Economic interventions to manage popular unrest

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Question

What economic interventions or tools supported by international actors, including international financial institutions, have delivered short-term stability to manage popular unrest between protestors and the state?

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1. Summary

The main finding of this review is that there is almost no literature directly answering the specific question posed, i.e. on the effectiveness of economic interventions supported by international actors in delivering short-term stability in the face of popular unrest. We examine closely related research on two important factors associated with recent unrest – food and fuel prices – and the effectiveness of various policy responses. Another section reviews evidence on the response to unrest generally favoured by international actors, the provision of targeted social assistance, and a final section contextualises the issues with geographic case studies. Overall, the literature reviewed here suggests that economic policy responses to unrest should be ‘politically smart’, addressing not only the short-term triggers of protest, but also the underlying grievances held by disenfranchised and marginalised groups that are more likely to mobilise.

There have been a large number of studies on the political economy of energy subsidy reform and food prices, which were associated with significant popular unrest in recent years. Neither of these literatures has an analytical focus on the effectiveness of policy responses at bringing stability. Research on energy subsidies centres on optimal design of reform strategies to minimise unrest before it happens (Inchauste and Victor, 2017), while studies of food price shocks tend to focus on the effectiveness of economic policy responses in reducing price volatility or poverty levels (FAO et al., 2011). Nevertheless, relevant findings include:

- Where policy changes have triggered unrest, reversing those changes (e.g. by reinstating subsidies) may not deliver stability, as issue-specific protests often become connected to broader mobilisations challenging regime legitimacy (Hossain et al., 2018).
- Policy reforms liable to provoke unrest should be carefully designed to compensate powerful groups that stand to lose out as far as possible (Lockwood, 2015) and should be accompanied by effective communication strategies (Alleyne, 2013).

In cases of social unrest, the preferred response of international actors is generally the provision of targeted social assistance (IMF, 2008). We review evidence on cash transfers and public works programmes in particular, but these are rarely evaluated in terms of their impact on short-term stability. In any case, effective implementation requires specific governance capabilities of state actors, as well as having systems in place before unrest occurs. This points to the need for international actors to support governments in developing effective social safety nets in the medium-long term that can be quickly scaled up in response to crises. Other findings include:

- Evaluations of cash transfer programmes focus on poverty outcomes among recipients, which are generally improved (Bastagli et al., 2016).
- Initial findings from ongoing research on public works programmes suggest they do not have a significant impact on social stability (Mvukiyehe, 2018).
- Cash transfers targeting the poorest may not be effective at reducing unrest because members of the middle class and political oppositions are also likely to protest (Berazneva and Lee, 2013).
- Although higher levels of social expenditure reduce unrest over the medium term (Justino, 2015), in the short-term the targeting of cash transfer programmes may be perceived as divisive and provoke further unrest, as in the case of Indonesia (Inchauste & Victor, 2017).
This report includes three geographic case studies that provide further insights. Key findings include:

- The diversity of social stability outcomes in the Arab World, in response to similar food price shocks and with apparently similar policy responses, shows the need for context-specific analysis, addressing underlying vulnerabilities, dealing with corruption, effective communication campaigns and politically savvy leaders (Harrigan, 2014; Barany, 2013).

- In Indonesia, the long history of energy subsidy reform and social unrest was characterised by policy reversal and developing redistributive systems, suggesting the need to support government implementation capabilities and accept ‘second best’ policy options (Lockwood, 2015).

- The Indian case shows that redistributive transfers can successfully mitigate social unrest. However, this functions through addressing the underlying causes over the medium-term, rather than acting as a short-term response (Justino, 2015).

2. Background: social unrest and economic responses

Popular protests can be viewed as forms of mobilisation which demonstrate the ‘holding power’ of a political movement. They aim at bringing about changes in the institutions and policies that distribute economic resources between actors, in order to reshape the ‘political settlement’ (Khan, 2018). In this framework, the types of response to unrest that can deliver short-term stability will depend on the nature of grievances, but also crucially the extent to which protests are part of a political movement that fundamentally changes the distribution of power in society.

Ortiz et al. (2013) provide a helpful overview of the main grievances held by protest movements. They examine 843 protests worldwide from 2006-13 and identify four main categories of grievance; the most common being ‘economic justice and anti-austerity’ (including jobs, wages, food and fuel prices, etc.), followed by ‘failure of political representation and political systems’ (e.g. corruption, democracy, etc.), ‘global justice issues’ (e.g. relating to trade, the environment etc.) and ‘rights of people’ (e.g. indigenous, ethnic, sexual and religious groups). In 2019 alone a range of countries (e.g. Haiti, Chile, Ecuador, Lebanon, Iraq, Hong Kong, UK, France) experienced major popular unrest related to interconnected economic and political grievances, among them public services, economic stagnation, political freedom, fuel subsidy reform and climate change (Raymond, 2019).

