic inequalities between its different groups.

(1) Ibid., p. 35.

If we superimpose upon the overall objective the particular features of the Lebanese economy, it becomes clear that this objective represents the crystalized form of a cluster of more defined objectives. It is important, therefore, that we take a look at the subdivisions that go to make up the overall objective.

1. It is necessary that Lebanon should decrease its dependence on the trade and services sectors as contrasted with commodity producing sectors. The shift to a goods rather than trade and services producing economy should not be at the expense of the latter. What is desired for these is a lesser relative share in the national output while at the same time yielding a higher absolute share. There are promising and as yet untouched prospects in the services sector, especially in tourism. In summary, the prospects for further development seem to look much brighter if greater reliance on industry and certain forms of agriculture develop.

2. Government intervention in orienting economic affairs should be increased to the minimum degree necessary for such intervention to exercise catalytic effects on the process of development, taking into consideration the requisite that 11,000 new jobs be created yearly in order to relieve the agricultural sector from part of the widespread unemployment, leading to low productivity, and to meet the rate of increase in population.

3. A wider diffusion of Lebanese prosperity and a more equitable distribution of income are required for they provide the pillars on which social and political stability and thus democracy, can be maintained.

4. Lebanon's public finance system, if greater economic welfare is to be within the reach of most of the Lebanese, must be radically altered.

a) The main constituents of revenue should exercise a progressive effect on the distribution of income. The present tax structure which accounts

for absolutely the greater bulk of revenue and is highly regressive, has to be altered thoroughly by reformatory changes to exercise an opposite effect.

b) Expenditures on social welfare projects should be substantially increased. This implies that aside from the required change of the character of the tax system it has to be revised for yielding more revenue to meet necessary higher expenditures. In this connection, Mr. Raja Himadeh says in his earlier cited work: "If, however, larger amounts " - larger than has been the case up till now - "are to be spent on economic and social development a more fundamental revision of the tax system, including the establishment of new taxes, becomes necessary".⁽¹⁾ Whether social security is enacted or some other social development plans deemed to be more essential, the alluded to increases in taxes have to receive legislative enactment and proper collection.

5. In framing new taxes and adjusting the tax system attention has to be given certain primary factors. Tax changes should not stifle individual initiative, but rather attempt encouraging investment in desirable channels. At no rate are new taxes or changes in the tax structure to reduce disposable income available to members of middle and low income groups, thus causing them a loss of economic welfare.

6. Lebanon's public finance system has to reflect a cognizance of the importance of compensatory policies for combatting ensuing inflations and depressions.

At a time when our government is becoming more aware of the importance and difficulties attached to fulfilling these objectives, a social security draft

(1) Op. cit., p. 106.

plan has been submitted for discussion prior to enactment. It is our purpose to assess the impact of enacting the proposed scheme on the desired objectives. For this we need to know the main features of the plan as well as the historical background that shadows its origin. Starting with the latter aspect we shall proceed with the discussion.

CHAPTER III
THE LABOR CODE AND THE PROPOSED
SOCIAL SECURITY PLAN

This chapter includes a summary of the main features and benefits of the social security draft plan and how these compare with provisions of the labor code. As our interest centers on economic issues, administrative considerations are given little detailed attention. A short historical note precedes and introduces the discussion to follow.

A. Historical Note

Social security, as a policy to be followed in Lebanon, was first mentioned in the Labor Law of 1946. In the section (Article 54) dealing with Workman's Compensation, explicit mention of the temporary character of this measure is made pending enactment of a comprehensive social security scheme.

In 1949 Professor William Robson, an expert on social security, was asked to conduct a study concerning possibility of enacting social security in Lebanon.⁽¹⁾ After exploring the availability of financial and administrative resources for executing a reasonably comprehensive social security scheme, Professor Robson concluded that it was impossible for Lebanon to have such a scheme, especially because of the administrative inefficiency.

Six years elapsed before social security received renewed attention. A French expert in social security, Dobbernack, in his capacity as a member of the technical staff of I.L.O. drafted out a plan for social security in Lebanon.

(1) Ralph Crow and Adnan Iskandar, "Administrative Reform In Lebanon, 1958-1959", International Review of Administrative Sciences, Vol. XXVII, 1961.

His plan was shelved until the wave for administrative reform in 1959 brought with it a strong desire for exploring social security possibilities in Lebanon. Dobbernack's plan was reviewed by the Committee of Work of the Ministry of Social Affairs. Later this committee submitted the proposed plan to the various organizations representing groups covered by the plan to make their observations on the scheme. It was hoped that resistance to the proposed social security plan would be minimized if concerned organized groups participated in reviewing the plan.

Since 1959, continuous discussion has centered on the proposed plan. Proposals from concerned groups and suggestions by the Work Committee for revisions, additions, and amendments have changed the originally proposed plan beyond recognition. Presently, a more or less agreed upon form of a plan is being reviewed by Members of the Cabinet in order to submit it to the Legislature. It is possible, and even probable, that certain changes will be introduced in the plan by the "Parliamentary Committee On Work and Social Affairs", and later by Parliament after open discussion of the plan.

Irrespective of these prospects it is my belief that the proposed social security plan has achieved a degree of stability that makes possible an evaluation that can prove of some lasting use. Consequently this and the following chapter are based on the provisions of the plan as they stand at the time of the writing of this paper. (1)

B. Main Features

As proposed the scheme entrusts to an autonomous body called the National

(1) March 1962.

Social Security Fund (hereafter referred to as the Fund) the task of administering the social security scheme when put into operation. The Fund will have a Board of Directors responsible for its general policy and composed of eleven members: four labor representatives, four management representatives, and three government representatives. A technical commission made up of three experts will advise the board on all technical matters. Its role, however, is purely advisory, with no executory powers or functions attached to it. In addition to these organs the Fund shall have a general secretariat including the rank-and-file and other personnel which will be responsible for administrative work. A General Director, elected by Members of the Board, will head the General Secretariat.

Though the Fund is given an autonomous status, its Board has to secure the approval of the Cabinet and Ministry of Social Affairs in relation to specified functions. All the Fund's operations, moreover, are subject to post-audit check by the "Bureau of Accounts".

The Board has to secure the approval of the Cabinet for:

1. Investment of Fund's resources according to certain plans.
2. Purchase or sale of immovable property where its value exceeds that prescribed in the by-laws of the Fund.

Also the Board has to secure the approval of the Ministry of Social Affairs on:

1. The by-laws of the Fund and personnel schedule, and
2. budgetary requirements especially in relation to Administrative expenditures.

Benefits:

Four types of benefits are included in the proposed plan:

1. Sickness and maternity insurance.
2. Work accidents and professional diseases insurance.
3. Family allowances.
4. Retirement Pensions.

Only one of the four kinds of benefits is totally new to social legislation in Lebanon. Other than sickness and maternity insurance all the three remaining benefits were stipulated for in the Labor Code. We shall witness later, however, as each of the four benefits is reviewed thoroughly, that differences in content exist between the three benefits already introduced in Lebanon as they are now, and as they would be if social security becomes operant.

Coverage:

It is proposed to put the plan into effect in two stages. The first starts after a maximum of eighteen months following the promulgation of the proposed plan. Beneficiaries covered in the first stage are:

- A. All permanent, seasonal and temporary wage-earners and employees, including apprentices and probationers employed in non-agricultural establishments (excluding those employed with a foreign institution on the basis of a foreign contract).
- B. Domestic servants, covered only by health and maternity insurance.
- C. Agricultural workers only in case of accidents arising from use of a machine run by non-manual or animal power.
- D. Government and public organizations' employees covered by health and maternity insurance as well as work accidents and professional diseases' insurance only.

In the second stage, which will commence at a later date, yet undetermined,

and to be set by Government decree, all agricultural wage-earners and employees will be included in the scope of social security. Special legislation, it is mentioned, will be passed to cover self-employed individuals.

