SHORT-RUN PUBLIC REACTIONS TO FOOD SUBSIDY

CUTS IN SELECTED SUB-SAHARAN AND NORTH AFRICAN COUNTRIES

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## Short-run Public Reaction to Food Subsidy Cuts in Selected Sub-Saharan and North African Countries

### Executive Summary

Many countries in North and sub-Saharan Africa control consumer prices of staple foods in ways which contribute to fiscal deficits. Such deficits have been increasingly difficult to sustain in the context of the late 1970s and early 1980s. Therefore the IMF frequently, other external agents often, and internal economic officials sometimes have urged that consumer prices be increased to cut or eliminate the subsidy element.

Perhaps the largest obstacle to such measures is fear of urban riots. But riots are not an inevitable response to increased food prices. In fact, there are many instances of sizeable increases without significant public protest. This study seeks to identify the factors that determine short-run public responses to increases in consumer prices for staple foods, primarily staple grains like rice and wheat products. Particular attention is given to the influence on public reactions of factors over which the government has some control in the short run--that is, policy variables.

The study examines experience with nominal consumer price increases for subsidized food staples in four countries: Morocco, Tunisia, Senegal and Madagascar. These are all cases in which most or all of the urban populations had access to the subsidized staples at official prices, although in some cases the rural population did not. (Other cases, where subsidized goods were in fact if not in principle available at controlled prices only to restricted groups, were not examined). The time frame is roughly 1979-1984. The Senegal story is carried through the third rice price increase in January 1985.

In these four countries during this period, there were thirteen increases in nominal consumer prices for staple grains. These increases were sometimes accompanied by price hikes for other basic foods (sugar, cooking oil) and non-food items (most commonly, bottled gas for cooking, and petrol). In other instances the basic grain price was increased alone, while increases for other items occurred at different times. Of the thirteen increases in food grain prices, two promtped very serious rioting and many deaths--Morocco in June 1981, and Tunisia in January 1984. A third instance of widespread rioting, in Morocco in January 1984, was triggered not by actual food price increases but by rumors thereof, plus actual increases in prices of a number of other goods and services. In all other instances, there was little or no public protest.

For each price increase, four sets of factors were examined:

- Objective economic costs: what groups were harmed how badly?
- The strength, orientation, and role of organized opposition groups.
- Public attitudes toward the government and confidence in its economic management.
- Government management of the price increases, including timing and size of increase, presentation, partial compensation measures, and efforts to co-opt or contain opposition groups.

For three of the four countries, these factors provide fairly persuasive explanations of why riots occurred in a few instances while most increases provoked little or no protest. In the case of Madagascar, these factors leave a bit of a puzzle regarding the lack of protest over the very steep price increase in May 1982.

The cases also suggest a number of tentative generalizations, although the sample is too small to support strong assertions. Several of these generalizations receive additional support from the related research of Henry Bienen and Mark Gersovitz, which surveys a much larger number of cases but in much less depth.

1. Large scale protest is an unusual reaction to food price increases. However, Bienen and Gersovitz find small-scale protest (entailing ten or fewer deaths) is considerably more common.

2. The probability of protest is only partly a matter of "pocket book impact." This study assesses objective immediate impact on consumers fairly carefully, considering real as well as nominal price changes, trends in wages and employment, and changes in the prices of other key goods and services (including, where appropriate, substitute staples). The Moroccan riots of mid-1981 were clearly linked to objective impact. Both the Tunisian and the Moroccan riots of January 1984 entailed economic grievances, but other factors were very important. In the Tunisian case, the objective impact of sharply increased bread prices was minor for much of the population. And there was no protest of the rice price increase in Madagascar in May 1982, which had a severe objective impact on consumers in the capital and major ports.

3. In an inflationary context, people may view moderate nominal price hikes as an inevitable part of the larger picture of rising prices. That is, they may implicitly react to real price trends as much or more than nominal changes. In this study, several moderate nominal increases (in the 20-30 percent range) which entailed little or no real increase over the level when the price had last been raised, prompted no protest. Two of the three instances of serious rioting, in contrast, were prompted by price increases which were large not only in nominal but also in real terms.

4. Availability of substitute staples at competitive prices is not likely to dampen initial public reactions. In most cases consumers have strong preferences for particular goods and will shift to "inferior" goods only slowly.

5. Organized opposition usually plays a minor role in public reactions. In only one of the three instances of violence in this study were unions and opposition groups implicated. This point is confirmed in Bienen and Gersovitz's study. Organized groups are susceptible to regime co-option and/or threats. Such groups have little to gain and a good deal to lose by widespread public disorder, unless they judge the regime to be so weak that it can be toppled and replaced by a new coalition. Moreover, Bienen and Gersovitz point out that protests of this kind are often used by regimes as a pretext for mass arrests of opposition leaders and the ousting of questionable supporters from key positions. That pattern is clearly illustrated in this study in the cases of

Tunisia and Morocco. The case studies here also illustrate specific co-option techniques, which vary with political context.

6. Most protests in response to increases prices are spontaneous. They also usually have no agenda other than the rolling back of the price increase. Again the Bienen-Gersovitz study lends support.

7. People are much more likely to acquiesce in price increases if they are viewed as part of a plausible plan for economic recovery. Conversely, price increases seen as a reflection of long-term economic decline over which the government has lost control have a higher probability of triggering protest. More tentatively: a series of closely spaced increases (a year or less apart) may be viewed as evidence that the government has lost control. Such a series may therefore prompt protest not only because of heightened economic pressure but also because of growing disillusionment. Moroccan experience in mid 1981 and again in early 1984 fits this pattern.

8. Since public confidence is important, skillful efforts to explain the need for the measures and how they will contribute to economic recovery can reduce the probability of protests.

9. Point eight has a less obvious implication for the frequency and timing of price increases. Less frequent, hence necessarily larger increases may be easier for regimes to explain and justify than frequent, smaller increases. Regimes may also be better able to pick opportune timing (or avoid particularly risky timing) if increases are less frequent.

Two caveats are in order regarding this tentative generalization:

i. The ability to choose the opportune moment is often undermined by regimes' tendency to delay as long as possible. In such cases financial crisis may virtually dictate the timing of the price increases.

ii. As a long-run goal, it is probably desirable to depoliticize the procedures for adjusting food prices. The classic form of depoliticization is to remove both controls and subsidies and permit market forces to determine prices. Most governments accustomed to controls and subsidies view that transition as risky politically, and undesirable on social equity grounds. However, in this study Madagascar has moved a long way in that direction. Indexing may be a less technically desirable but often more politically feasible alternative, but this study does not include examples of this approach.

10. Measures perceived as equitable are less likely to prompt protest. For this reason regimes often accompany price increases with real or symbolic wage adjustments. An alternative approach, differential price increases, is feasible where a staple is used in different forms by middle class and poorer strata. Thus Morocco twice raised prices for high-quality flour while leaving the price of low-quality flour untouched. Targetted subsidies, or targetted cash transfers are also sometimes feasible to increase equity, but require stronger

statistical and administrative capabilities than many developing countries possess. In this study, Tunisia considered cash transfers but did not allow sufficient time to set the system up before the price increases went into effect.

11. The degree of legitimacy of the government also affects the probability of protest. In this study, protests in Tunisia and Morocco in January 1984 reflected widespread political malaise, while lack of protest in Senegal despite three fairly sizeable price increases in three years probably reflected the regime's legitimacy. More generally, Bienen and Gersovitz found protests less likely where prices were increased in the wake of elections widely viewed as reasonably fair.

12. Efficient and loyal security forces can play a role in deterring organized protest, but are likely to be less effective in preventing the outbreak of spontaneous protest. The skill with which protests are managed by security forces can strongly affect whether protests turn violent, and if so, the duration and extent of violence. In this study, the behavior (whether unplanned or, as is alleged, directed) of security forces in Tunis seems to have prolonged the rioting.

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Research Report:

# Short-run Public Reactions to Food Price Increases in Selected Sub-Saharan and North African Countries

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## I. Scope and Purpose of the Study

### 1. Introduction

Many countries have targetted or untargetted systems of subsidizing prices of staple foods to consumers. The costs and benefits of such systems have long been debated. In many African countries, consumer subsidies began to draw growing criticism from international development specialists, and to some extent from technical and economic analysts within the countries themselves, as growth slowed, agricultural output lagged, and budget, balance-of-payments, and debt problems began to cumulate during the 1970s. When these difficulties became acute in the late 1970s and early 1980s, cuts in or elimination of food subsidies became part of the stabilization and structural adjustment agenda urged on many African (and non-African) countries by the IMF, the World Bank, AID, and other external agencies.

Political leaders' fear of urban protests and riots has been a major stumbling block to efforts to reduce or significantly alter subsidies. The fear is usually real, although it has undoubtedly also been used as an excuse by political leaders reluctant to change the system for other reasons. Yet, there have been many instances where subsidies have been cut without provoking demonstrations or riots. Almost certainly, in fact, the number of cuts which have prompted little or no protest far exceeds the instances where there have been significant demonstrations, but the latter cases make the headlines while the former pass unnoticed.[1]

Are there any systematic factors that help to explain the contrast between cuts prompting little or no protest, and those provoking outbursts such as occurred in Egypt in 1977, in Morocco in mid-1981; in Tunisia, Morocco, and the Dominican Republic in 1984? A great many possible factors leap to mind: the proportion of the population actually benefitting from the sudsidies, the size of the cuts (more precisely, the size of the price increases), the broader economic and political context, the way in which the government handled the announcement and implementation, the role of specific opposition groups. It is particularly useful to know whether policy variables--factors the government can control in the short run--play a major part in shaping public reactions, or whether the broader economic and political context seems to largely determine public reactions.

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[1]My own impressions on this point are shared by Henry Bienen and Mark Gersovitz, who have been conducting related research.