The diversity of grievances and political economy contexts of protest movements worldwide means that policy responses are varied. Responses commonly include reinstatement of or increases in subsidies to consumption (e.g. food, fuel); increased social assistance (e.g. targeted cash transfers); public works programmes; reducing taxes and tariffs (e.g. on staple foods); increasing minimum wages and public sector salaries; introducing small business loan schemes; and, exchange rate flexibility. (Harrigan, 2014; Hossain et al., 2018; IMF 2008). There is no research specifically addressing the effectiveness of these measures at managing short-term unrest.

Research by political scientists on protests and policy responses often focuses on the extent to which protest movements achieve their desired policy outcomes. For example, Silva (2015) documents the success of various Latin American protest movements in bringing about policy change including Argentina’s piqueteros, Chile’s students and indigenous groups in Bolivia and Ecuador. However, like most such studies there is little attention to the effectiveness of responses in terms of impacts on stability.
Literature on international actors and protest tends to focus on how policy reforms that are required by international financial institutions (IFIs) as part of financial assistance packages (e.g. Structural Adjustment Programs - SAPs) have been a key driver of unrest in many countries. This has resulted in the “IMF riots” moniker (Hossain et al., 2018). While IFIs tend not to work directly on policies aimed at reducing civil unrest per se, their main recommendation in cases of unrest - e.g. related to food and fuel prices - is often targeted cash transfers (IMF, 2008).

In this report we focus on IFIs since they tend to support a more clearly defined set of policies, while other international actors, e.g. bilateral donors and diplomatic corps, have more diverse and eclectic approaches.

3. Recent unrest: the politics of provision

Energy

In recent years, protests over energy prices have proliferated in the global North and South, particularly in response to state efforts to reduce subsidies for fossil fuels in pursuit of objectives around fiscal consolidation, the climate emergency and inequality (as blanket subsidies are regressive). Most of the policy literature focuses on how energy subsidy reform can be designed *ex ante* so as to minimise unrest, but there is some attention to *ex post* policy responses to protests.

**Hossain et al.’s (2018) study found that reinstating fuel subsidies did not quell unrest.** In Myanmar (2007), Egypt (2008-13), Mozambique (2008-10) and Nigeria (2012), cuts in fuel subsidies led to protests. In all cases a key policy response was the reinstatement of subsidies, at least in part, but only temporarily in most cases (Hossain et al., 2018: 18-19). Subsidy reinstatement did not stop unrest because in all of these cases energy protests underwent a ‘scale-shift’, i.e. transformed from a specific grievance around fuel prices to part of a broader political challenge to state authority.

These processes culminated in the ‘Saffron Revolution’ in Myanmar and the 2011 uprising in Egypt. In Nigeria and Mozambique, the energy protests were connected to broader mobilisations around corruption and debt respectively, but Nigerian fuel subsidies were later withdrawn under an IMF reform package. Across the cases, fuel price changes were triggers but the protests arose for myriad social, political and economic reasons (Hossain et al., 2018). Consequently, policy responses must also address underlying drivers, and simply reverting to the previous policy status quo is not sufficient to resolve grievances (Hossain et al, 2018).

**The key recommendation by researchers and IFIs such as the World Bank and IMF for successful energy subsidy reduction is to minimise unrest by designing reforms to compensate losing groups through so called ‘hybrid’ strategies, accompanied by effective communication with the public** (Lockwood, 2015; Inchauste & Victor, 2017; Alleyne, 2013). A main element of this is enhancing social protection systems, but this is acknowledged by IFIs to be a long-term process requiring the development of administrative and technical capabilities by implementing governments (Inchauste & Victor, 2017; Alleyne, 2013). In any case, compensating safety nets for the poor are unlikely to reduce unrest if they do not address the politics underlying the original energy subsidies (Lockwood, 2015).
Food

Protests occurred in a large number of countries in 2008 and 2011 following sharp increases in the prices of international agricultural commodities which passed through to domestic food markets. Hossain and Scott-Villiers (2017) find that protests targeted national state authorities despite the global market origins of price rises because of the ‘common sense’ right to food.