Financing:

Employees, employers and government, contribute for the health and maternity insurance fund. Government's contribution shall amount to 25% while labor and management will contribute equally the remaining 75%. Contributions for the remaining three benefits or branches of the social security draft plan fall on employers alone. These are expected to pay contributions to be fixed in proportion to the total taxable salaries of their employees. "Taxable salary is defined to include all earnings paid by the employer to the worker whether in money or in kind, including payment for overtime as well as payment received by the worker from a third party."⁽¹⁾

Rates of contributions to the Fund are not determined until now. It is indicated in the proposed scheme that after collection of necessary statistical data, rates will be fixed by a special decree. Each of the four branches of social security will have an autonomous budget and must balance between its resources and expenditures. In chapter four a detailed discussion of financial implications clarifies many issues relating to this important aspect of social security.

Before examining the four branches of the social security plan certain observations on its general features are in order. Previously it was indicated that the scope - coverage - and the purposes - benefits - of a social security

(1) Elias Saba, "Social Security in Lebanon; a Blessing or a Curse", Middle East Forum, April 1961, p. 28.

plan depend on availability of financial and administrative resources in the particular country. In Lebanon this general principle has been followed, and adaptation of the proposed plan to conform with the possible dictated limitations of its coverage and purposes. By turning to Chapter I and reviewing the difficulties involved in operating an extensive social security scheme, reflection on the proposed plan and present conditions in Lebanon reveals that it has been well trimmed to fit Lebanon's endowments.

Administration of a social security scheme requires great skill and thorough acquaintance with theoretical principles involved. Despite a relatively high standard of education in Lebanon, academic versatility in principles of social security is very slight. Moreover, practical experience in administration of security benefits is limited to a very small number amongst staff members of the Ministry of Social Affairs who supervised the application of Labor Law provisions which included three of the four benefits provided for in the proposed scheme.

Giving the Fund an autonomous status, both administratively and financially, would enable it to attract more qualified personnel than if it were to be restricted by the government's wage scale. Individuals with adequate backgrounds for learning in a short period of time social security techniques and principles, require higher salaries than the government's scale would permit. Limiting the Fund's autonomy with respect to particular matters, pending approval by the Cabinet or Ministry of Social Affairs, and subjecting its operations to post-audit check by the Bureau of Accounts are all measures intended to reduce opportunities for fraudulent behavior and to ascertain putting to productive use the financial resources available to the Fund.

The choice of health and maternity insurance as the only completely new

introduction in social legislation in Lebanon is very wise. It is undisputable that the need in Lebanon, especially of the members of the employee class, for medical attention is very great. Provision of medical services for a significant sector of the Lebanese will eliminate many minor diseases which detract substantially from the efficiency of wage-earners. Lack of provision for unemployment is conspicuous but understandable and justifiable - contrary to what most labor representatives assert.⁽¹⁾ Unemployment cannot be provided for in social security schemes of underdeveloped countries. By definition, in such places structural unemployment exists and relief measures while barely potent in meeting present needs are decidedly fatal in the long run. The inclusion of unemployment benefit plans in social security schemes is, from the historical point of view, very recent. In Western European countries unemployment benefits accompanied the opening up of employment opportunities as a result of rapid growth in their national incomes. Rather than spend on supporting the unemployed, underdeveloped countries should use available resources for creating employment opportunities and increasing national income. It might become possible at an advanced stage in economic development to provide for unemployment, but certainly this stage seems distant at the moment for Lebanon.

Rural population has been excluded from the scope of the scheme, though the agricultural sector is the lowest income earning sector in the Lebanese economy and supports about half the population. Administrative and financial considerations dictated that provision for non-agricultural employees precede provision for residents in rural districts. Collection of contributions, and

(1) Lecture delivered by Mr. George Sakr, President of Syndicate for Mobil Oil Employees, on January 25, 1962, to members of the Y.W.C.A.

distribution of benefits is much easier in the non-agricultural sector. At the same time, communal cooperation for satisfaction of basic needs is more widespread in the agricultural sector as compared with the non-agricultural sector. Finally, the ratio of employers and independent workers in the agricultural sector is relatively high, about 68%.⁽¹⁾ Employers and independent workers as a group are included last in the scope of social security schemes because of special administrative difficulties that have to be encountered in their case.

C. Sickness and Maternity Benefits

This branch covers all sickness, other than the consequences of work accidents, and all non-professional sickness. It includes also maternity care before, during and after delivery. Coverage of this sector extends to the following dependents if they live with or are supported by the insured.

1. Wife of the insured (only one wife is provided for irrespective of the possibility of having more than one).
2. Husband of the insured if he is sixty years old or unable to support himself because of physical and/or mental defects.
3. Adopted and legal children of the insured until they are sixteen years old if they are out of school, while coverage continues until the age of twenty five if children continue their schooling.
4. Parents of the insured in case they are sixty years old or more or if unable because of physical and/or mental defects to support themselves.

Benefits conferred in this branch of social security are of two types: medical treatment and a sickness or death indemnity payable in cash. The insured,

(1) IRFED Findings, op. cit.,

or any of the beneficiaries enumerated benefit from this fund only if they are not entitled to receive benefits from the occupational diseases and work accidents fund. Moreover, the insured should have contributed to the fund for a minimum period of three months, in case of sickness, and ten months in case of maternity, before being entitled to receive prescribed benefits.

Medical treatment in case of sickness includes general practitioner's treatment, X-rays and laboratory tests, specialists' treatment when necessary, dental treatment, and hospitalization including surgical operations and necessary pharmaceutical products. Prenatal treatment, treatment during delivery and post-natal treatment including pharmaceutical products and hospitalization are extended in the case of maternity.

Basically medical treatment will be forwarded for twenty six weeks that can be extended to thirty nine and fifty two weeks in special cases. All qualified doctors, dentists, mid-wives and medical institutions that accept the Fund's fees, yet to be prescribed, are to provide the required treatment.

Between the fourth and the thirtieth day of sickness the insured receives 50% of his wage if he rests at home and 25% of his wages in case of hospitalization. These ratios are raised to 75% and 50% respectively as of the thirty first day of sickness. In the first three days of sickness neither the Fund nor the employers pay the sick employee any part of his wage or regular earnings; but he has the right for medical consultation. In case of maternity an insured employed mother receives two thirds of her wage for a period of sixty days. In case of death of an insured person a total amount of L.L. 200.00 is given to the person or persons responsible for paying the funeral expenses of the deceased.

Much controversy has centered on this newly introduced branch of social

security in Lebanon. Some claim that when compared with provisions of the Labor Code the benefits included in this branch demonstrate a regressive tendency. It is claimed that the Labor Code does not deduct 50% of the wage of the insured (as does the proposed scheme between the 4th and 30th day of sickness) except after a period of four to eleven weeks depending on the length of previous employment of the insured with the respective institution he is working at. As most sick-leaves are occasioned by colds and similar diseases and continue for a short while, complete absence of compensation during the first three days of sickness is very detrimental to the interests of workers. Moreover, presently employees do not contribute anything for health insurance while they will have to contribute a certain fee, yet undetermined, to be covered by social security. Consequently some labor representatives argue, the only new introduction in social legislation constitutes a regression when compared with the law in operation.

Those who endorse this logic seem to forget that the proposed scheme provides for medical treatment, pharmaceuticals, and even surgical operations to all members of the family of an insured person. Moreover, they do not indicate that according to the labor law employees are not entitled to any sick-leaves with compensation unless they have been employed for a minimum of two consecutive years with the same institution. When it is considered that parents of employees by and large need help as they age; and that they settle with their children who have to pay for their medical and other needs and even for their burials, it becomes clear that health insurance reduces the burden of employees greatly.