This study covers fourteen food price increases in four countries. Of these, nine entailed moderate (over 20 percent) to large nominal rises. Four were small (less than 15 percent) and are included as background to later, larger increases. One involved price hikes on non-food items plus rumors of food price increas. In three instances, violent and widespread rioting occurred. In the other instances, there was little or no public protest. For each instance, a standard list of variables (described below as the analytic framework) is examined, to see which combination of variables explains the outcome, that is, public protest or lack of protest. The study is exploratory. Except for the simultaneous study by Henry Bienen and Mark Gersovitz, there has been no comparative research on the topic. One purpose of the study therefore is to test whether the hypothesized causal variables do indeed explain the outcomes in this limited set of cases, or whether we should look for different or additional factors. A second purpose is to gain some feeling for ways in which governments can manage subsidy cuts so as to reduce the probability of violent public interest.

## 2. The selection of cases.

Several considerations guided the selection of cases. I was particularly interested in instances of fairly large nominal price increases: as a rule of thumb, say 20 percent or more. In principle, this criterion has a serious disadvantage: it sets aside possible cases where the government has succeeded in substantially cutting subsidies by a series of smaller price increases at comparatively frequent intervals. It is often suggested--indeed, it is almost conventional wisdom--that such an approach should be politically preferable to less frequent but larger increases, and therefore such cases would be particularly interesting. As a practical matter, however, no such cases were identified in preliminary discussions with people knowledgable about the management of food subsidies in Africa.

Since the study focusses on mass public reactions, a second criterion for selecting cases was the knowledge or strong presumption that a large proportion of the public--at least, the urban public--actually had access to the staple(s) at the official, subsidized price. In many countries, food subsidies are targetted to relatively narrow groups. There are two totally different criteria for such targetting: need, and political importance. Occasionally, targetting according to need may also produce political gains, but often the most needy groups--for instance, low-income lactating mothers and young infants--are not politically potent, nor even able to mobilize broader public support on their behalf. Targetted subsidies for the needy are relatively rare in Africa. More frequent are cases where food staples are officially subsidized, but supplies available at the official price fall far short of demand. In such cases it is the politically well connected--government, military, and party officials--who actually have access to the subsidized commodities, either through official systems of special shops, or more informal arrangements. In Guinea under Toure, for instance, subsidized staples constituted an informal but clearly recognized portion of officials' compensation. Those with access to subsidized goods then often resell part of their supply. The remainder of the population must buy on the parallel or illegal market, at much higher prices. Cutting subsidies in such cases is politically difficult, but the political dynamics involved are quite different from the politics of cases where subsidies significantly benefit much or all of the urban population, or perhaps the total population (as in Egypt, and formerly in Sri Lanka).

A third selection criterion was a reasonable degree of general political stability, such that protest against subsidy cuts could be distinguished from other sources of political turmoil. Different causes of unrest of course blur and reinforce each other in any country's politics. But when a country is beset with multiple, grave, and chronic political tensions and upheavals, efforts to analyze patterns with respect to one specific source of public aggravation are not likely to be fruitful. For this reason Sudan is not included in this study, although some initial work was done on it.

Limited time and resources prevented my examining all the North African and sub-Saharan cases which fit these rough guidelines. The cases included here are Morocco, Tunisia, Senegal, and Madagascar. In each case the history of price increases on controlled and subsidized grain staples (flour and wheat products, and rice) is surveyed from 1979 or 1980 forward. Some attention is also given to increases in prices of other consumer staples, especially sugar and cooking oil, and of non-food items such as cooking gas and petrol. During the period examined, there were five rounds of price increases in Morocco, three in Senegal, three in Madagascar (plus the current period of decontrol and floating prices), and three in Tunisia. As already noted, several of these were small and are examined only as background for later increases.

## The Scope of the Analysis

Before sketching the analytic framework, a few words are in order regarding what the study includes and what it omits. First, the kinds of subsidies considered in this study are explicit fiscal subsidies. In each of the countries, the government, or private agents acting on government contract, buys staples (wheat, rice, sugar, cooking oil) from domestic producers, foreign suppliers, or both, and resells to processors or consumers at prices that do not fully cover costs. The gap is covered by the government, as a regular current account expenditure or through some special off-budget account. Government intervention in purchase, distribution, and pricing of consumer staples can create varied patterns of direct costs and benefits to domestic producers, processors, consumers, and the government itself. Attachment II provides a partial list of such patterns, and relates them to the major subsidized staples in the countries covered here.

For purposes of economic analysis and design of policies to promote economic goals, it is crucial to distinguish among the several patterns in Attachment II. For the specific political question this study examines, it is much less important to distinguish among the patterns. Precisely stated, this is a study of public reactions not to subsidy cuts, but to increases in administered prices for staples, regardless of the degree and direction of subsidization involved. But the study is clearly relevant to the political problems of cutting subsidies, since desire to narrow fiscal deficits resulting from such subsidies is perhaps the most common reason for governmental decisions to increase administered prices of staple foods.

Second, this study is concerned with only a narrow slice of the large topic of the politics (or the political economy) of explicit food subsidies. It may be helpful to list some of the larger perspectives to which this study relates, but which it does not attempt to address.

- The broad political analysis of the origin and role of food subsidies in specific countries: how and why the system was established, how it evolved, the political functions (intended and accidental) it has come to fulfill, the stakes of various groups within and outside of the government in its continuation or modification.[2]

- The political economy of governments' choices among stabilization options or, more narrowly the factors bearing on governmental decisions as to how to cut the budget in times of austerity. In principle it might be possible to relate particular political or economic features to varying patterns of budget reduction. A decision about whether and how much to cut food subsidies of course is one outcome of this broader process.

- The effects on economic growth, welfare, and equity of existing subsidy systems or modifications or elimination thereof. The International Food Policy Research Institute, the World Bank, and other have conducted analyses along these lines.

One further point related to scope should be clearly stated. While this study is intended to improve understanding of public reactions to subsidy cuts, it does not assume that such cuts are always desirable, or are preferable to other combinations of stabilization policies. Strong arguments have been presented, in general and with respect to specific countries, that generalized food subsidies are a high-cost means of improving living standards for the poor, and indeed that in many instances the poor derive little benefit from the subsidies. But other, well-documented studies demonstrate that in at least some countries food subsidies significantly improve the living conditions of the poor. Where this is true, governments might be well-advised to consider other means of meeting stabilization goals.

## The analytic framework

In the case studies that follow, several factors are assumed to shape short-run political reactions to increased staple prices. These include:

- The objective economic costs of the increases to consumers.

- The strength and orientation of opposition groups.

- Public attitudes toward the government and confidence in its economic management.

- The government's management of the increased prices, including explanation to the public and to particular groups, co-opting of potential opposition; and partial compensation to selected groups.

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[2] A short general discussion of these topics, with some illustrative

The <u>objective economic costs of staple price increases</u> reflect a number of factors. The logical starting point for analysis is the importance of the increases for household at various income levels, in rural and urban areas. Sometimes, as in Madagascar, it is important to distinguish among different cities. In principle, we want to know what categories of households actually have access to the subsidized goods at the official price, and what portion of their budgets are spent on subsidized goods. From this we can calculate the immediate impact of an increase in staple prices on households at different income levels or in different locations.

In some countries subsidies are administered by controlling the prices at which processors and wholesalers (public or private) purchase basic commodities and sell them to retailers, but the commodities reach the consumers through ordinary private retail shops. Retail selling prices are controlled mainly through management of supply, rather than through policing of outlets. Morocco, Senegal, and Tunisia fit this pattern. In such systems, most or all urban consumers can be assumed to buy most or all of their requirements for staples (over and above any self-produced supplies) at or close to the authorized price. If supplies are adequate, one need not look for data on the degree to which households at different income levels or in different locations must resort to the private, usually illegal market, at higher prices. In contrast, where subsidized goods reach the consumer through special outlets, and/or supplies fall short of effective demand, then it becomes necessary to analyze what groups or categories had what degree of access to the staple at the official price. In this study, Madagascar represents such a case, and the discussion of the Malagasy case includes a review of evidence on who had access to subsidized rice.

In the longer run, of course, increased prices for subsidized (or formerly subsidized) commodities may prompt shifts in consumer purchasing patterns in favor of substitute goods. Indeed, a major goal of cutting subsidies often is to prompt such shifts. In principle, purchasing patterns could change rapidly and relatively painlessly if ample supplies of substitute goods were available at prices significantly lower than the (new) price of the subsidized staple, and the substitute(s) were viewed as only slightly less desirable by most consumers. In practice, these conditions are rarely met. Changes in consumption patterns are likely to be delayed, and therefore are not likely to influence short-run political reactions.

To appreciate more fully the impact of price increases on consumers, additional information is necessary. Often a specific price increase is part of a series of over several years, and the cumulative increase in the nominal price is likely to influence subjective perceptions of costs. The trend in real prices should also be considered. Governmental reluctance to adjust subsidized prices in line with inflation often means that the real price of subsidized

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examples, is available in a draft paper by Raymond F. Hopkins, "Political Calculations in Subsidizing Food," prepared for a conference organized by IFPRI, at Chiang Mai, Thailand, Nov. 13-15, 1984).

commodities falls substantially over time. Public reactions may be tempered to the degree that nominal increases are viewed as an inevitable part of the larger inflationary picture. Whether nominal or real trends are more important to public reactions, and under what circumstances, are important questions for examination.

In addition to trends in nominal and real prices, trends in real wages and in unemployment are relevant. In sharp recessions even a falling real price may represent a rising fraction of (shrinking) household incomes, for example, among the newly unemployed. Conversely, of course, increased prices are not a burden if wages and employment are rising equally fast or faster. Finally, the impact of a subsidy cut is intensified or cushioned by what happens simultaneously to prices and availabilities not only of near-substitutes, but also of unrelated essential goods and services. In the context of austerity programs, food price increases are often announced at the same time as increased bus fares, higher prices for cooking gas, or larger school fees.