Policy responses to both price volatility and the resulting unrest were largely ad hoc in nature and often inconsistent with other national and international policies (FAO et al., 2011). Demeke et al. (2008) identify market and trade policy measures as the most prominent response, particularly:

- reductions in tariffs or custom fees (43 of 81 developing countries surveyed)
- selling grain from public stocks or imports at subsidised prices (35)
- restrictions or bans on exports (25)
- suspension or reduction of VAT and other taxes (23)
- price controls (e.g. maximum prices, hoarding penalties) (21).

Social assistance was also an area of strong policy response, especially:

- cash transfers (23)
- food assistance (food aid, vouchers, school feeding) (19)
- measures to increase disposable incomes (e.g. public works programmes, increasing public sector wages) (16).

Finally, short-term measures to support agricultural production were introduced including:

- production support programmes (35)
- productive safety nets (15)
- fertiliser and seed programmes (9)
- market based interventions (15).

The tightening of monetary policy to reduce inflationary pressures, and exchange rate appreciation to make food imports cheaper, were also observed (IMF, 2008). Research has mainly focused on the effectiveness of these responses at stabilising food prices and reducing poverty rather than their impact on unrest (FAO et al., 2011).

IFIs discourage responses to food price protests that compromise the efficiency of markets by suppressing the transfer of price signals to producers, since this will reduce the extent of the supply response (IMF, 2008). Measures requiring overall public expenditure increases, such as universal subsidies, are also discouraged in developing countries where fiscal space is limited. Targeted social transfers are preferred by IFIs since the targeting reduces fiscal outlay, and by operating outside market mechanisms, price signals are retained. However, since targeted transfers require strong planning and implementation capabilities by states, and in the face of
market distorting measures by other countries, IFIs do show flexibility, recently supporting the implementation of Bangladesh’s food stock system.¹

4. IFI approved responses: targeted social assistance

Social protection systems have historically emerged and evolved as part of long-term processes of societal conflict arising from the growth of market-based economies (Polanyi, (1944) 2001). This is not only because the provision of social safety nets to a majority of the population requires significant resources, but also the enforcement of rights to social assistance is premised on a broad-based distribution of power which tends to occur only after a certain level of development is reached (Khan, 2018).

Research has confirmed that policymakers direct social assistance to groups more likely to protest, in order to pacify them (Yörük et al., 2017). Cross-country studies provide an empirical basis for this strategy, finding an inverse relationship between levels of welfare spending and civil conflict, i.e. higher levels of social expenditure reduce the likelihood of conflict (Taydas and Peksen, 2012). The outcomes of specific contexts and social expenditure types may not reflect this general trend, however, with Blattman et al. (2014) finding that receipt of a business grant did not affect social cohesion or protest outcomes in Uganda.

Targeted cash transfers

Cash transfers arose in Latin America as a solution to the social cost of structural adjustment, and they remain the preferred form of short-term social assistance to address unrest for IFIs (Nelson and Sandberg, 2017). However, evaluations of cash transfer programmes overwhelmingly focus on their impact on economic outcomes such as poverty rather than stability or unrest (Bastagli et al., 2016).

Evidence is limited and mixed on the impact of cash transfers on social cohesion, with the potential to address the vulnerability of marginalised groups offset by the social division inherent in targeting (Idris, 2017). One of the few studies (Justino, 2015) to examine the relationship between social transfers and unrest directly notes that “we have little understanding of what generates civil unrest and what can be done to prevent or reduce it”. However, the results from Indian states suggest that “in the medium term, redistributive transfers are a successful tool for reducing social conflict” (Justino, 2015: 19). Importantly, Justino’s (2015) study looks at social expenditure and unrest on a preventative basis, i.e. does not assess its effectiveness in responding to protests.

A key question for the targeted transfer programmes advocated by IFIs is who to target. In the case of appropriate responses to economic shocks, there is a strong case that the poorest should be targeted, since they are invariably the most vulnerable. However, in the case of unrest, evidence suggests that protesters are not the poorest of the poor. Protests in countries across Africa at rising food prices in 2007-2008 attended in many cases by members of the middle class and political oppositions (Berazneva & Lee, 2013).

¹ “Bangladesh Modern Food Storage Facilities Project: https://projects.worldbank.org/en/projects-operations/project-detail/P120583”.

As mentioned above, effective cash transfer programmes require a relatively high level of government administrative capability and ideally would be in place before unrest occurred, at which point they can be scaled up (Inchauste & Victor, 2017). Although in principle popular unrest could be a catalyst for the initiation of a cash transfer programme, the accompanying atmosphere of mistrust between protesters and the state may not be conducive.