In addition, it is well known that birth rates amongst employees' families are high. The proposed scheme offers every woman married and living with an

insured employee adequate medical treatment. In the present labor law, maternity benefits relate to married employed women only, who incidentally are very few, since such provision in the law exercised a limiting effect on employment openings for married women.

Many express the fear that the Medical Association would not respond favorably and support the proposed scheme. Such an attitude is not unfounded. Most professional associations of medical doctors opposed initially the introduction of social security schemes, but have been persuaded to change their position. It became clear to the Medical Associations in western countries that demand for medical services is highly elastic. In a country like Lebanon, where diseases are more widespread than in western countries when these introduced social security, it is to be expected that fixing a reasonable rate of pay by the Fund for doctors services will cause a great expansion in demand for medical services. Responsible personnel⁽¹⁾ of the Lebanese Doctors Medical Association feel it is possible to reach agreement with the Fund on a reasonable fee to be charged and a method to avail beneficiaries from the scheme of the services of well qualified doctors.

In case doctors agree to the proposed plan there remains the question of extremely high prices charged for medicines and possible collaboration between medical doctors associated with the Fund and importers of medicines and pharmacists to exploit this situation. The question of mal-pricing practices in the field of medicines has received detailed attention. Various price

(1) Dr. Afif Mufarej, President of the Association has expressed this opinion in response to a question forwarded by the writer. See "Panel on Social Security", al-Raid al-Arabi, Nov., 1961.

regulation schemes have been devised and implemented without drastically altering the present picture which clearly reflects mal-pricing practices. The proposed social security scheme reflects an awareness of the need to provide medicines for those who need them at reasonable prices. In pursuance to this end, Article 22 of the proposed scheme states:

- "1. The Fund can, subject to legal provisions organizing the practice of medicine and pharmacy, erect or establish or operate medical and/or pharmaceutical centers
2. The Fund can import directly what it needs of pharmaceutical, medical and surgical products and equipment.
3. The Fund can, by agreement, delegate responsibility for medical treatment to any employer, fictitious or ordinary person, who has the required means, approved by the Fund, for providing the necessary treatment."

Underlying Article 22 is the desire to counteract the power of few wholesale importers of medicines in Lebanon who seem to manipulate prices in agreement with each other, especially as no important pharmaceuticals are produced locally. If the Fund chooses to utilize its rights according to the terms of the law it can exercise a countervailing power in opposition to the up-grading of prices for medicines. Consequently, prices of medicines would have to fall generally in response to the Fund's competition in this field. Mr. Farid Jubran, member of Parliament, and chairman of the Parliamentary Committee on Work and Social Affairs, proposed a plan to nationalize importation of medicines. Now he sees (opinion expressed privately to the writer) in the proposed social security scheme a useful plan that might, amongst other benefits, fulfill the objects of

a nationalization scheme while being clear of the stigma of nationalization.

All the above discussion, if one is to forget for the moment about costs involved, relating to sickness and maternity benefits in the proposed scheme and how these compare with benefits of the labor code leads to a clear conclusion, namely that irrespective of expressed fears, it seems that the proposed scheme promises, for those covered by it, great social and economic benefits in excess of what present legislation provides.

D. Work Accidents and Occupational Diseases

This covers all work accidents and professional diseases which cause sickness, temporary incapacity resulting in interruption of earnings, complete or partial incapacity, and death.

The benefits conferred are:

1. Medical treatment of sickness on comparable bases to provision under sickness and maternity benefits.
2. An accident indemnity in case of incapacity amounting to 75% of average daily earnings and reduced to 50% in case of hospitalization. This indemnity is paid as of the day following an accident and until recovery.
3. An incapacity pension paid at the annual rate of two-thirds annual earnings in case of permanent complete incapacity; and at varying proportions corresponding to degree of permanent partial incapacitation, unless the degree of incapacitation is deemed less than 15% whence a lump sum is paid to the one so incapacitated.
4. Death resulting from a work accident or disease caught because of work, entitles heirs to a survivor's pension paid at the rate of two thirds of the annual earnings. A lump sum of L.L. 200.00 is also paid for funeral expenses.

Annual payments though based on two thirds of the annual earnings cannot exceed L.L. 4800.00.

Like all other branches of the social security scheme, this branch shall have an independent fund contributed to solely by employers. Compared with provisions for work accidents and occupational diseases in the labor code, the benefits of the proposed scheme are superior. Whereas Legislative Decree No 25 E.T. of May 4, 1943, which has set the principles of compensation for work accidents, related only to few industries considered dangerous,⁽¹⁾ the proposed scheme covers all non-agricultural establishments. Hence, scope of this branch in the proposed scheme is much more comprehensive in terms of enterprises and consequently persons, than previous provisions in the labor code. The proposed scheme covers even agricultural employees under certain circumstances. None of the material benefits previously provided is reduced by the proposed scheme while the number of those who benefit from provision against work accidents is greatly increased by virtue of extending these benefits to a great number of enterprises excluded from the domain of the law before, and to a greater number of circumstances. According to the proposed scheme an accident which happens to an employee, on

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- (1) Article 2 of Legislative Decree No 25 E.T. enumerates the following kinds of establishments subject to its provisions:
1. Mines and quarries.
 2. Construction industries.
 3. Earth excavation and transportation projects.
 4. Forests utilization works.
 5. Land and/or earth transportation with exception of seaborne transportation.
 6. Unloading and loading of freight.
 7. Projects for production and distribution of electricity.
 8. Archaeological excavations.
 9. Every enterprise or part thereof in which explosives are produced or treated and in which a machine operating by non-manual or animal power is used.

his way to and from his work, if he is not diverted from his usual route for private purposes, is considered a work accident. An accident befalling an employee on a mission for his employer, or while attempting to rescue something or somebody in the establishment at which he works is again considered a work accident. Finally occupational diseases were not previously considered a legal basis for securing benefit. In the proposed scheme they are so considered. Finally the schedule adopted for compensating each kind of permanent incapacity, be it total or partial, is superior to the schedules attached to Legislative Decree No 25.

From the preceding comparison it is clear that the proposed scheme provides superior benefits in its work accidents and occupational diseases branch to the labor code. One important point requires further elaboration. Stipulating a maximum annual rate of pay of L.L. 4800.00 might seem justifiable in the light of current prices and the consideration that social security benefits aim to cover a minimum of pressing needs, no more. But prices change and what is thought to be adequate now may become negligible in few years' time as a result of a sharp increase in prices. Consequently it is desirable to link the benefit under consideration to a cost of living index.

E. Family Allowances

An independent fund for family allowances is to be established. Family allowances will be given to insured employees (already singled out in the section dealing with sickness and maternity insurance) and to incapacitated individuals when degree of incapacitation exceeds 50%.

Family allowances fall due with respect to:

1. Every supported child until the age of sixteen or twenty five depending

on whether the child is out of school by sixteen or continues in school. All unemployed, unmarried girls until they are twenty five years old.

2. Every supported child with a mental or physical deformity without any age limit.

3. The wife who lives at home if she does not practice paid work.

Employers alone contribute to the family allowances' fund, and the benefit payments of that fund are not to be less than what the Labor Code provides for.

When comparing family allowances as stipulated for in the proposed scheme with provisions of the Labor Code it is apparent that the new scheme, with respect to persons and to payments of benefits, is on par with the Labor Code for a start. But the manner of contributing to the fund stipulated for in the scheme is an improvement over the working of the Labor Code. Pursuant to articles of the scheme, an employer has to pay his contribution to the fund in the form of a certain percentage of the total wage bill. Consequently, it becomes immaterial to the employer whether he has single or married employees. Presently provisions of the Labor Code work in favor of employing unmarried individuals as employers pay family allowances to employees. A situation which affords married and unmarried individuals similar employment opportunities is considered by many as superior to a situation favoring employment of unmarried individuals only.

