

Economics focus | Unrest in peace

Protests in the West have roots beyond bouts of austerity



AFTER two decades of stable growth and mostly quiet streets the rich world has become an unruly place. Hundreds of protesters have been camped in New York's financial district since September, inspiring similar movements in large cities around the world. In Rome the protests turned violent as demonstrators set cars alight and hurled rocks at police. Greek workers demonstrated again this week against yet another set of austerity measures. Public anger is clearly fuelled by economic troubles, but the link between economic conditions and unrest is complex.

Instability is often blamed on creeping austerity. After the riots in London in August, Ken Livingstone, a former mayor, declared that "the economic stagnation and cuts being imposed by the Tory government inevitably create social division." A recent paper by Jacopo Ponticelli and Hans-Joachim Voth of Barcelona's Universitat Pompeu Fabra suggests he may have a point. They assemble a data set of chaotic episodes in Europe between 1919 and 2009—a mix of protests, strikes, assassinations and attempted revolutions—and find a tight relationship between fiscal austerity and unrest. Episodes of instability occur twice as often when spending cuts reach 5% of GDP as when expenditure is rising.

Such dangers are well appreciated in the emerging world, which has much greater experience of austerity. Cuts have often been associated with civil violence. In a separate study of fiscal consolidation in Latin America between 1937 and 1995, Mr Voth pinpoints a tight link between fiscal consolidation and instability, across democracies and autocracies alike.

Protests induced by austerity also attract far more participants than demonstrations sparked by other causes. In a sample of European protests from 1980 to 1995, austerity-focused protests attracted over 700,000 people on average, the authors find. Anti-war protests averaged just under 15,000 attendees. Tax increases do not have a significant effect on the likelihood of unrest, however, which suggests that distributional issues play a role in inciting public ire. Tax rises often have greater impact on the upper-income elite; service cuts are felt more keenly by those on lower incomes who may already feel disenfranchised.

Anger at austerity is likely to be just one component of public dissatisfaction. High debt levels across the rich world owe much to the impact of weak growth on tax revenues. Messrs Ponticelli and Voth control for the impact of growth in their study and find

a causal role for changes in GDP alongside that for budget cuts. A 1% increase in GDP reduces the expected number of demonstrations per year by about 0.4 events, roughly half the impact of a similar increase in the government budget. Weak growth and high unemployment rates are an obvious recipe for discontent. In 2010 the International Labour Organisation warned that high levels of joblessness, and of youth unemployment especially, were likely to trigger above-normal levels of social unrest.

Inequality is also an engine of protest. A classic 1994 paper by Alberto Alesina of Harvard University and Roberto Perotti of Bocconi University studied 71 countries between 1960 and 1985 and found that higher levels of income inequality were associated with increased social instability. Their explanation was that unrest often erupts when a wealthy middle class is weakened.

That idea resonates strongly now. By one estimate, 58% of the real economic growth in America of the past 30 years was captured by the top 1% of earners: the Occupy Wall Street demonstrators are embracing a motto of "We are the 99%". The rise in American income inequality reflected a dramatic "polarisation" of the labour force into high- and low-skill segments at the expense of middle-skill (and middle-wage) positions, according to research by David Autor of the Massachusetts Institute of Technology (MIT). Just as the apparently benign macroeconomic environment of the past two decades masked a build-up of financial instability, it may also have been storing up the elements of prolonged social discontent.

Even where the grass is greener

Much of this hollowing out of the American workforce is down to technology, but some of it stems from globalisation. Structural changes in the world economy can cause instability in countries where output is expanding as well as in sluggish ones. Rapid emerging-market growth is placing pressure on the world's notoriously inefficient food markets, for example. A 2011 IMF study of 120 countries between 1970 and 2007 found that a 10% increase in food prices was associated with a doubling in the number of anti-government protests, though only in low-income countries.

Growth that undermines existing social institutions and dislocates workers is also likely to generate instability. In China mass migrations associated with rapid catch-up growth and urbanisation are often blamed for causing instability. Instances of "mass disturbances" have risen steadily since 1993, even as the Chinese economy has enjoyed scorching growth. Ricardo Hausmann of Harvard University similarly argues that Egypt's steps towards economic liberalisation stimulated an appetite for greater opportunity that fuelled discontent with the ruling regime.

Research by MIT's Daron Acemoglu and Harvard's James Robinson finds that relatively undemocratic governments have historically extended voting rights in order to convince a restive public of the promise of future redistribution. In the West, that is not an option. A bit more growth and a bit less austerity might take the edge off public anger. But if social unrest has its roots in the effects of structural economic changes, a more fundamental societal reckoning may be needed. A study by Patricia Justino of the University of Sussex examined inequality and unrest in India and found that redistribution can quell an outcry. That may well be the outcome of the current turmoil, too. ■

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