Turning from factors affecting the objective economic impact of staple price increases to political factors, the role of <u>opposition groups</u> is clearly important. Their number, size, organization, and capacity to collaborate (or, alternatively, rivalry and fragmentation), and the extent to which they are permitted to voice their opinions and mobilize adherents are obviously pertinent. The constituency and main concerns of important opposition groups are also important. Groups that rely mainly on rural support will regard price increases that affect primarily urban dwellers as irrelevant or possibly desirable, if linked to increased producer prices for domestic food crops. Where there are fairly well-organized groups for which the increases should be relevant issues, the actions they actually take will reflect strength or weakness vis-a-vis the government and their broader political strategies.

Public attitudes toward the government, and confidence in its economic management, are also important determinants of reactions to increased staple prices. The general political legitimacy of the government is one important component of public attitudes. Confidence in economic management is partly independent of legitimacy, and also affects reactions to price increases. People will tolerate a good deal of belt tightening if the measures are viewed as part of a credible program of economic recovery which will pave the way for the return of better times. But if increases prices are seen merely as part of a long-drawn-out trend toward lowered living standards and increased hardship, with no end in sight, protest is more likely. The perceived equity of the measures adopted is also likely to affect public reactions.

The government's management of the price increases, including the timing and design of the increases themselves, and ancillary measures taken shortly before or at the same time, constitutes a fourth set of factors determining public reactions. These are policy variables, in the sense that they are within the control of the government in the short run. The case studies examine the following policy variables:

° The size of the increases, and their timing relative to past increases.

- Bunching or spreading of price increases on individual staples and on basic non-food commodities (such as cooking gas) and services.

- Partial compensation measures, including wage and salary adjustments for selected groups, and a variety of other devices.

- Explanation and persuasion directed to the public, and to specific interest groups, especially labor unions.

- Measures to co-opt opposition groups or to mute their opposition.

Limitations of the study.
It may be useful to note at this point that these factors bear on the probability of significant protest, including sizeable demonstrations. The probability that demonstrations will turn violent is in part determined by the characteristics and goals of the organizing groups, and the intensity of feeling among the demonstrators. But the transformation of demonstrations into violence is often triggered by factors that are difficult to predict in advance: the dynamic interaction between crowds and police or army, an implusive agressive action by a few within the crowd or ill-advised reactions by individual policemen or militiamen. There is, in short, a random factor involved in whether or not demonstrations turn violent. This study makes no attempt to assess or discuss that random element.

Other obvious limitations of the study are the small number of cases, and the absence or non-comparability of data sets. Particularly damaging gaps in the data include absence of resonably up-to-date information on household expenditures patterns (for Morocco and for Senegal), and the total absence of data on wage or income trends in the informal sectors which comprise a major part--perhaps as much as half--of the labor force in African cities. These problems were anticipated from the outset. Other data problems were not anticipated: for instance, the absence, in several cases, of a simple list of increases in nominal prices for key staples and the dates (even the months) in which those increases occurred. Most of that data has been assembled, but a few holes remain.

The inherent nature of the inquiry poses a different kind of difficulty. Where there was little or no protest of substantial price increases, we must try to understand a "non-event." For this purpose, a sequence of price increases in the same country, provoking serious protest in some but not all instances, is particularly useful for sharpening our understanding. Morocco, the first case study, offers such a case.

# Morocco:
# 1979 - 1984

Synopsis.

Morocco increased prices for subsidized food staples on four separate occasions in the course of five years: September 1979, September 1980, May 1981, and July 1983. The first two rounds of increases prompted little protest. The third increase, announced in May 1981, triggered serious rioting and hundreds of deaths, mainly in Casablanca. The fourth set of increases, in mid 1983, was quietly received. However, after a series of additional austerity measures at the end of 1983, mainly not involving food prices, serious rioting again broke out in January 1984 in a number of cities, particularly in the north.

The subsidy system.

The Moroccan system of price controls and subsidies on staple foods is long-established. The two key items subsidized are sugar and flour, which together account for a substantial fraction of low and medium income urban households' food expenditures. Sugar is the largest single item of expenditure by a wide margin, in all income backets. At various times there have also been subsidies on cooking oil, butter, and milk. In the late 1970s, just prior to the period covered in this discussion, the subsidies on sugar, flour, and cooking oil were roughly 17-20 percent of the retail price. Subsidies were administered through a system of payments to millers and refineries; there was no targetting.

Government management of the flow of supplies in general assured that commodities were indeed available at the controlled price. Estimates of the extent of benefits to urban consumers suggest that, in 1981, those in the low/medium income range gained the equivalent of about 6 percent of their incomes through the subsidies.[3] Those in higher income brackets purchased more and therefore benefitted more in absolute terms, but the subsidies represented a smaller relative increase in real income. Rural households benefitted primarily from the subsidy on sugar.[4]

For the nation as a whole, explicit food subsidies represented about 10 percent of recurrent budget expenditures in the early 1980s, and as much as a

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[3]The estimates are derived from 1971 household expenditure data. More recent data are not available. As a rough order of magnitude, the figures seem plausible. Note that the subsidy on basic staples was roughly 20 percent in the early 1980s; if the subsidies were equivalent to about 6 percent of household expenditures, that would imply expenditures of roughly 30 percent of the household total on the subsidized items, mainly sugar and flour. On the basis of surveys from other countries at roughly comparable income levels, we can guess that fairly low income households in Morocco might spend about 60 percent of their total outlays on food, of which half would go for subsidized items.

[4]Assessing the real benefits to consumers is more complicated than the text indicates, especially with regard to sugar. In the early 1980s Morocco was

quarter of the budget deficit. Between 1974 and 1982, the subsidies averaged 3 percent of GDP, starting lower than that figure and swelling to exceed it in the later years. The budget drain caused by the subsidies became the focus of concern as Morocco was beset by multiple economic difficulties, from 1978 on. Among the causes of her problems were weak international demand for phosphates during much of the period, the second oil price increase and associated rises in other import prices, the economic drain of the Saharan war, prolonged drought conditions, and increased interest on rapidly swelling foreign debts. To cope with these difficulties, the goverment adopted a series of austerity measures and negotiated a series of agreements with the IMF.

September 1979

The mid 1970s had been a period of rapid economic growth in Morocco, and had also seen a marked resurgence in the political popularity of the monarchy. The mass march of March 1975 to demonstrate Moroccans' determination to control the Western Sahara had generated nation-wide enthusiasm. Measures in the next several years to loosen restrictions on political activity were also popular, particularly in the cities. But by 1979 the glow was beginning to fade. An undercurrent of unrest reflected the nation's longer-term problems: growing inequality, rapid urbanization, lack of employment opportunities particularly for new entrants to the labor force, and the continued dominance of an in-grown political elite pre-occupied with manuevers among parties increasingly divorced from even the urban masses.

In early spring of 1979 there was a wave of social unrest, marked by largescale strikes among teachers and health workers. The strikes were instigated by the CDT, the trade union arm of the oppposition socialist party, the USFP. They were put down with a number of arrests and extensive layoffs. In April the stick was counterbalanced with the carrot: a series of wage increases were announced, including a 30 percent increase in the minimum industrial wage and a 15 percent increase for lower-paid civil servants. Meanwhile, however, the broader economic situation was deteriorating. By August it had reached the point of a serious financial crisis, with reserves covering only two weeks' imports. Nominal prices on most of the subsidized food staples--above all sugar, flour, and cooking oil--had been unchanged since the early or mid 1970s. Since consumer prices had risen markedly--84 percent from 1973 to 1979 (International Financial Statistics), the real price of staples had fallen considerably. Flour, for instance, in 1979 was 64 percent of its real price in 1974. As part of the broader austerity measures adopted in response to

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importing roughly half the sugar consumed, and grew the rest domestically. Most of the imported sugar was refined in Morocco. Morocco is a high cost producer of sugar. Therefore the consumer price, particularly for the preferred "loaf" form, was often higher than it would have been had all the sugar been procured at the world price, but not high enough to fully cover the costs of the Moroccan producers; the gap was covered by a budgetary subsidy. In an economic sense, therefore, consumers as well as the government were subsidizing the domestic producers.

the financial crisis, the price of granulated sugar (unchanged since 1971) was increased 13 percent; loaf sugar (unchanged since late 1973) was raised 14 percent, and cooking oil (stable since 1975) was raised 14 percent. Flour, however, was not affected. Perhaps because of the wage increases earlier in the year, and the fact that these were the first increases in some years, there were no extensive reactions keyed directly to the price increases, though sporadic strikes continued into early 1980. Students also continued to be an additional source of protest, pressing for larger bursaries, criticizing various reforms in the educational system, and in some instances protesting the thrust towards Arabization.

<u>September 1980</u>

It was clear by early 1980 that further austerity measures were unavoidable. Negotiations with the IMF were stalemated. The oil import bill was soaring; by the end of the year the costs would cumulate to more than 50 percent above 1979 costs. Reserves were again falling sharply. Drought had reduced agricultural production. To cope with the continuing unrest and prepare for further unpopular economic measures, the king moved both to strengthen his own position and to conciliate as much as possible of the opposition. In April 1980 the life of the existing legislative council was extended from four to six years, running to mid 1983. This provoked criticism from those parties which believed they could increase their representation through early elections, but gave the regime two additional years to work with the existing alignment. In July some 3,000 health and education workers who had been suspended from their jobs in the strikes of March 1979 were reinstated. More than 90 political prisoners, many of them USFP members, were also released. In August the king held a national colloquium on education problems to defuse student opposition. More university places, teachers, and student bursaries were promised. (ACR '80-81, B 79) Also in August, the king announced that most political exiles would be allowed to return home. And in September accused assassins of a prominent USFP leader were brought to trial, after long delay.