**Public works programmes**

Another form of social assistance favoured by IFIs to address unrest, albeit more often in post-conflict situations rather than civil unrest, is public works initiatives. These are also known as ‘cash for work’ (CFW) and ‘labour-intensive public works’ (LIPW), and provide temporary work to vulnerable groups to build community assets (Subbarao et al., 2013).

**Evidence is mixed on the effectiveness of public works programmes at reducing instability.** They are often introduced or scaled-up following crises, suggesting their suitability for responding to short-term shocks. Subbarao et al. (2013) point to successful outcomes in post-conflict and fragile settings (e.g. in Rwanda and Sri Lanka), where rural populations depend on agriculture subject to weather shocks and seasonal variation (e.g. the well-known Indian Mahatma Gandhi National Rural Employment Guarantee Scheme, MGNREGS), and after natural disasters (e.g. in Bangladesh). However initial findings from recent World Bank research, involving Randomised Control Trials (RCTs) of LIPW programmes targeting around 40,000 households in six African countries, suggest little evidence that LIPW programmes have a significant impact on violence and social stability (Mvukiyehe, 2018).

One challenge for the use of public works programmes during periods of popular unrest is that they are usually self-selecting. Where protesters are mainly motivated by economic factors such as the cost of living this may not be a problem, but if political grievances are present as well protesters may be reluctant to engage.

**5. Geographic case studies**

**Arab World**

**Causes of unrest**

To varying degrees across the Arab World, food insecurity has been a major factor in civil unrest. This topic and state responses is the focus of Harrigan’s (2014) work, which is often cited in the related literature. The region is particularly vulnerable because it is a high net food importer (Harrigan, 2014: 4). In 2007-2008, and 2010-2011, global food prices soared, reaching an all-time high in February 2011. In the Arab World this resulted in trade and fiscal deficits, increased inflation, increased poverty and nutritional problems among the poor and middle-class, and accompanying protests (Harrigan 2014: 6).

Although the so-called Arab Spring “was first and foremost a political movement to remove oppressive undemocratic regimes”, food problems were part of the movement’s socio-economic underpinnings (Harrigan, 2014: 6). Such issues were one element of the unravelling of the implicit social contract between many Arab regimes and their peoples, which had previously offered cheap subsidised food, housing, and utilities. IMF-encouraged liberalisation from the 1970s also played a significant part in the undoing of this safety net (Harrigan, 2014: 105).
Interventions

Short-term responses in the 2000s to these issues included (Harrigan, 2014:115-118):

- increasing public sector wages;
- increasing government expenditure on bread and other food subsidies;
- providing free staple food handouts;
- reducing tariffs on imported food items;
- increasing direct cash transfers to the poor;
- reduction or abolition of import taxes and tariffs;
- introducing new taxes and restrictions on certain food exports;
- switching to more flexible exchange rate arrangements.

Except for targeted cash transfers to the poor these measures are largely not supported by IFIs (IMF 2008), and appear to take aim more at the short-term effects of food insecurity rather than the root causes of the vulnerability to global food price shocks in the Arab World.

However, another supranational organization – the Gulf Cooperation Council (GCC) – did make economic and political interventions both within their member states and externally (Barany, 2013). For example, the GCC made loans to Oman in 2011. The GCC also raised the possibility of membership with both Jordan and Morocco as a way of shoring up the ruling administrations’ popularity during the period of mass mobilizations. (GCC membership would bring extensive trade and development advantages) Ultimately this extension of membership did not materialize.

Stability effects and lessons

Harrigan (2014) does not set out to give an assessment of these responses’ impact on short-term stability but points to examples in the Arab World of countries that retained stability through 2011 (such as Jordan), as well as those that went in the opposite direction (such as Syria). Like most such studies, the focus is on the impact of policy responses on poverty. A main finding is that, although designed to reduce the impact of rising food prices, these responses did not always help the poorest. This is partly because of the short-term nature of policy responses and resulting failure to address underlying causes and vulnerabilities, as well as corruption diverting resources from intended beneficiaries, such as in Lebanon (Harrigan, 2014: 120-121).

Barany (2013: 26) emphasises the key importance of effective communication campaigns in tandem with the short-term economic measures, citing the Jordanian and Moroccan cases. Barany highlights how astute political manoeuvring by kings Abdullah II and Mohammad V were also a major contributor to forestalling and cooling unrest.

