

Research Briefing Notes

The Political Risks of Subsidy Reform in the Middle East and North Africa

Summary

This research examines whether food and energy subsidy reforms trigger protests and political instability in the Middle East and North Africa (MENA). Despite widespread government concern that subsidy reforms could provoke regime-threatening unrest, this assumption has not been systematically tested. The study aims to determine if factors such as reform type, timing, framing, and compensatory measures can mitigate potential negative effects. The researchers are developing a comprehensive dataset of all subsidy reforms and announcements in the MENA region from 1975 to the present. By combining this with existing protest event data, they will assess which types of subsidy reforms most likely trigger popular mobilisation and instability. The project seeks to enhance understanding of the relationships between fiscal/social policy, popular mobilisation, and political stability. It aims to identify nuances in social contracts and the effects of managing sensitive policy reforms. Findings will have significant implications for designing more inclusive social policies and preventing conflicts in the region.

Research Background

Do attempts to reform food and energy subsidies cause protests and political instability in the Middle East and North Africa (MENA)? MENA governments have dreaded touching long-standing subsidy schemes, fearing that reforms could lead to regime-threatening unrest. However, the assumption that subsidy reform is politically highly destabilising has not yet been systematically tested. It is also unclear whether the type, timing, and framing of reforms or the use of compensatory measures, could have mitigating effects. We are carrying out a quantitative study testing the hypothesis that subsidy reforms cause protests and political instability in the MENA. To conduct our analysis, we are creating a dataset of all subsidy reforms and reform announcements in the MENA region stretching from 1975 to the present day. In combination with protest event data from existing data, we assess whether, and if so, which type of subsidy reforms are likely to trigger popular mobilisation and political instability. By ascertaining whether subsidy reforms cause protests and political instability, we aim to improve our understanding of the relationship between social and fiscal policy, popular mobilisation, and political stability. More specifically, the project aims to identify new nuances in the structure of social contracts and the effects of managing sensitive policy reform. This has important implications for the design of more inclusive social policy and conflict prevention.

Key Findings

While our data collection and analysis are still ongoing, we have been able to produce some first preliminary insights. In the first instance, the new dataset of subsidy reform events in the MENA region between 1975 and 2023 provides a better descriptive overview of how subsidy reforms have evolved over the years. Up until roughly the year 2000, most subsidy reforms focused on rolling back

food subsidies, whereas energy subsidies were kept, suggesting a higher prioritisation of cheap energy over cheap food, which is likely down to a (non-exhaustive) combination of factors: low international oil prices in the 1980s and 1990s making this subsidisation less expensive, greater economic multiplier effects of cheap energy versus cheap food, and greater administrative ease of subsidising energy. In line with the latter point, we also found that fresh foods were eliminated first and more easily subsidisable goods like flour, sugar, and oil were kept/are being kept longer. Perhaps unsurprisingly given the fiscal pressures, most subsidy reform events were indeed cuts that led to price increases of the (formerly) subsidised good although in some cases (1980s Iran or some Gulf countries post-Arab Spring) we have also seen increases in subsidisation. Our first descriptive cross-checks with existing data on protests and civil unrest in a first pilot study of Iran suggest there is no immediate and obvious correlation between subsidy reform and political instability. Protests have occurred on rare occasions but in most instances, reforms were implemented without a popular backlash. Qualitative analysis suggests that government management of the reform (content, structure, timing, etc.) can be successful, and that protest occurrence remains strongly contingent on the general political and economic context.

Key Implications for Policy Action and Further Ways to Address the Knowledge Gap

For solid, empirically grounded policy recommendations it is still too early but our preliminary findings already hold some interesting insights for policymakers, experts, and practitioners. The main one is that, at the moment, it seems like the reform management strategies implemented by many MENA governments as a result of their historical experiences and political sensitivities seem to be successful in mitigating the destabilising effects of reform. However, the project will continue to work on trying to determine to what extent the “success” is down to overall contextual factors (post-Arab Spring repression, international prices, economic context, etc.) and to what extent government measures (goods to be reformed, order, timing, compensation schemes, justification etc.) are responsible. This will require increased use of mixed methods to combine the strengths of qualitative methods like process tracing for analysing reform decisions with quantitative methods aiming to establish general relationships between subsidy reform events and civil unrest.

Key Policy Targets

The research is particularly relevant for governments, policy experts and practitioners working on subsidy reform and more generally on social policy. Academics and journalists trying to understand the nexus between political instability and welfare reform will also benefit.

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More About the Research

More information about our project can be found on our project website: www.subsidyrisk.net.

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