Prices for petroleum products had already been increased towards the end of June, including a 21 percent increase in bottled butane gas (widely used for cooking) and a 32 percent increase in diesel fuel, plus 9 to 13 percent

Table 1

Percent increase in the retail price of staple foods, year to year, 1980-1983[a]

| | 1974 | 1980 | 1981 proposed (pre-riot) | 1981 actual | 1982 | 1983[b] |
|---|---|---|---|---|---|---|
| Sugar | | | | | | |
| loaf | | 33 | 40 | 21 | 0 | 17 |
| powdered | | 36 | 40 | 27 | 0 | 0 |
| Flour | | | | | | |
| high quality | | 17 | 40 | 18.5 | 0 | 35 |
| low quality | | 10 | 40 | 20 | 0 | 0 |
| Cooking oil | | 21 | 27.5 | 15 | 0 | 30 |
| Milk | | 24 | 14.3 | 7 | 0 | no data |
| Butter | | 24 | 76.2 | 27 | 0 | 66 |

[a] Price includes subsidy in most cases. The subsidy on butter was discontinued in 1979 and 1980, then re-introduced. The subsidy on milk was discontinued in 1980 and 1981, reestablished in 1982, and again halted in 1983.

[b] 1983 data based on estimated prices. All data from official government sources.

increases in various grades of gasoline. (EIU, No. 4, 1980, p. 7) On September 6, increases were announced in the government-controlled prices of sugar, flour, cooking oil, milk, and butter. Low quality flour went up by 10 percent, loaf sugar by a third, cooking oil by 21 percent. (See Table 1) Two partial compensatory measures were apparently designed to ease the burdens of the price increases for poor households. On August 20, the King had announced that rents for low-income groups would be cut by a third--a step that went beyond the rent freeze being proposed by opposition parties. However, that measure was unlikely to have much real effect, since many of the poorer urban people lived in squatter settlements, while those living in rent-controlled units were already normally paying key money that reflected the unrealistically low level of rents. At the time of the food price rises, tax changes were also announced reducing burdens on those earning less than 1,500 dirhams a month. Since direct taxes were much less of a burden on low-income groups than indirect taxes, this measure, like the rent decrease, was mainly illusory.

While the compensatory measures explicitly linked to the subsidy cuts were largely window dressing, the broader set of political conciliation measures already described probably helped to mute criticism from dissident parties and leaders. The price increases were also announced just before the unveiling of a new, ambitious (and unrealistic) five year plan that held out the promise of better times ahead. While many technocrats and probably much of the larger-scale business and financial community realized the long-term nature of the country's economic difficulties, much of the public in autumn 1980 was prepared to view the problems as temporary, and therefore tolerable. A large Extended Fund Facility loan from the IMF was announced shortly after the subsidy cut took effect, perhaps reinforcing the impression, at least among some parts of the public, that the government had a plausible economic game plan. The price rises, though not at all trivial and coming just a year after the increases of 1979, excited little open protest and no violence.

May 1981

If 1980 had been a difficult year, 1981 was an unmitigated disaster. Oil prices were still rising; Morocco's oil import bill rose another 30 percent in the first half of the year alone. A second and more severe drought year cut output. Imports of wheat and sugar increased dramatically. Exports barely covered half the cost of imports. The drought also ruined many small farmers, accelerating the influx into the cities (particularly Casablanca) and thus exascerbating housing and unemployment problems. Prices soared for domestically produced foods not subject to official control or subsidy, including meat and sweet potatoes. GDP per capita fell 5 percent in real terms by the time the year was over. (International Financial Statistics).

Responding to these economic pressures beyond Morocco's control, the agreement arranged with the IMF in October 1980 was replaced in March 1981 with a new, large loan. The funds were, however, linked to a stringent economic and financial program. At the end of May the government announced steep new increases in the prices of subsidized staples. Sugar and flour were both to rise 40 percent, cooking oil 27.5 percent, milk 14.3 percent, and butter (used mainly by somewhat better off households) by 76.2 percent.

In contrast to the experiences eight and twenty months earlier, this time there was prompt and vociferous protest. The USFP, the major opposition party, immediately denounced the increases. Strikes and protests broke out in different parts of the country, but especially in Casablanca and Oujda. On June 5, the leader of the small but active Communist party, the PPS, moved in Parliament to annul the increases, and even pro-government parties were critical. On June 6, a week after the increases had been announced, Prime Minister Maati Bouabid announced that they would be halved, and public employees' wages would be increased by 8 percent instead of the previously announced 5 percent. But these concessions, rather than calming protest, seem to have encouraged the opposition.

On June 18, the UMT, the long-established main labor confederation, called a general strike supported by railroad and airline workers and large segments of industrial labor in Casablanca. The strike was peaceful until on June 20, the CDT, the newer and more militant confederation linked to the socialist USFP, also called a strike. At this point events moved beyond the control of union leadership (part of which had been arrested just before the strike call went into effect). Serious rioting broke out in Casablanca. Crowds, reportedly drawn largely from the shantytown areas, stoned busses and taxis and set fire to banks, gas stations, and shops. The government ordered troops into Casablanca. When the crowd advanced with stones, the troops fired. Best estimates are that as many as 600 died, though official figures were much lower.

In the aftermath of the June riots, opposition newspapers were closed, and 190 USFP and CDT leaders were sentenced to terms ranging from one month to three and a half years in jail, and CDT offices throughout the country were searched and shut down by the police. The King reportedly blamed the riots on the government's failure to stem the rural exodus into the cities.

## August 1983

After the mid 1981 storm and its aftermath, 1982 was economically much improved and politically rather uneventful. The drought relented in 1982 and growth resumed, reaching 6.8 percent in real terms.

During the year, following the usual pattern of Moroccan politics, the King gradually relaxed the restrictive measures imposed after the 1981 riots and resumed a cautious "democratization" process. Abderrahim Bouabid, leader of the USFP, and two other prominent USFP MPs were released from detention after having served a few months of a one-year sentence. (They had been arrested not directly in connection with the 1981 riots, but after publishing a communique criticising concessions made by the King on the Saharan question.) The CDT (Socialist labor federation) office in Casablanca, closed since the riots, was permitted to reopen in April 1982. During the year USFP deputies who had been boycotting the House of Representatives in protest against the 1981 referendum extending its life by two years, gradually resumed their seats. The King's prestige among the public was also enhanced by his role as chair of the Arab summit meeting in Fez in September, at which a united Arab stand regarding a Middle Eastern peace plan was agreed upon for the first time. In January 1983 the young Prime Minister, Maati Bouabid, announced formation of a new Centrist party to contest the upcoming elections, designed to appeal to those who felt the older parties failed to represent their interests adequately--primarily the post-independence generations. And in June 1983, local elections were held for communal and municipal councillors. The election accorded an overwhelming victory to royalist forces, but was widely attacked as rigged.

Meanwhile, after the economic respite of 1982, economic difficulties were again mounting. Rainfall at the beginning of 1983 was deficient, and eventual cereal output dropped by a third. International demand for phosphates also weakened, and prices dropped by a third. Import curbs were introduced in March, cutting the value of imports by almost 12 percent in the following quarter. (EIU. 1984, No. 1, p. 19) Nonetheless, by summer the country's foreign exchange reserves were virtually exhausted. (EIU, 1983, No. 4 p. 24) The IMF urged a 17 percent devaluation in July, but action was deferred until late July, when the Chamber of Representatives was called into extraordinary session to act upon an omnibus austerity finance bill.

Before that session, in late June, King Hassan II made a surprise bid to Abderrahid Bouabid, leader of the USFP, offering him the premiership in an apparent effort to defuse criticism of the upcoming austerity measures (and possibly also of the long-delayed referendum in the Western Sahara). Bouabid asked for two months to consider the proposal; he then turned it down, but did enter the national unity government set up in November 1983. The unions were also consulted in advance on the new round of austerity measures, and agreed to accept them. (Clement and Paul, p. 24.) Also probably in anticipation of the austerity measures, on July 8, the king announced that the elections for the new Chamber of Representatives, scheduled for September, would be postponed until after a referendum was held on the Western Sahara--for which no date had been set.

The July 27 session of the Chamber of Representatives adopted a package of measures providing for a 13 percent reduction in public expenditures, a variety of tax increases (including a stiff exit tax), reduced food subsidies, and a 20 percent increase in the minimum wage. The subsidy cuts were to take effect in August. They followed on two years of steady prices (from July 1981 through July 1983), and were targetted to somewhat ease the impact on the poorer strata. Thus the price of high quality flour was raised 35 percent, but there was no change in the price of low quality flour. Loaf sugar was increased by 17 percent; granulated sugar was held constant. Cooking oil increased 30 percent; butter went up 66 percent. The lack of prompt political response to the August price increases may have partly reflected the perception that the price increases did somewhat spare the poorer groups. The 20 percent increase in the minimum wage also substantially compensated many households in the middle/low income strata in some cities (perhaps especially Rabat), although in other cities only a fraction of the urban labor force was affected by changes in the legal minimum. The fact that students were on vacation may have been helpful in avoiding protest.

December 1983-January 1984

While there were no significant protests at or shortly after the subsidy cuts of August 1983, serious and widespread disturbances erupted five months later, in early January 1984. These came hard on the heels of riots over food prices in Tunisia. Increases in prices of consumer goods and services undoubtedly played a role in the Moroccan protests, and they were widely interpreted as parallel to the Tunisian events and similar also to the riots of 1981 in Morocco itself. But closer inspection suggests substantial differences and a different interpretation.