There are few lessons from the literature on the effectiveness of different economic short-term responses, because the focus is on the importance of long-term reform strategies. Harrigan (2014: 123-5) comments that IFI advice to Arab governments is becoming more nuanced, shifting from a solely trade-based approach to food security to more of an emphasis on domestic food production². Like many such studies of crises in the region, Mossallam (2015) concludes that IFIs should

² Gulf states are also increasingly buying land abroad to secure food provision, known as the ‘land grab’ phenomenon (Harrigan, 2014)
support the development of social protection schemes that are very closely tailored to national contexts in order to reduce vulnerability to shocks.

**Indonesia**

**Causes of unrest**

Attempts at fuel subsidy reform in Indonesia have been a factor in civil unrest since the 1970s, often provoking mobilised responses from the poor and ‘nearly poor’ (Lockwood, 2015). The latter group, bunched just above the poverty line, are both highly vulnerable to price shocks and capable of large-scale mobilisation. Fuel subsidies were an important way in which the Suharto regime (1968-1998) built its power base, and protests at attempted reform were a major cause of Suharto’s departure alongside foreign direct investment flight and the 1997-1998 Asian Financial Crisis. Subsidy reform attempts since the Crisis until 2017 included “six ad hoc price increases, three ad hoc price decreases, and two periods when prices have been subject to frequent formula-determined adjustments” (Inchauste & Víctor, 2017:133).

**Interventions**

Since 1998 a twin pattern has emerged in state responses to fuel subsidy protest, involving a mixture of (a) alternative redistribution tools and (b) policy reversal. For instance, following the departure of Suharto, the Wahid administration (1999-2001) abandoned reforms that led to protests, instead increasing fuel subsidies significantly. In addition, it also developed alternative redistribution tools including cash transfers, funding for schools and village infrastructure, and health insurance for some households (Lockwood, 2015: 487), which may have pre-empted unrest. In addition, a pricing formula for fuel (50% of market price) was introduced in 2001, but abandoned after protests in 2003 (Inchauste & Víctor, 2017:153).

The Yudhoyuno administration's (2004-2014) fuel price reform in 2005 was accompanied by support for education, health and social welfare, transportation, clean water infrastructure, small enterprises, empowerment of coastal communities, and cash transfers known as ‘BLT’ (Inchauste & Víctor, 2017:154-157). This too was accompanied by substantial protest, partly on the basis of the complaint that the delivery of BLT was corrupt and politicised.

**Stability effect and lessons**

The pursuit of fuel subsidy reform in Indonesia has not been smooth, provoking large-scale protests, requiring policy reversals and re-attempts. It appears that reversing subsidy reductions appeased protestors, however it is difficult to measure the effectiveness of pre-emptive measures at forestalling protests. Inchauste & Víctor (2017:153) emphasise the importance of careful preparation of alternative distribution tools, although they argue that the successes made in 2005 were also down to shrewd political planning and good communication.

Indonesia offers an instance of a cash transfer scheme both provoking unrest, because of perceptions of unfairness in its targeting, as well as contributing to stability (Inchauste & Víctor, 2017:157). This demonstrates the challenges of moving away from blanket subsidies to targeted safety measures when state capacities to deliver the latter effectively are weak, while avoiding alienating politically mobilised groups. For this reason, Lockwood (2015:487) argues that, in lieu of the international community’s preferred intervention (the targeted safety net), it is sometimes worth considering the ‘second best option’, such as replacing one subsidy category with another, e.g. fuel for food, even though the latter also comes with disadvantages.
India

Causes of unrest

Justino (2015) examines the impact of expenditure on social services in mitigating and preventing unrest in India between 1960 and 2011 across 16 states. The causes of unrest are varied, including separatism, inter-caste tension, and inter-ethnic and inter-religious conflict, alongside disparities in employment and working conditions, access to land, access to social services, legal institutions, and the ability to wield power (Justino, 2015: 9).

Interventions, stability effect and lessons

Government spending on social services mainly targets the socio-economic causes of the unrest rather than those related to religious, cultural and caste identities – despite the fact that these are not entirely separable. Redistributive transfers in particular address distributional concerns, and may have been a factor contributing to the relative lack of civil conflict in India (Justino, 2015: 19).

Importantly, Justino (2015) finds that the short-term effect of social expenditure – i.e. the impact on stabilising unrest – is negligible. It is only in the medium-term that beneficial effects occur.

Justino (2015) suggests this is because of the time required for social spending to impact poverty and inequality: the drivers of social discontent.

6. References


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