One question persists: Is it not undesirable to draw out family allowance schemes in countries where the high birth rate exercises a repressive effect on economic development? The logic of this question would be true in reference to Lebanon especially if an adequate minimum wage is stipulated for and widely abided by. An adequate minimum wage that would cover the needs of a small sized family (an unlikely condition amongst working class families) is not yet

developed. Recent legislation ⁽¹⁾ stipulates for a minimum wage of L.L. 125.00. Family allowances are essential as an additional margin to support the wife and children of a working man, since the minimum wage though raised by L.L. 30.00 for the district of Beirut from its previous L.L. 95.00 level, is still short of the required expenditures of a small family because of the relatively high prices which are still increasing. Moreover, family allowances are granted on a decreasing scale and for five children as a maximum. The total amount paid in the form of family allowances for a wife and five children per month is L.L. 45.00. Until cheap sanitary public housing and schooling at the secondary level are established, and a more adequate minimum wage linked to the cost of living index by a sliding scale is founded, family allowances seem to be justified in Lebanon.

F. Retirement Pensions or Termination of Employment Pay

Until old age insurance is approved by Parliament, a separate fund for the termination-of-employment-pay will be established. The provisions for termination-of-employment-pay apply obligatorily to all permanent, seasonal and temporary wage earners and employees, including apprentices and probationers employed in non-agricultural establishments, who receive employment after the proposed scheme becomes law. Already employed individuals who fall in any of the above categories can choose between two alternatives:

1. Either to remain subject to provisions of the Labor Code concerning termination of employment pay, or
2. Join voluntarily, within a maximum period of three years from the date

(1) Law of May 17, 1961.

of promulgation of the proposed scheme, the procedures adopted for termination of employment pay in the scheme.

Every employee subject to provisions of the proposed scheme has a right to termination-of-employment-pay, in case he or she fulfilled:

1. The requirements of any of the following four circumstances:

a. To have worked for a minimum of twenty five years.

b. Suffered a permanent disability amounting in degree to no less than 50% which prevents the injured from obtaining a different job.

c. Attaining the age of sixty.

d. Marriage - for women - if she leaves her work within twelve months from the date of her marriage.

2. Or in case an insured employee dies, his heirs receive a termination-of-employment-pay equal to what was due to him at the time of death, unless he had been employed for a minimum of ten years, in which case, upon his death, his heirs receive a termination-of-employment-pay equal to no less than twenty months' wages taking the last month's earnings as a base for calculation.

Upon request from the insured, termination-of-employment-pay by the Fund can take the form of pension annuities according to stipulations in the Funds' by-laws. Moreover, in case an insured person becomes eligible to benefit from the proposed scheme for termination-of-employment-pay and refrains from doing so until the age of sixty, while remaining covered by the scheme, the person in question would be entitled to a termination-of-employment-pay at the rate of one and a half his monthly earnings multiplied by the number of years of service completed. This bonus, however, is only correlated to the period of service during which the employers' contributions in lieu of the particular employee was

paid to the fund.

In case an employee, covered by the scheme for no less than five years withdraws willingly from a line of employment before working for twenty years (the period that allows full collection of ~~termination-of-employment-pay~~ from the Fund) he can receive the following rates of payment from the Fund.

1. For a period of contribution to the Fund from five to less than ten years, the employee receives 65% of his ~~termination-of-employment-pay~~ which is equal to the number of years of service multiplied by the last year's monthly earnings.

2. For a period of contribution to the Fund from ten to less than fifteen years, 75% of termination pay.

3. For a period of contribution to the Fund from fifteen to less than twenty years, 85% of termination pay.

Finally, the Fund would give to any person who becomes unemployed while supporting a family, and who had been insured for at least three years, a loan equivalent in value to three months' pay based on the last monthly earnings. The loan will be given in monthly installments over a period of six months. For the first time in Lebanese social and economic legislation, provision for unemployment, though qualified, is stipulated for.

Originally the proposed scheme included stipulation for an obligatory ~~termination-of-employment-pay~~ procedure to be applied to all employees covered by the plan. Already due compensation for all covered personnel were to be forwarded by employers to the Fund. These provisions met with absolute rejection by labor unions who, because of lack of faith in feasibility of the proposed plan and its administration, expressed preference for adhering to the Labor Code's

requirements. Article 54 of the Labor Code reads in relation to indemnity pay: "Until a Social Insurance Fund is prepared and passed, the employer has to pay the worker discharged from service", for reasons to which he has not willfully contributed, "a dismissal indemnity equivalent to one month's pay for each year of service and one half a month if the period of service is less than one year."

The dismissal indemnity cannot exceed the salary or wages of ten months, irrespective of the years of service, for those workers employed in liberal professions, workshops, and for those persons defined in Article 10 of the Code of Commerce.⁽¹⁾

In any social security system it is most important to include an old age pension plan or a substitute for it. This is because of the following two reasons and especially the second:

1. It is important that people who are unable to work any more because of old age be provided for in a comprehensive scheme.
2. An old age pension fund or a substitute device, result, because of their continuous nature, whereby the young of today support the old and will be supported themselves in the future by the young of tomorrow, in the pooling of significant financial resources. These can be used for financing development of projects in underdeveloped countries, or projects that would especially benefit members of the lower income groups.

In response to the latter reason mostly, the formulators of the proposed scheme altered radically the originally suggested plan for termination-of-employment-pay to the form outlined before. Many express fear of the many

(1) Lebanese Labor Code of 1946. (translated by the Legal Department, Socony Vacuum Oil Co., Inc.).

promising sides of the plan as it stands today, suggesting that it is a sweet coat for a bitter pill. How, these people wonder in amazement, is the Fund going to pay those who qualify for termination-of-employment-pay at the rate of 1.5 months' pay per annum of service rather than one month's pay?

The answer is a very simple one: the Fund intends in a similar manner, like other such funds, to use its resources in productive investments that conform with objectives of the Lebanese economy. To this end the Fund encourages all those already employed to join its plan for indemnity pay, and obliges all those who will be employed after the Law goes into effect. In order to have a popular response to this branch of the social security scheme, many progressive (when contrasted with the Labor Code) provisions were included: loans for unemployed family supporting individuals, pension annuities rather than lump sum payment upon request, a bonus of half a month's pay multiplied by the number of years of service, in case certain requirements emphasizing joining the plan are met.

Finally, the termination-of-employment-benefits which the proposed scheme provides for are not limited within the maximum of a ten month's pay to those employed in liberal professions, workshops, etc., as does the labor code presently regulate.

In summary, it seems the termination-of-employment-program of the proposed social security scheme is much more conducive to the welfare of the working population in the non-agricultural sector.

Summary

Comparing the benefits outlined in the proposed social security scheme and those of the Labor Code, it is clear that the former, whether viewed singly in contrast with benefits of the Labor Code or in total, is by far superior. This

is not to say, however, that the benefits of the proposed scheme are definitely a blessing for Lebanon. Before a judgment on the matter is to be passed, we have to ascertain who shall be paying for these benefits, and whether those who are going to pay can afford it. Moreover, it is debatable whether Lebanon can, at its present level of development and with its heritage of administrative inefficiency, enact a scheme of such far reaching implication for economic and social life in this country. We turn to explore these determining questions in the following chapter.

CHAPTER IV

EVALUATION OF THE FINANCIAL INCIDENCE OF THE PROPOSED SCHEME

A. Lack of Statistical Data

One of the most serious objections raised against enactment and execution of the proposed scheme is the failure until now to indicate clearly the levels of contributions to, and benefits from the four autonomous funds corresponding to the four branches of the proposed scheme.

Article 72 of the proposed scheme states:

"1. The rates of contributions will be determined in a cabinet decree, taken in the light of proposals by the Fund's Board. These rates will be in terms of percentages of the income subject to deductions, so that revenue from contributions would cover benefit expenditures, administrative costs and reserve requirements stipulated for in Article 66.⁽¹⁾"

"2. The Fund can, in relation to agricultural workers covered by work accidents' provisions, regulate contributions in the form of fixed payments."