During the closing months of 1983 the (extended) six-year term of the Chamber of Representatives had ended, and the Chamber was duly dissolved, pending new elections. In the interm King Hassan II ruled by decree, with the assistance of a government of national unity established in late November and headed by a senior non-partisan official. Representatives of six major parties, including the USFP, were ministers without portfolio. However, there was still no date set for elections. (A seven-nation summit meeting in September had failed to agree upon a referendum, which was in turn the prerequisite the King had established for a national election.) Opposition to the Saharan war, now nine years old, was mounting, and the parties were also unhappy over the lack of a firm election date. However, the USFP in particular was concerned not to jeopardize its ability to actively contest the elections, when they were finally held.

From the perspective of the King, the situation offered a period during which to implement difficult economic measures with a minimum of formal institutional opposition. By October 1983 the main short-run steps to cope with the financial crisis had been taken. A new standby agreement with the IMF was in place. Public debt due in 1983 and 1984 had been rescheduled through the Paris Club. Other debts had also been rescheduled, and new loans secured from international agencies. But longer term problems remained. The economy was depressed; the sharp cuts in imports and the effects of the resumed drought were causing severe hardship. Added to these burdens for consumers were a series of additional price increases for government-controlled utilities and services, including water rates, postal fees, fares on public transport, insurance premiums, electricity rates, and butagas (bottled cooking gas). Tobacco, soap, candles, and meat prices also all increased. In December it was announced that the price of petroleum products would again go up effective January 1. On December 27 the king announced in a national broadcast that a national wealth census was to be carried out, to guide future austerity measures so as to ease pressure on the poor. The speech may have created a general impression that further measures would fall mainly on the "rich." No new measures other than the gasoline price rise, which did not directly affect lower income groups, were announced between the date of the speech and the outbreak of the rioting. However, it is possible that some of the price increases announced earlier in December were not widely publicized until early January, and/or that sales of some items (for example, butagas) continued at old prices until stocks purchased earlier were exhausted, so that the actual effect of the new prices lagged the announcements by a couple of weeks. If so, that would explain what the Economist Intelligence Unit's observer described as widespread resentment in January when it became clear that the price increases indeed affected poorer as well as wealthier strata. (EIU, 1984 No. 2, p. 10). There were also rumors of planned additional food price hikes.

Despite this background of general economic hardship and specific price increases, and despite the example set by the Tunisian food riots in the first week of 1984, both the triggers and the core grievances of the January 1984 riots in Morocco focussed on measures other than food prices, or even consumer prices more generally.

On January 9 high school students in Marrakesh, upset by rumors that they would have to pay a Dh.50 fee to sit for examinations, began to demonstrate. For the first two days the police successfully avoided violence, but when army units were brought from the south to restore order, violent clashes occured. By January 12 riots had spread to the northern cities of Nador and Al-Hoceima. There for two days thousands of demonstrators battled with the police and para-military forces. A week later, disturbances broke out in Oudja and Tetouan. For several days there were riots particularly in the northern cities but also as far south as Agadir, with extensive looting and vandalism. The disturbances together caused at least a hundred civilian deaths, and prompted many thousands of arrests.

Despite the timing of the riots, price increases on consumer goods were only part--perhaps not the major part--of the rioters' grievances. The students, as noted, were concerned about examination fees, as well as perennial student complants. In the northern cities where some of the most extensive protests occured, many adult demonstrators were enraged over the imposition of the Dh. 500 exit tax, which bore heavily on a major source of income for local people--smuggling over the borders of the Spanish enclaves of Ceuta and Melilla. Their anger probably also reflected long-smoldering tensions between the Rif and the monarchy dating from the supression of the 1958 rebellion by then crown prince Hassan II. A further source of resentment, more recent and more widespread among Berbers, was the government's emphasis from the late 1970s forward on Arab language, culture, and international ties. (EIU, 1984, No. 2 pp. 8-9.)

It is worth noting that unlike the riots in Casablanca in mid 1981, the demonstrations were not instigated by organized political parties or by unions. The king, indeed, blamed the protests on Marxist-Leninists, Islamic fundamentalists, and the Israeli secret service (allegedly seeking to disrupt the Islamic summit conference held in Casablanaca in late January). Neither the USFP nor the PPS were accused of playing a significant role as organizations, though some individual party members may have been prominent.

Measures taken after the riots reflected their multiple causes. On January 22 the King assured the public that there would be no further staple price increases for a time, claiming that the decision was made after seeing the results of the national wealth survey. Draconian penalties for speculation were also proclaimed. This was followed in early March by an announcement that agricultural income would be exempt from taxation until the year 2000, and by a price freeze on all basic commodities. Grievances in the northern provinces were addressed with announcements in February of further assistance to promote employment and agricultural development, and in April, a reduction in the exit tax from Dh. 500 to Dh. 100, and its complete abolition for Moroccans traveling to Ceuta and Melilla. Ironically, as a result of the new price decisions coupled with increased supply costs, subsidies on basic food staples in Morocco had reached unprecedented levels by mid 1984. (EIU, 1984, No. 3, p. 17.)

Reprise.

Looking back over this four and a half year record, we can summarize the factors shaping public reactions to successive price increases.

-- September 1979: no significant reaction.

°Price increases modest, and first since mid or early 1970s.
°Flour not affected.

-- September 1980: no significant reaction.

°Price increases larger, and flour included.
°Direct compensatory measures (rent, tax relief) probably ineffective.
°King's political reconciliation measures in spring and summer had

probably disarmed main potential critics.
°Public tended to view economic difficulties as temporary.

-- June 1981: serious riots, mainly in Casablanca.

°Price increases, as initially announced, higher than in 1980, especially for flour; third increase in twenty months.
°No advance conciliatory measures or preparation of public opinion.
°Opposition parties and unions actively organized protest, which then got out of hand.

-- August 1983: no significant reaction.

°Price increases substantial but low-quality flour excluded.
°The first increases in two years.
°Simultaneous minimum wage increase perhaps helpful in some cities.
°Main opposition party reluctant to jeopardize ability to contest upcoming (though not firmly scheduled) legislative elections.
°Students on vacation.
°Local elections in June had reaffirmed King's mandate, though criticized as rigged.

-- January 1984: serious riots in scattered cities including several in northern regions, but little unrest in Casablanca.

°Not food price riots, but protests against general economic deterioration plus disillusionment with Saharan war, coupled in north with regional/ethnic grievances.
°Triggered by student exam fees and exit tax issues, though series of (mainly non-food) price increases in December plus broader equity issue formed background, and Tunisian riots probably encouraged action.
°Parties and unions not involved, but students active.

# Senegal: Increasing the Price of Rice, 1981 - 1985

## Synopsis.

The nominal price of rice, the staple food of the urban population in Senegal, has been doubled over three years in three steps, (January 1982, August 1983, January 1985). This increase has substantially outpaced the rise in the consumer price index, from 1980 on, and the trend in wages and salaries (other than the industrial minimum wage). None of the three increases has produced serious political protest.

## The subsidy system.

Supplies and prices for basic consumer staples are administered through the Caisse de Perequation et de la Stabilisation des Prix, which is charged with stabilizing prices both for consumers and for producers. The main consumer staples controlled by the Caisse are rice, cooking oil, flour and bread, and sugar.

From the urban consumer's perspective, the most important of these items is rice. Rice has replaced millet as the main food grain used in the cities; millet continues to be consumed but is a much less important element of urban than of rural diets. While Senegal produces rice, most rice is imported. In the early 1980s roughly a third to a half of domestic production was channeled to consumers through the Caisse, and that constituted perhaps a tenth of total rice handled by the Caisse, the balance being imported. The Caisse sells rice, as well as wheat, flour, and cooking oil, to private retailers, regulating price primarily through control of quantities rather than direct policing of retail prices.

Sugar is managed slightly differently: for a long time a private firm has had an arrangement with the government through which it monopolizes both the import of sugar, and the refining of imported and domestic sugar. The terms of the contract amount to a cost-plus arrangement, and the retail price has been sustained at levels well above world prices for years. The government does control the price, and has at times subsidized it through payments to the sugar company as an alternative to raising retail prices to cover increased costs. (EIU, 1984, No. 2, p. 19, describes the sugar monopoly.)

Retail prices of rice were adjusted twice during the 1970s. In October 1974 the price was sharply increased, from CFA 60/kilogram to CFA 100. Acceptance of the steep increase was probably facilitated by both the economic and the political context. 1972 and 1973 had been drought years, but the rains were normal in 1974 and the 1975 outlook was encouraging. Nominal wages (and some other prices) had been increased in August 1983 and January 1974. 1974 was also a year of political reconciliation, during which then-President Senghor liberated all political detainees and, for the first time in some years, permitted legal recognition of a second political party. A sharp increase in the price of phosphates eased the economic situation in 1975, and in 1976 the government dropped the rice price back to CFA 80/kg. The price remained unchanged thereafter, until Janaury 1982.

Due partly to the falling real price of rice, consumption increased steadily. The burden of the rice subsidy on the national budget and balance of payments was also heightened by the fact that close to a fifth of Senegal's population, including unusually large civil service cadres, live in Dakar, reflecting the city's earlier status as the capital of the much larger colonial territory of French West Africa. By the early 1980s, the CPSP deficit due to its purchases and sales of rice represented about 2 per cent of recurrent government expenditures.

No reliable estimates are available on the incidence of benefits from the consumer subsidies, nor their importance in household budgets at different income levels. No comprehensive survey of household expenditure and consumption patterns has been conducted since 1961, and that survey still provides the basis for the consumer price index. The 1960 data indicate that for the city of Dakar, roughly 7 percent of "average" African household expenditures were spent on rice. Per capita consumption of rice has almost certainly increased in the intervening quarter century, but the real price of rice has also probably fallen substantially, so that it is not obvious what changes may have occurred in expenditures on rice as a proportion of household outlays. Since sugar, wheat and flour, and oil are also subsidized, one might guess that middle income African households in Dakar use roughly 12-15 percent of their expenditures for purchases of these staples. Lower income households, including most of the much enlarged informal sector, probably spend a much higher proportion of their budgets on food in general, and proportionately more on staples. We know that in 1980 cereals comprised roughly 18-22 percent of the expenditures of low income urban households in Tunisia, despite the low price of bread. It seems quite probable that rice may comprise 15-20 percent of the budget for low-income households in Dakar.

Economic and political background of the price increases of late 1981/early 1982.

As elsewhere in Africa, the growing budget and balance-of-payments burden of the subsidies became a focus of acute concern as economic conditions deteriorated, most clearly from 1978 forward. Growth was already stagnant during the mid 1970s, and the country was excessively dependent on peanut exports. These fluctuated widely in production and world price, but their long-term trend was one of little or no growth. These and other long-run problems were aggravated by serious droughts in the late 1970s, the collapse of phosphate prices (after a brief boom) in 1975, and the second oil price increase. Real GNP per capita dropped an average of 5.3 percent a year throughout the period from 1977 through 1982. (Lewis, p. 25). Fiscal discipline had seriously eroded since the early 1970s, and by the late 1970s foreign exchange reserves were "deeply negative" (Lewis, p. 26)--a situation which could continue for several years because of Senegal's membership in the West African Monetary Union, (ibid., pp. 16-17) and because of substantial assistance from abroad, including budget support from France in years of economic difficulty. But by 1978 it was becoming evident that more than short-term measures to tide the country over until the return of good times were required.

From early 1979 on, there was an active debate on economic strategy within the Senegalese government. This debate was intensified by encouragement and pressure from the World Bank and the IMF, working in unusually close co-operation and with the quiet backing of the French. The lead in this process was taken by then Prime Minister Abdou Diouf, the skilled and trusted right hand man and heir apparent of long-time President Senghor. (Lewis p. 35). At the end of 1979 the government made public a medium-term "Plan de Redressment", committing the nation to a broad program of basic structural adjustment. In August of 1980, a three-year Extended Fund Facility agreement with the IMF was announced, and at the beginning of 1981 a World Bank Structural Adjustment Loan was concluded. Both agreements were based on the Senegalese commitment to reforms, including cuts in consumer subsidies to reduce budget deficits.

The adoption of austerity-cum-structural adjustment measures coincided with a delicate political transition. Senghor had long made clear his intention to retire from the Presidency. On January 1, 1981, the long-anticipated step took place, and the constitution automatically transferred power to Senghor's Prime Minister of ten years, Abdou Diouf.

Diouf was widely respected as a skilled technician and administrator, but many doubted his ability to lead in his own right. The new President surprised observers by moving promptly and decisively to establish his own identity and strengthen his legitimacy, retaining established bases of support while addressing emerging sources of dissatisfaction. His few initial appointments were carefully calculated to avoid confrontation with the old guard in the ruling Partie Socialiste (PS) while placing his closest political advisors in key posts. He promptly announced an "unlimited opening up of the political situation," including relaxing restrictions on the number of political parties and on political competition, and followed up on this promise with legislation and constitutional changes in the next few months. He strengthened his support among the country's predominantly Muslim population and with the powerful leaders of its religious confraternities by promptly attending the third Islamic summit, in Taif (Ridyah); his prestige was further enchanced by grants from Saudi Arabia and Iraq. (Paradoxically, Sengnor's Catholicism had been an advantage in avoiding any appearance of favoritism in his dealings with the two major rival Muslim confraternities, while Diouf, a muslim, had to establish his impartiality). At the end of his first month in office the new President also moved to defuse the serious hostility between the government and the opposition teachers' union, SUDES. The frank and wide-ranging discussions with the new administration produced agreement on a number of education reforms, cancellation of a threatened strike, and reinstatement of a number of teachers dismissed earlier. Demands for salary increases, however, were not met.

Still other steps early in Diouf's Presidency were also calculated to buttress his popularity (as well as to serve other goals): he launched a vigorous anti-corruption drive and made clear his intention that it would extend to the inner circles of the ruling party if that proved necessary. He also followed a practice that had become common in Senegal during recurrent drought years in the 1970s, by annulling peasant debts owned to government agencies for seed and fertilizer and deferring payments due on agricultural equipment. While all these steps clearly served to establish Diouf's independent capabilities and strengthen his political position, his legitimacy was less than complete so long as he owed his position to the constitutional provisions arranged by Senghor rather than to popular election. There had indeed been talk of early elections, but Diouf fairly promptly announced that he did not intend to advance elections from the late 1983 date required by the constitution.

Perhaps in part because of lingering concerns about his political position, but certainly largely because of the severe drought and economic hardship of his first year in office, Diouf did not move promptly on the issue of food subsidies. 1981 was a terrible year following on a poor year in 1980. A "Solidarity Levy" on civil service salaries, deducting one day's pay monthly from paychecks, provided token budget relief but mainly symbolized recognition of a national economic emergency.

Despite some prodding from the international agencies, therefore, Diouf did not raise the price of rice in 1981. Sugar, however, was increased by 25 percent in August. Budget cuts and other austerity measures were discussed and approved by the legislature in December, and in January 1982 the government announced a 30 percent increase in the price of rice, accompanied by steep increases in bus and rail fares, which rose 80 and 200 percent respectively. And in March, reflecting increased freight charges and customs duties plus the removal by the EEC of subsidies, the price of flour was increased by 42 percent and of bread by 15-20 percent.

There was little or no public protest of these price increases. Nothing in the picture seems to have offset the objective impact of the increases. Civil service wages had increased little since a generous boost in 1979, and the economy was generally in low gear. The lack of protest may partially have reflected public recognition that the rice price, nominally stable for six years, had fallen substantially in real terms and would have to be adjusted sooner or later. Lack of protest was also partly due to fragmented and poorly organized opposition groups. Diouf's removal of constraints on formation of political parties had led to a proliferation of small opposition groups which did not collaborate among themselves. In late 1981 and early 1982 the largest of these, the Partie Democratique Senegalais (PDS), was preoccupied with its own problems. Some of its members had been sent to Libya for military training (ostensibly as bodyguards) and this had led in autumm 1981 to arrests and some trials on charges of conspiracy against the security of the state, widespread public cricism, and the retreat of the party leader Abdoulaye Wade for a number of months abroad.

Background of the second set of price increases: August 1983.

After the price increases of late 1981 and early 1982, there was no further action on consumer subsidies for twenty months. Economically, 1982 was a much better year for most Senegalese than the two preceding years: the drought relented, and per capita income increased for the first time since 1979. However, progress on stabilization and structural adjustment measures faltered somewhat. In autumn 1982 and early 1983 Senegal was found to have failed to satisfy some of the performance targets established in its agreement with the IMF, and the agreement was suspended and eventually supended. Part of the disappointing performance reflected exogenous factors. The bottom dropped out of international groundnut prices in 1982 just as Senegalese production rose and the government was newly committed to very large increases in production producers' prices, leading to a heavy unexpected budget drain. In part, progress on various reforms and goals was being deferred until after the elections, scheduled for February 1983.

The coming elections dominated much of the attention of the public and political leadership, certainly for the latter half of 1982. The legislative contests were keenly contested. Even at the presidential level opposition candidates were given equal time on radio and television. Senegal's largely unfettered press engaged in lively debate. The turnout was a somewhat disappointing 58 percent but Diouf won a resounding 81 percent of the votes of those who went to the polls. His margin of victory was undoubtedly swelled by the endorsement, a number of weeks before the election, of the Marabouts leading the two major Muslim confraternities. The elections were marred by irregularities, attributed to old guard PS politicians determined to hold on to their positions.

With his political position freshly secured and legitimized, Diouf turned his attention more fully to pressing economic issues. New austerity measures were clearly required to gain an extension of balance-of-payments support. The CFA franc, tied to the French franc, continued to slide in line with the latter, and despite respectable increases in exports, Senegal's balance-of-payments gap continued to widen: by summer 1983 the foreign exchange situation was becoming critical.

In April Diouf thoroughly reshuffled his cabinet, replacing a number of the old guard politicians with younger, more technically skilled and oriented people. He also abolished the post of Prime Minister, thereby returning to the presidential system in effect during the 1960s. This move was influenced by various political considerations, including but not confined to the fact that Diouf, unlike Senghor in his later years, had more to lose than gain by designating an heir apparent. For the purposes of this study, it is interesting to note that Diouf explained the move to the public, in a radio and television address on the eve of April 3, Senegal's National Day, as desirable in order to concentrate in his own hands the authority necessary to deal with the effects of the world economic crisis, which required rapid and firm decision-making. (ACR, 1982/83, p. 552).

In a step important for its symbolism as well as its practical effect, the semi-official newspaper Le Soleil revealed in mid-July that the government would not take the customary summer break, and senior officials would concentrate on the country's economic problems during the summer months. At about the same time, at a meeting of the Central Committee of the Socialist Party, Diouf called for a mobilization of the party to cope with the economic situation. A few days later in July, a newspaper associated with the opposition PDS published parts of a confidential World Bank memorandum sketching Bank staff concerns regarding the country's economic trends. The memorandum noted Senegal's over-rapid growth in recurrent budget expenditures, especially for grants and salaries, and noted the Bank's understanding that the government had decided to slow the growth of the civil service and reduce subsidies to public sector enterprises and to the Caisse de Perequation et de Stabilisation des Prix, which administered the sale of rice, sugar, and oil. The public at large, and the opposition, thus had clear warning that more cuts were in the offing.