(1) Article 66 states:

1. Each of the following branches of social security should have, by the end of every fiscal year, a reserve fund with stipulated minimum reserves.
 - a. The reserve of the Sickness and Maternity Fund and Family Allowances ought to be one-sixth of base
 - b. The reserve of the Work Accidents and Occupational Diseases Fund ought to be one third of baseThe base taken for these proportions is the total of expenditures of each of these branches in the three years preceding the fiscal year under discussion.
2. The minimum reserve requirements stipulated for in the above paragraph should be fulfilled before the end of the fourth fiscal year of operation of the branch in question.

It is clear that contributions and benefits will take the form of certain percentages to earnings. In certain instances,⁽¹⁾ the rates of benefits have been declared, but definite rates of contributions to each of the four funds are not yet determined. Consequently, the reluctance of employers and employees to give whole-hearted support to the scheme is justifiable as they do not know the extent of the financial obligations involved in the scheme. But the rates of contributions, though not clearly stated, are deductible from data already given.

It is not possible to draw at present an itemized total cost estimate for the proposed scheme. Our definite information relates only to the cost of workman's compensation which equals one twelfth of the total wage bill paid to those employed in establishments subjected to the legal requirement to pay their employees compensation upon termination of employment. Accurate estimates of costs involved in all the other sectors of the social security scheme have to depend on more reliable statistics yet unavailable.

In the face of these factors, international comparisons provide the best alternative for formulating an idea about social security costs. A comprehensive social security scheme which does not provide for unemployment and is adjusted for higher health maintenance costs in an underdeveloped country as compared with a developed one, would cost from 7% to 9% of the national income.⁽²⁾ The cost of health insurance in itself is between 2% and 2.5% of the national income.

(1) E.g., contributions in case of sickness, maternity and/or work accidents.

(2) Richardson, op., cit., p. 89

The Government declared it would undertake to cover 25% of the total benefits and contributions of the sickness and maternity fund. Moreover, the declared estimate of the Government's contribution is L.L. 14 million. Therefore, and on the basis of the Government's estimates, total contributions to the sickness and maternity fund would equal L.L. 56 million. Employers and employees, jointly and to the same degree, are to fill the gap between total requirements and Government's contribution. In consequence, each of these two groups is to pay around L.L. 21 million. Considering the results of a census conducted by the Ministry of Social Affairs, of establishments covered by the proposed scheme, the L.L. 21 million contribution of employees amounts to 7.25% of the total wage bill (L.L. 289,471,000) given by the census results.

TABLE IV⁽¹⁾

RESULTS OF CENSUS OF ESTABLISHMENTS COVERED BY
THE PROPOSED SOCIAL SECURITY SCHEME

<u>Kinds of Establishments</u>	<u>No. of Est.</u>	<u>No. of Employees</u>	<u>Total Wages Paid</u> (L.L. 1000)
1. Extractive Industries	10	83	134
2.&3. Industrial Est.	7,828	49,761	95,993
4. Construction & public works	47	577	2,386
5. Electricity, gas & water	40	680	2,030
6. Trade, banking, insurance & real estate	8,058	27,454	92,300
7. Transportation & warehouses	474	8,878	40,990
8. Services	4,673	24,693	55,624
9. Unclassified	1	7	14
Total	21,131	112,133	289,471

Total of wages represents total wages paid in 1960 by the establishments covered

Total of establishments and employees by March 1961.

(1) Lisan Al Hal, Wednesday, February 7, 1962, p. 3.

A contribution of 7.25% by employees of their wage earnings is rather a big slice, especially when coupled with the probability that industrialists will shift the burden of their contributions to their employees.⁽¹⁾ Up till now, no hints of skepticism concerning available statistics were made. It is essential, however, to clarify that no available statistics warrant the initial estimate about government's contribution of L.L. 14 million, except on the basis of international comparisons of costs of sickness and maternity benefits in relation to national income. Figures are most useful as accurate guides only when all relevant data to a particular issue on hand is available. In relation to social security contributions very little of the required data has been collected. Table IV, without disputing its accuracy, leaves some vital statistics untouched which are important for accurate determination of contributions.

One of the prerequisites for success in execution of any social security scheme is that changes touching on contributions and benefits be minimal, unless these changes are called for because of economic fluctuations. This prerequisite for success depends essentially on extensive accurate collection of data. Necessary data includes age distribution of the population, occupational distribution of the population, employed proportion of the population, proportions of employment in the various sectors of the economy, number of self-employed individuals, cost of living indexes, average rate of sickness absences, most common causes of sickness, number of doctors, etc. It is essential for the success of social security that accurate data about all the above and many

(1) Discussion of this aspect follows in the chapter.

more items be available. Collecting statistical data is not a simple matter in any country, least of all in a country like Lebanon where so many conflicting ideologies and religious sects make such a task especially difficult. It is imperative, therefore, not only for enacting social security, but for a more thorough knowledge about social and economic conditions in the country, to establish a special governmental machinery for collecting vital statistics. Until now, no positively constructive steps in this direction have been taken. Statistics collected by the IRFED mission are more of estimates than anything else. Without elaborating further on the need for accurate statistics, as it is so clear, it is enough to say that if the necessary statistics are not collected and improvement brought about in the government's statistical bureau, social security cannot be enacted for long in Lebanon.

B. Effect on Production

There are many who claim that the proposed scheme will exercise an adverse effect on industrial production. They go on to say that we must encourage rather than discourage industrialists in Lebanon for many reasons, most important of which are the following:

1. industry in Lebanon is still in its cradle and does not have solid foundations,
2. low productivity of the Lebanese industrial laborer,
3. scarcity of raw materials and mineral resources used in production,
4. severe competition for Lebanese products by foreign imported goods,
5. the need in Lebanon for developing the industrial sector in order to absorb the increase in the working population which is at the rate of eleven thousand per year. In case the increase in the working population is not

channeled into employment openings in industry, the newly added members to the working population must either work in agriculture, services and trade, or emigrate or just remain unemployed. Already those employed in the agricultural sector are too many, if viewed in relation to productivity. Trade and services seem to have grown out of proportion in relation to other sectors of the economy, which makes it less desirable to increase employment substantially in these sectors. Moreover, both these sectors are less labor absorptive than industry.

Because of all these reasons, one cannot but support the call to encourage industry in Lebanon. However, all these reasons do not constitute convincing arguments for concluding that the new burdens on industrialists occasioned by the social security scheme would persuade them away from industry, thus perpetuating more or less of a crisis in the Lebanese economy. The opinion expressed is based on the following arguments:

1. Lebanese industrialists are likely to shift most of the new burden of their contributions to the Fund on to their employees. (A detailed discussion of this assertion is included in the part relating to the effect of the proposed scheme on income distribution.)
2. The only completely new burden which industrialists have to reckon with results from having to contribute to the sickness and maternity fund. Employers alone are currently responsible, by virtue of the Labor Code provisions, for contributing to all the other branches of social security. In case industrial employers do not shift the burden of their new contributions to their employees, this burden in itself is not too heavy for them to shoulder.

Previously it was indicated that the Government will contribute 25% of total

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expenditures and contributions of the sickness and maternity fund. Employees and employers together contribute the remaining 75%. Hence, employers as a group contribute 37.5% of the total. Industrialists and owners of handicraft production centers employ around 28% of the total number of employees.⁽¹⁾ That is, industrial and handicraft centers provide employment for a bit more than half of the employees covered by the social security scheme. Workers in industry and handicrafts receive on the average lower wages than employees in the trade, services, finance and transportation sectors. From Table IV, it is clear that 49,761 workers in industry received around L.L. 96 million in yearly wages in 1960, while 27,454 employees in trade, banking, insurance and real-estate establishments cashed L.L. 92,300,000. Consequently industrialists will have to pay less than half of the 37.5% of the contributions and benefits of sickness and maternity. In lump sum, this will amount to no more than L.L. 10 million, or what is just over 10% of the total wage bill. An increase of 10% in the total wage bill is less significant than might appear from the absolute percentage arrived at. This is so because costs of inputs in industry include, besides wages paid to labor, costs of raw materials, depreciation of capital equipment, etc. The significance of wages as a cost item depends on the particular industry, being very high in some industries and low in others. The point which is of importance to us is that a 10% increase in the total wage bill does not correspond to an increase of 10% in total costs of production. As there are no studies in Lebanon on the importance of wages as a cost item in the different lines of industry no accurate comments can be passed. Therefore,

(1) Al Nahar, IRFED, op. cit.

in the light of available statistics, the better criterion to choose for illustrating the significance of a 10% increase in the total wage bill to industrial producers is the ratio of this increase in absolute figures to the total value of industrial production in the same year 1960. L.L. 10 million constitute just under 4% of the value of industrial production in 1960 which was approximately L.L. 260 million. (Figure secured from the Association of Industrialists and conforms to IRFED estimates.)

3. In the long run, social security, gives the working man assurance that he and his family will receive adequate medical attention and other benefits, all of which creates a feeling of security that results in higher productivity per man hour. This positive result is not purely psychological for many working men cannot presently afford to cure themselves from simple diseases that corrode their strength and efficiency. The consequential improvement in efficiency and productivity might easily compensate for the higher costs with which industrialists are confronted because of contributing to the social security fund.

4. Finally, from following up labor movements in underdeveloped countries it becomes apparent to the observer that labor demands are always interpreted by industrialists as threats to growing industries. In actuality, rather than lead to industrial crisis, reasonable labor demands when fulfilled, not only stimulated the level of effective demand in the concerned countries for locally produced goods, but also stimulated producers to increase productivity through better organization and production techniques.

Higher costs of production, because of greater benefits for labor, accentuate competition. A greater degree of competition in most industries in under-

developed countries leads to better allocation of resources. Lebanon's experience in this line verifies this observation. Most of the successful industries in Lebanon are not heavily protected from external competition by high tariff walls nor from internal competition by the granting of monopolistic rights. In contrast, the most inefficient industries are very heavily protected from external competition (such as textiles and sugar), and to a lesser degree from internal competition.

For all these reasons, it is the contention of the writer, that contributions to the social security fund by industrialists, would react with the givens of the economic situation, and prove to be an activator of industrial development rather than a suppressor.

At this point one would wonder about the other productive sectors of economic activity covered by the plan, and the impact of contributions on activity in these sectors. This is an important question which is not stressed because of the widespread knowledge that profits in the trade, services, transportation and financial sectors, are high to the point where contributions would not prove a significant deterrent for initiative in these sectors. Moreover, aside from a high profit margin, which makes easy the task of contributing to the Fund, all the afore-mentioned four arguments in relation to industry still apply, but with some qualifications. These qualifications relate to two factors:

a. With a high profit margin, producers will be less apt to shift the burden of their contributions to their employees, and conditions in the trade, services, transportation and finance sectors are less conducive for such shifting than in industry.

b. Productivity and efficiency in these sectors as compared with industry is relatively high.

In conclusion, and as contrasted with industry, producers in the trade, services, transportation and financial sectors can afford to contribute for social security with ease, because of high profits, and are consequently less likely than industrialists to try and shift the burden of their contributions to their employees.

C. Effect on Income Distribution

The purpose of any social security scheme is clear by definition. Such schemes aim to eliminate need and better the standard of living of the working classes. Aside from the primary and general aim of eliminating or minimizing need situations, social security has been proposed for Lebanon to bring about a more equal distribution of income. In the preamble of the proposed scheme, it is clearly stated that "it is introduced to combat extensive inequalities in income distribution for the purpose of quenching social unrest". This in turn will make possible a more strongly entrenched democratic form of government.

It is our task to explore whether the proposed scheme, in the light of the present institutional set-up, would eliminate effectively present income inequalities in such manner as is desired for fulfilling important objectives of the Lebanese society. In so doing we must remember that benefits from and contributions to the social security Fund or funds are exactly similar in their effects on the economy to the flow of public expenditure and revenue respectively. Moreover, deficits and surpluses of the Fund are similar in their effect on economic life to budgetary deficits and surpluses.

Contributions to the Fund's four branches are to take the form of percentages of earnings or of the total wage bill, depending on whether the contribution is made by employees or employers. Employees' contributions fall due for sickness and maternity benefits. There are two interpretations of the distribution incidence of these payments. Both views lead to the conclusion that employees' contributions are not conducive to the kind of income re distribution needed in Lebanon, namely vertical redistribution, or redistribution of income as between the various income earning groups in society. Without accurate statistics it is difficult to pin down the degree of distribution effects attributable to any of the two following interpretations.

Summarized, the first view is argued in the following manner:⁽¹⁾ "It seems fairly safe to say that most payments into the Fund would be made by relatively better off employees whereas most payments out of the Fund would be made essentially in favor of the poorer working class, and to some extent, the middle class". The following line of reasoning leads to this conclusion: "There is no doubt that the majority of the beneficiaries will be lower middle class workers and employees. This is so for two reasons:

- a. The majority of the working classes fall in these two income groups, and
- b. The relatively better off employees will probably refrain from making use of the medical services provided by the scheme as this will almost certainly imply long queuing and inferior treatment compared with what they are accustomed to. On the other hand, a substantial part of the total available funds (possibly the largest part) would be contributed either by the employees in the relatively

(1) Saba, op. cit., p. 30.

higher income groups or by their employers for their own benefit."⁽¹⁾

The strength of this reasoning has to depend, irrespective of further justifications made, on statistics yet unobtained. Especially the claim that "a substantial part of total available funds (possibly the largest part) etc.", calls for many reservations, some of them being the product of amendments brought about in the scheme. The first of these reservations relates to government's contribution amounting to 25% of total expenditure of the sickness and maternity fund. This contribution was not stipulated for at the time the referred to conclusions were formed. Moreover, one cannot claim that contributions to the Fund of relatively well paid employees and their employers, based as these are, on earnings and the total wage bill will constitute the largest proportion of total contributions until the proportion of relatively well paid employees and their share of the total wage bill paid to all those covered by the scheme is determined. Data on both aspects is lacking. Yet the contention that higher paid employees and their employers are more likely to contribute regularly to the Fund on the basis that the latter are well organized corporations and companies which do not evade tax collections (and social security contributions being compulsory are in the nature of taxes) holds a lot of truth.

Another way of evaluating the incidence of employees and employers' contributions is the following: employees' contributions based on regulated percentage payments out of their earnings will burden more employees whose earnings are relatively low as compared with higher income earning employees. This argument

(1) Saba, op. cit., p. 30.

is based on the familiar notion that proportional taxation exercises regressive effects on income distribution. Compulsory contributions based on percentages of earnings are similar in nature and economic effects to proportional taxation.

Employers have to contribute to the Fund on account of their employees. Their contributions are regulated as percentage payments of their total wage bills. It is my contention that employers of the relatively low income earning employees will shift the greater burden of their contributions to their employees. We will now turn to expound the supporting line of reasoning for this hypothesis.

From reviewing Table IV, and if we are to suppose that earnings of employees within each category are nearly as evenly distributed, it is obvious that industrial employees earn relatively low incomes. Lebanese industrialists constantly voice grievances over low and even negative profit margins which they are avowedly reaping. While it is probably true that such grievances are over-emphasized, it is widely acknowledged that profit margins in the industrial sector are much lower than profits in all other profit yielding sectors of the economy, except possibly agriculture. If industrialists are to maintain the profit margins they are making now, they will have either to raise the prices of their products to compensate for increased contributions for labor benefits, or refrain from raising wages when wage increases fall due.