Meanwhile, Diouf was also attempting to disarm at least some segments of the opposition. Prior to the February elections there had been speculation that he might invite one or more opposition leaders to join the government. His failure to do so was attributed by some to the opposition groups' vigorous criticism of the conduct of the elections. For its part, the largest opposition party, the PDS, had refused to take its eight seats in the national assembly, as a protest against the alleged irregularities. But by early July, the PDS called for a round table to discuss the economic situation, and stressed that it would seek a consensus on a strategy for dealing with the country's economic problems. On July 24, Diouf appealed for the unity of all Senegalese political forces; two days earlier he remarked, in comments to the foreign press, that he regretted that since the elections none of the opposition party leaders had asked for an audience with him. Shortly thereafter PDS leader Wade expressed interest in such a meeting, which took place on August 5. The smaller opposition groups, however, did not respond to the President's appeal for dialogue.

A few days later, August 9-12, Diouf visited Washington; the new standby agreement with the IMF was part of his Agenda. A new package of austerity measures was announced on August 19. As part of the effort to shrink the budget deficit, prices on subsidized foods were increased: 24 percent for rice, 15 percent for sugar, 22 percent for imported vegetable oil, and 8 percent for petrol. Other measures included curbs on pay increases for public sector employees, tightened credit, adjustments in various contracts and in capital spending, and a levy on the producer price for groundnuts, to be used to help finance seeds and fertilizer. Combined with the earlier increase of January 1982, the nominal price of rice had now risen 63 percent.

The austerity package was "received remarkably quietly by public opinion, though not without protest." (EIU, 1983, #4, p. 8). The reaction was undoubtedly influenced by the extensive prior warning and discussion, the still fairly fresh electoral mandate, and the re-opening of dialogue with the PDC.

In addition to the political factors at work, wage trends played a role. The real value of the minimum wage had been maintained fairly well since 1980, with sizeable nominal increases in 1980 and 1982; the SMIG had again been boosted significantly (about 15 percent in nominal and 10 percent in real terms) by increases announced earlier in the year, on May Day.[5] Higher paid private sector workers had suffered a steady and substantial erosion in real incomes, cumulating to about a 25 percent drop, since the late 1970s; this was only slightly redressed in real terms by gains during 1983. Public sector workers had done somewhat better, on average, than the private sector in maintaining the real value of their wages, due largely to the generous increase (ranging between 4 and 34 percent) accorded in 1979 and taking effect in 1980). But the public sector workers did not gain, and indeed lost somewhat, in real terms in 1983.

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[5]More precisely, on May Day the government announced new guidelines for private sector wages, including a 15 percent nominal increase for minimum wages

Data available for this study permit only crude guesses as to how these trends relate to the structure of the Dakar labor force. The total force of roughly half a million includes about 200,000 modern sector workers. Of these somewhat over 80,000 are public sector employees. Therefore perhaps a quarter of Dakar's labor force (that is, roughly 120,000) gained ground in 1983. Government guidelines for SMIG and for higher wage employees in the private sector do not cover informal sector workers, who constitute more than half the city's work force. But the economic upturn in 1982 and 1983 probably improved incomes somewhat for many informal sector workers as well. Both the objective impact on consumers and the subjective public reactions to the package of staple price increases announced in August may well have been softened by these trends.

Despite the fresh austerity measures and on-going efforts by the government at longer-run reforms, Senegal continued to face serious economic difficulties. The autumn rains partly failed in 1983, sharply reducing agricultural production and shadowing economic prospects for 1984. The new twelve-month standby agreement with the IMF, formally signed on September 20, only partly eased the short-run financial squeeze, and the government faced a medium-term prospect of negative net flows from the IMF as past debts fell due. A bit more than a year later, in late 1984, the government was again engaged in difficult negotiations with the IMF and various donor agencies. The sticking point in these negotiations was the issue of a third rice price increase, especially before the municipal and local elections scheduled for November. Reportedly a price increase of 15 percent, from CFA 130 to CFA 150/kg, was being urged. The impasse was not resolved until January 11, 1985, a month and a half after the elections. The government then announced a somewhat larger than expected increase in the rice price, to CFA 160/kg. The timing was fairly obviously linked to the scheduled meeting of the IMF Executive Board on January 16; the rice price hike was an informal pre-condition for Board approval of a new standby. The rice price was now twice its nominal level at the end of 1981. During the same time the Consumer Price Index had risen a bit more than 50 percent, from 111.6 in the last quarter of 1981 to somewhat over 170 at the end of 1984 (projected from International Financial Statistics data through September 1984; 1980=100). At the same time that the third rice increase was announced, the SMIG guideline was increased 5 percent, and a token flat increase was announced for public employees. There were no simultaneous increases in the prices of other staples or key consumer services. However, six months earlier, in July 1984, the price of vegetable oil had been raised a hefty 50 percent. It is interesting to note that both the cooking oil and rice price increases exceeded those being suggested by the IMF.

In view of this last fact, the government's reluctance to increase the rice price earlier in the negotiations process cannot be viewed as a bargaining ploy;

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(SMIG) and 6 percent for higher paid workers. These guidelines depended for their effectiveness on wage agreements negotiated between private employers and their employees; many of the settlements during 1983 were favorable to the workers. The actual nominal increases for higher paid employees turned out to exceed the 6 percent guideline.

apparently there were real concerns as to the political reactions it might provoke.[6] Several considerations undoubtedly entered into those fears. First, there were the examples of massive rioting with tragic loss of life prompted by price increases in Tunisia and Morocco at the beginning of 1984. Second, while the austerity package of August 1983 had been introduced after a period of economic improvement, economic performance during most of 1984 had not been good, in part because of the inadequate rainfall the previous autumn. There was growing criticism of the government's economic management. Third, more generally, political support for Diouf and the regime was becoming somewhat frayed. Hopes, especially among younger activists, for a thorough house-cleaning and revamping of the ruling Socialist Party had been disappointed, especially after the changes announced at an extraordinary congress in January 1984, which many felt did not do enough to reduce the influence of the party "barons" inherited from the Senghor era. (Africa Confidential, 25:7, March 1984; p. 3.) The anti-corruption drive had run out of steam, and charges of favoritism and possible corruption (specifically in the rice trade) reached very close to Diouf himself.[7] Fourth, the opposition parties obviously were eager to capitalize on impatience with economic conditions and disillusionment with the regime. In late August and early September, several opposition parties planned a coordinated march and demonstration to protest alleged economic mismanagement and corruption. A permit to parade was first granted and then revoked. Within a matter of weeks the same groups announced that they intended to conduct their march anyway, without formal permission. The demonstration was prevented when troops sealed off the entire section of the city through which the march was routed.

Despite the government's concerns, fed by these several considerations, the third rice price increase provoked no greater outcry than had the first two rounds. Hindsight suggests that several considerations outweighed the factors just reviewed.

First, despite spreading criticism of the regime's economic management, neither objective economic conditions nor the public perception thereof were desperate. The autumn rains in 1984 were better than in 1983, holding out the prospect of somewhat easier times in the coming year. Similarly, despite reduced popularity, public attitudes toward Diouf and his government were more accurately described as impatient than truly angry. There were frequent complaints that Diouf was not moving more decisively, but few saw the regime as fundamentally unresponsive, thoroughly corrupt, or concerned solely with

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[6]There may also have been doubts regarding the effectiveness of the austerity strategy as a whole, and/or divisions within the government itself on that score.

[7]In 1982, the government had contracted with an international firm, with Senegalese subsidiaries, to manage rice imports. The press claimed that the profits were inordinate, and that part of the excess found its way into Socialist Party coffers. After the 1983 elections, the system was changed and three or four Senegalese firms were given contracts for handling imports. One of these, however, is headed by the President's daughter. Despite tighter government controls on margins, allegations of high profits have continued. Thus much of the public may have the impression that while they are forced to

preserving elite privileges.[8] Third, though opposition parties were eager to capitalize on the government's difficulties, they were in fact weak, fragmented, and disorganized. The PDS and four other parties had boycotted the November 1984 local elections. Their stated reasion was the failure to reform the electoral laws which had worked against them in the presidential elections of 1983. But observers suspected that in fact not even the PSD, and still less the smaller parties, had the financial and organizational capacity to seriously contest the elections. They therefore welcomed an excuse to opt out. The PDS was also weakened by the fact that its leader, Abdoulaye Wade, was out of the country during the second half of 1984. Reportedly the party was also infiltrated by agents of the dominant PS. More specifically relevant to the question of the risks of raising the price of rice was the fact that the PDS was on record as opposing street protests.

The labor unions were better organized and probably more capable of mounting concerted protest, acting through their federation the CNTS. A number of considerations, including internal rivalries and the somewhat problematic views of the established CNTS leadership, meant that the government could not take CNTS support for granted. But on balance it was viewed as likely--and turned out in fact to be accurate--that the federation would grumble over price increases but would then explain the need to its workers, and take credit for any wage increases.

Public opinion was certainly not taken by surprise by the increase. Most recently, Diouf had emphasized the need for continued belt-tightening in his New Year's address to the nation. A final consideration, unspoken but present, was the widespread perception that the government was able and willing to put down any demonstrations firmly. The handling of the unauthorized and abortive opposition march in September had underscored the point.

## Reprise

Each of the three rice price increases, in January 1982, August 1983, and January 1985, were calculated to eliminate the deficits incurred by the Caisse de Perequation et de la Stabilization des Prix, in its rice procurement and sales operations. Indeed, each increase slightly overcompensated for cost increases since the previous adjustment, but the continued fall in the franc relative to the dollar and trends in international rice markets rather rapidly reopened deficits which then were covered by transfers from government revenues. Compared with other countries in this study, the cost of the rice subsidy relative to Senegal's budget was comparatively low, and the repeated price

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pay ever higher prices for basic necessities, members of the "royal family" are making a great deal of money on the rice trade. (See Africa Confidential, 25:7 March 1984, p. 3).