In all probability, industrialists or employers of the lower income earning group amongst employees, will follow the second alternative and cause their employees to support the larger part of the incidence of their contributions to the Fund. This is so because:

1. Prices of Lebanese industrial products are relatively high and consumers prefer imported industrial goods. Consequently, raising prices of Lebanese

industrial products to cover for employers' contributions to the Fund will not be attempted as demand for these products at higher prices seems to be highly elastic because of available preferred substitutes at reasonably competitive prices.

2. Tarrifs on imported manufactured goods, except with respect to very few items, are relatively low. These tarrifs together with transportation costs involved in the import trade are rarely high enough to compensate for the gaps in productivity, reflected in costs of production, as between Lebanese labor and labor in the countries from whence most of Lebanon's imports are secured. Hence imports are and can be priced at competitive prices with Lebanese manufactured products.

3. It is easy to replace industrial labor in Lebanon because of unemployment and the fact that no great differentiation in industrial skills exists between Lebanese workers. An industrialist under such circumstances can and does impose his policies on his employees for they fear unemployment and its accompanying insecurity. Labor syndicates can exercise a countervailing power in face of arbitrary policies on the part of employers. The labor syndicate movement in Lebanon does not seem to have acquired enough strength to exercise countervailing power in the face of industrialists to any significant degree. This situation is likely to continue as long as the above-mentioned conditions of unemployment and lack of great differentiation in skills prevail.

For these reasons it is my contention that industrialists can now and will continue to be able, in the near future, to impose their policies on labor. In case the social security proposed scheme becomes law, industrialists will delay wage increases. This means that to the degree industrialists delay wage

increases, industrial labor will have to bear the incidence of the employers' contributions to the Fund, or at least a large portion of this incidence. In the final analysis then, industrial labor which receives relatively low earnings will, against the benefits it receives from the Fund, suffer great costs which might outweigh their expected benefits.

The two cited views concerning the distributive effects of the proposed scheme in relation to employees (especially) and employers contributions lead to two varying but compatible conclusions. Whereas the first asserts that distributive effects of the scheme will be confined within the working class only and are represented by indirect subsidization of the lower income members of the group by the higher income members. The second stresses that the low income earning group members of the working class (most industrial labor) will suffer most from contributions to social security as these take the form of proportional payments and are partly shifted by industrialists to their employees. Until relevant statistics are collected both positions vis a vis the distributive effects of employees and employers contributions to social security seem true in varying degrees. But whichever way looked at the distributive effects of employers and employees contributions to social security do not represent steps in the right direction of reducing income inequalities as between groups rather than the same group (working class).

There remain other grounds for condemning the distributive effects that will follow upon enactment of the proposed scheme. Government will contribute to the Fund together with employers and employees. It is natural, if we are to concentrate on the revenue side as we have been doing up till now, to consider that the effect of Government's contribution on income distribution would depend

on two factors:

1. The extent of the Government's contribution and its proportion in relation to total costs.
2. The constituents of Government's revenue from which contributions are paid to the Fund.

Starting with the latter factor first what do we find in Lebanon? Important taxes in modern communities may be divided into three types: taxes on commodities, taxes on income, and taxes on property passing at death.⁽¹⁾ "Commodity taxes are . . . inappropriate as a means of redistributing income, and also have undesirable effects upon the distribution of factors of production among different occupations."⁽²⁾ "A highly progressive income tax is the best instrument for the purpose of redistributing incomes, and further it has no disadvantageous effects upon the distribution of factors of production among different occupations. It will probably help cure unemployment."⁽³⁾ For curing unemployment, however, a highly progressive income tax has to be supplemented with control over the interest rate.⁽⁴⁾ Taking these remarks as our theoretical background and viewing the constituents of tax revenue in Lebanon, it becomes apparent that revenue from taxation, out of which contribution to the Fund will be made, results mostly from taxes on commodities.

In Lebanon, indirect taxes and duties represent the largest sources of

(1) J. E. Meade, Economic Analysis and Policy, (2nd ed., London: Oxford University Press, 1937), p. 233.

(2) Ibid., p. 235.

(3) Ibid., p. 247.

(4) Ibid., p. 240.

government receipts. Their "annual contribution amounts to approximately 66% of total tax receipts and to about 57% of total revenues. The major sources of these taxes are customs receipts, excise duties on inflammables and the duties on tobacco. Custom duties alone constitute about 65% of all indirect taxes and receipts. Inflammables and tobacco duties contribute together and almost evenly about 28%, and the remaining 7% represents largely the receipts from taxes on cement and alcoholic beverages."⁽¹⁾ Taxes on inflammables and tobacco are obviously regressive and custom duties are of the same nature as there is no differential policy for levying high duties on luxury goods. "Although the total earnings from . . . custom duties . . . are substantial, the rates are not excessive, and with the exception of the duty on some Japanese products, they have in no way been prohibitive. Most of the indirect taxes in force are imposed on commodities for which there are no close substitutes, and the demand for which is generally inelastic within the relevant price range."⁽²⁾

The Lebanese tax system was construed in the light of ease of collection considerations, rather than the more essential welfare and development considerations. Thus the Government's contribution to the Fund, formed essentially of indirect tax revenue, will not exercise a favorable effect on income distribution in Lebanon by contributing towards greater equality as is desired.

Government's contribution to the Fund amounts in value to L.L. 14 million estimated to cover 25% of the total expenditures of the sickness and maternity benefits. Judging from the experience of other countries with social security

(1) Khalil I. Salem, Lebanese Tax System, (mimeographed report), p. 1.

(2) Ibid., p. 2.

schemes it seems that Government's contribution in Lebanon will account for nearly one-fourteenth to one-twentieth of total social security expenditures. In case constituents of public receipts favored distribution of income from richer to poorer classes of society, such a small proportion to total expenditures of social security is not likely to exercise a significant counterbalancing influence in face of maldistribution effects accompanying other contributions to the Fund. It is imperative at this juncture that we review a provision in the proposed draft, the present ambiguity of which gives rise to hope or despair depending on how one interprets this provision. A clarification of this provision, coupled with reformatory steps in tax legislation and collection, promises greater facility in the application of the proposed scheme.

Article 66, already cited, stipulates for minimum reserves in the Fund for sickness and maternity and family allowances equal to one-sixth, and for work accidents and occupational diseases equal to one-third of the total expenditures for each of these branches in the three years preceding the fiscal year under discussion. The Article's wording implies that the Government will not contribute for building up these reserves. The contrary understanding is that the reserves are to be formed from employees and employers contributions which will have to be in excess of expenditures to the extent required for building up these minimum legal reserves. Moreover, one-sixth of total maternity and sickness expenditures over three years and one-third of total expenditures on work accidents and occupational diseases over three years are likely to be substantial sums. Employers and employees, as was illustrated earlier, cannot support very heavy burdens. Building up reserves, equivalent to a year's total expenditures on work accidents and occupational diseases, and half a year's total expenditures

for sickness and maternity benefits and family allowances out of employees and employers contributions would cause members of these groups to suffer by losing part of their welfare. Under no circumstances should employees lose part of their welfare. At the same time it is very important to keep up employers' ability and desire to invest. Consequently it seems especially opportune for Government to undertake supplying the required reserves out of its public receipts; because these reserves will not have to be formed before five years' time, as three years of functioning of each branch have to precede the forming of its reserve fund and the whole scheme comes into operation after eighteen months (as a maximum) as of the date it is approved. In the meantime legislative fiscal reform and administrative improvements would insure that tax receipts mostly fall on the richer members of society. The benefit that results from having reserves from tax receipts whose burden falls mostly on rich people does not relate to a better distribution of income only. Consumption will be maintained at a higher level for employees do not suffer from having to pay high contributions for forming the reserves.

The basic argument underlying the suggestion that Governmental contributions ought to form the legal reserves is that most of the revenue needed for these contributions would result from higher rates of direct taxes introduced in the meantime. But such taxes do limit the desire to invest amongst employers. This lag, however, can be overcome by reducing rates of interest charged for industrial loan capital. Regulation of the interest rate depends on legislation providing for flexible reserve requirements partly to be deposited with the Central Bank. Lebanon needs a Central Bank, and enabling legislation for controlling the interest rate as both of these indirectly affect the availability of industrial loan capital.

Social security requires funds which are usually contributed by employers, employees and the state. Income distribution between members of a community adopting a social security program is greatly affected by the way contributions are apportioned between these various groups. This aspect in relation to Lebanon has already received attention. There remains another aspect of social security that affects income distribution which has not been discussed.

It is normal that funds in excess of social security expenditures accumulate from social security contributions. These financial resources in excess of expenditures and minimum reserve requirements can be invested or maintained idle. In underdeveloped countries accumulated funds will be invested. Lebanon, barring the possibility of a widespread epidemic, will be in a position to utilize significant sources in excess of current social security expenditures for investments whose benefits largely accrue to members of the lower income groups. Why should Lebanon have significant resources from contributions to social security in excess of current expenditures?

Three factors largely account for this likelihood:

1. The Lebanese population is relative young,⁽¹⁾ which means that contributions to the termination of employment fund will accumulate as the young and employed would be contributing to this fund without making demands on it for some time.

2. The rate of growth of the population is high which means that the young of tomorrow will exceed greatly in number those of the present working population who would become old and draw on retirement compensation. In this connection

(1) According to IRFED Findings 62% of the population are concentrated between the ages of 12 and 60. Moreover, only 7% of the population are over 60 while the rest are below 12 years of age.

we should remember that all those employed after the plan becomes operant are covered by its termination of employment provisions.

3. In a growing economy employment opportunities open up for increasing proportions of the population, which means that contributions to social security increase in total, whereas demands on social security benefits decrease with a higher level of economic attainment.

Available financial resources in excess of expenditures in the Social Security Fund can be used for financing developments that would work to the advantage of lower income earners. Projects such as free public schooling and decent housing at reasonable rates are urgently demanded by the working class. The former process pays handsomely in the long run as it results in greater skill and civic responsibility amongst the new generation of the working class. Cheap public housing can be self supporting in the sense of yielding an income that makes possible refunding of the original capital investment together with a low rate of interest payment in addition. Schooling and housing conditions for the working class are very bad if judged according to decent educational and sanitary standards. It would be especially desirable to employ social security funds in meeting the pressing needs of working class members for adequate schooling and healthy housing. An official of the United Syndicates enumerated five prerequisites to be fulfilled before the United Syndicates would support the proposed social security scheme.⁽¹⁾ The two most important prerequisites stressed were free schooling at the elementary and high school levels, and healthy public housing with rentals not in excess of 16% to 20% of a worker's

(1) Al-Jaridah, February 9, 1962, p. 5.

earnings.

Though demands for schooling and public housing were forwarded as pre-requisites for enacting social security, one can easily see the possibility of making these demands compatible with enactment of social security first. Funds for realizing these demands and time for training qualified teachers are both required. If social security becomes operant, and for reasons already discussed, funds would be available. In the meantime, teachers can be trained. The logic of this argument will not escape labor's representatives and they would condescend to have social security enactment precede wider public schooling and housing. But the connecting thread between the suggested theoretical outline and reality as it evolves depends, as always, on efficient government administration and planning. In both these, the Lebanese Government has not shown itself in good standing. But it is to be admitted that the present regime reflects great conscientiousness vis a vis social and economic problems of the Lebanese society. Administrative reform, however, takes time and until a substantial measure of reform is achieved, the link between our optimistic theoretical contemplations and a corresponding future in reality, remains absent.

CONCLUSION

The proposed Social Security scheme for Lebanon has many features to recommend it. It does conform in its scope and purposes with general principles of social security and with international standards. Alterations on the original plan of 1956 trimmed it nearer to Lebanon's requirements. At present there is balance in the general outline of the scheme between consideration for local needs and availabilities and guiding principles of social security.

Implementing social security in Lebanon does not seem to affect production adversely. With proper control over long term interest rates and financing, social security, in so far as it encourages increased consumption expenditures by the working class, serves to encourage investment in local industry.

On the score of income distribution, implementing social security, with the current institutional set up and inefficiency, will burden greatly low income earning groups. This is all the more unacceptable as the plan was originally drawn out for the benefit of the lower income strata. The cause for such a divergence between intention and effect does not lie in the scheme itself. It is rather a by product of regressive taxation policies and dishonest tax collection practices. One can say that maldistribution effects that will be occasioned by the enactment of the social security scheme, under present circumstances, are attributable to factors that are exogenous to the scheme itself. Unless taxation policies are ameliorated and collection practices improved, maldistribution of incomes in Lebanon will be intensified. The whole avowed purpose of the plan will be negated.

Improved taxation legislation and better tax collection practices are musts

for the successful enactment of social security in Lebanon because income distribution would become more favorable to lower income groups, and greater faith in governmental administration would result. Both these goals are desirable for ensuring stability that is conducive for further development.

Trained personnel in social security principles and practices are conspicuously lacking. As the scheme would not come into operation, if it is sanctioned by Parliament, before approximately two years from now it is essential that immediate steps be taken to remedy this shortage. Reliable statistical data is not available while it is of fundamental importance in providing indexes for determining contributions to and benefits from the Fund. Again proper training of personnel and sticking to long term objectives are the only solutions for this problem.

All the above are often cited shortcomings in the Lebanese social, political and economic structural set-up. This should not prevent us from exerting efforts to overcome these problems. In meeting this challenge the Lebanese will have a steadfast claim to modernity and efficiency. Exogenous as these problems may seem to social security proper, it remains true that the success of social security in practice will depend largely on a supporting institutional set-up, purified from the residue of long practiced bad habits.

The proposed scheme is not completely devoid of shortcomings. Governmental contribution is set at an insignificant level and in an ineffective position. Required reserves should be formed from Government revenue essentially forthcoming from the rich. This would mean that the burden of the employees' contributions will be reduced and their loss of economic welfare minimized. It is necessary to clarify in the proposed scheme how reserves should be formed and to what uses these would be put.

Benefits and contributions occasioned by enactment of the scheme are not crystallized yet and leave those involved in the operation of the scheme with an uneasy feeling. The stipulation that those employed with foreign institutions are not covered by the scheme needs clarification now and in all probability justification after the clarification is made.

Leaving those already employed with a choice to be exercised in three years as to whether they would join or not the termination of employment branch of the scheme weighs heavily on one of the scheme's most promising aspects. This is that a substantial proportion of the funds already accumulated on this account could be used in financing developmental and social projects. The injection of this provision in the proposed scheme together with the general lack of faith in the success of monumental social and/or economic projects in Lebanon probably means that most of those already employed will choose to stick to the private plans of termination pay in operation now. Consequently the utilization of the Fund as a savings pool is greatly restricted by this provision.

In summary, the proposed plan has taken into consideration by and large the requisites of social security principles and some of the more urgent needs in Lebanon. It still needs some further clarifications, some of which have to await the collection of more accurate statistical data. Successful implementation of social security in Lebanon requires drastic revisions in taxation policies and practices and the administrative set-up. To cite an earlier statement made at the end of Chapter IV, these reforms take time "and until a substantial measure of reform is achieved, the link between our optimistic theoretical contemplations and a corresponding future in reality, remains absent". It is extremely important not to implement social security when the ingredients for success are lacking,

as this would completely alienate the Lebanese from this very useful institution.

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