[8]Diouf was concerned with the symbolism of equity. Early in 1984 it was announced that as their special contribution to the austerity effort, cabinet ministers would forego a month's salary; Diouf himself would forego two. The government motor pool was more than halved at the same time. It is hard to judge whether such gestures helped take the edge off popular dissatisfaction.

adjustments helped to keep it low. None of the increases provoked serious political protest, a fact which is particularly interesting in view of Senegal's rather open political system. Fragmented and weak opposition parties and a fairly compliant labor federation have certainly contributed to this outcome; so too have the government's efforts to make clear to the public the need for the price adjustments, and its care in the timing of the increases.

It is possible that comparatively high levels of external assistance have also helped the government avoid protest while adjusting key consumer prices. Relative to her population and GDP, levels of aid to Senegal in the early 1980s have been high: in 1982, for instance, per capita net assistance to Senegal was roughly twice the per capita levels provided to Morocco and Madagascar, and 50 percent higher than that provided to Tunisia. (World Bank, Toward Sustained Development in Sub-Saharan Africa, 1984, Table 18; OECD, Development Cooperation, 1983, Table G.2.) This support has shielded the public sector and at least the urban private sectors from the worst impact of internal and external economic blows. It has also probably permitted the government more leeway to choose the timing of key consumer price increases, in each instance delaying until it judged that political risks were manageable.[9] To be effective, of course, such leeway had to be combined with a fairly strong commitment to stabilization and adjustment measures. Although external observers and aid officials would like to see more vigorous reform by Senegal (and both the first World Bank SAL and the early standby agreement approved in 1980 were technically failures), most would agree that by comparison with most other heads of state, particularly in Africa, President Diouf's understanding and commitment to reform are unusually strong. Given some room for manuever plus genuine commitment, the regime seems to have played its cards rather well in this particular sub-game of the adjustment process. It has not made serious mistakes vis-a-vis the public or key interest groups (most obviously the CNTS); it has combined attention to timing with fairly vigorous efforts at persuasion, some attention (not always simultaneous) to partial compensation at least with respect to those earning the minimum wage, attention to the symbolism of equity, and adequate strength and loyalty of its security forces. It is difficult to pinpoint specific examples of great political skill, yet the overall effect has been a record many other governments would envy.

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[9]Since the second and third rice price increases were informal preconditions for new standby agreements, the timing of the increases appears after the fact to have been dictated by the process of negotiations. But during the summer of 1984, for instance, there was already high-level discussion of a third sizeable rice price hike; a poor millet harvest plus political concerns led to delay in the increase (and therefore in agreement with the IMF), but the picture was basically one of a government choosing when to take steps to which it was already committed.

## The Tunisian Wheat Price Increase of January 1984

Synopsis.

On January 1, 1984, the Tunisian government raised prices for bread, flour, pasta, and semolina by 115 percent. Even before the increases actually took effect, protests had started in the south of the country; during the first week in January Tunis and most smaller towns saw the worst upheavals since Tunisia gained independence in 1956, resulting in over 100 deaths. On January 6 President Bourguiba rescinded the price increases. At first glance the size of the increase appears to be sufficient explanation for the public reaction. Closer examination indicates that the actual impact of the price increases was modest for much of the population, and that fact was probably important in the government's calculation that the steep increase would be acceptable. But for a sizeable minority the increase represented a severe blow. Although the government intended to provide some compensation for the more vulnerable groups, it had failed to finalize and announce its plans before the price increase came into effect. The price hike also acted as a catalyst for deeper-seated political grievances.

1. The economic impact of the price hike on Tunisian households.

Wheat products are the staple foods of Tunisian diets. Bread is the most important single item, but couscous is also widely used, and replaces bread as the most basic staple in the far south.

The prices of most consumer staples, including wheat products, sugar, cooking oil, meat, and milk, have long been controlled and often subsidized by the government. Controls on staple foods are part of a much more comprehensive system of administered prices, embracing a great many products and services. Subsidies on basic foodstuffs are financed through the Caisse Generale de Compensation (CGC), which is the largest of several special accounts outside of the regular administrative and investment budgets of the government.

To contain upward pressure on the costs of the subsidies, food prices on most staples were periodically increased, usually as part of the annual budget process. The price of bread had been increased both in 1979 and in 1980. The 300 gram baguette, preferred by most middle class househeholds, had risen from 38 millimes to 45 and then, in 1980, to 50 milliemes, for a total nominal increase of 32 per cent. The price of the 700 gram flat loaf used by most working class consumers had been increased from 65 to 80 millimes over the same period, for a 23 per cent nominal increase.[10] After 1980, however, the prices of bread and other wheat products were not increased, though those of sugar, oil, and other staples did rise as did prices for gasoline and other petroleum products. The official consumer price index rose by 35 per cent between 1980 and 1983 (International Financial Statistics, 1984), implying a fairly rapid drop in the real price of wheat products, added to the longer slide in the real price during the 1970s.

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[10]Some of the accounts of the 1984 riots and their background claimed that the price of bread had not been changed for fifteen or even twenty years, but those claims were misinformed.

Partly for this reason, most households in Tunisian towns and cities spent comparatively small proportions of their incomes on wheat products. Much more recent and detailed data on household expenditure patterns are available for Tunisia than for the other countries considered in this study. National household expenditure surveys were conducted in 1975 and 1980, and permit analysis of differences in absolute and relative expenditures per capita for various categories of foodstuffs (as well as for other items) by households in different regions, in urban versus rural areas, and according to the occupation of the head of household. Data for 1980 show little change from those for 1975 with respect to patterns of expenditure. For the broadbrush purposes of this study, we can assume that no dramatic changes occured in the four years following the 1980 survey, and that the expenditure patterns identified in that survey provide a basis for gauging the impact of the wheat product price hikes of 1984 on various categories of households.

According to the 1980 survey, the average household spent roughly 250 dinars per person per year, and 42 per cent of this was used to purchase food. 8.2 per cent of the total was used specifically for purchase of cereals and cereal products--undoubtedly mainly bread and/or couscous. The proportion spent on cereals was lower in the big cities (5.3 per cent on average), somewhat higher in towns (7.6 per cent) and highest in rural areas (12.4 per cent). An examination of more detailed data, showing patterns of expenditure for households at different economic levels[11] in different regions of the country, confirms the broad point that most households spent relatively little on cereals.

In Tunis, where about 16 per cent of the population lives, over 70 per cent of the households spent a total of more than 200 dinars per person per year, of which less than 9 per cent (closer to 5 per cent on average) was used to buy cereals. In other cities and smaller towns (jointly comprising about 38 per cent of the population), between half and two-thirds of households were spending at or above the 200 dinar level.

Low relative expenditures on cereals in Tunisia resulted not only from the falling real price of wheat products, but also from rising incomes for many Tunisians. Between 1970 and 1982, Tunisia's GDP grew at an average annual rate of 7 per cent, while population growth was 2.3 per cent a year. (World Bank, World Development Report, 1984 annex Tables 2 and 19). By 1982, average per capita income was $1390--roughly 60 per cent higher than the average in Morocco, and several times the average incomes in Senegal and Madagascar. Cumulating internal and external problems slowed growth in the early 1980s; in 1982 real per capita income dipped slightly below the 1981 level and in 1983 real per capita income barely held steady. But there was no sharp recession or contraction of incomes analagous to the drops of 9 to 10 per cent in Senegal or Madagascar.

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[11]The survey did not gather data on incomes. Households were stratified, therefore, in terms of their total levels of expenditures, which of course differ from incomes by the amount of any savings or dissavings.

In short, much of the population was doing rather well in economic terms. For many Tunisians, perhaps particularly in Tunis, the price of bread was so low relative to incomes that a fair amount of it was wasted. Journalistic accounts claimed that "window sills and mailboxes are commonly littered with half-eaten loaves of bread, as religious tradition forbids throwing it on the ground." (James Rupert, Washington Post, January 4, 1984, pp. A-1, 12.) The same point played a role in the government's decision to sharply increase the price. Discussions of the Sixth Development Plan in 1982 already noted that bread was being used wastefully. And in the broadcast rescinding the price hikes, after some days of rioting, President Bourguiba stated that he had been led to go along with the price increase in part through reports that bread was being wasted and used for animal feed (Washington Post, Janaury 7, 1984, P. A-10; see also accounts in the EIU Quarterly Reports).

All this strongly suggests that for many, probably most Tunisians, the increase in the price of bread and other wheat products on January 1, 1984, though dramatic on its face, did not in fact have a severe economic impact. But for a substantial minority, the effects were much more serious. The 1980 household survey suggests the size and identity of those groups.

The survey established a "poverty line" (levels of expenditures below which households or persons were described as underprivileged). In urban areas that line was 120 dinars per person per year; in rural areas 60 dinars. 12.9 per cent of the total sample spent less than these amounts. (Enquete sur de Budget et la Consommation des Menages, 1980, cited hereafter as "Survey," Vol. II, p. 108.) As would be expected, the poor were distributed unevenly. In Tunis 8.5 per cent of the sample spent at levels below the poverty line. In rural areas of the poorer Central and Northwest regions roughly 17-18 per cent of those sampled were spending less than 60 dinars per capita, and in the towns (milieu communal) of the same regions about the same proportions spent less than 120 dinars.

People spending at these lower levels of course devoted proportionately more to food in general, and to cereals in particular. Households spending about 120 dinars per person devoted 58 per cent of that sum to food, and 15.3 per cent to cereals alone. At lower levels of total outlay, the per cent spent on cereals ranged up to 22 per cent. For these families, the wheat prices hikes of January 1984 were the equivalent of an 18 to 25 per cent slash in real income. It is not irrelevant that the initial protests against the bread price increase started in the area surrounding the salt pans of Chott and El Djerid and the southern town of Kebili, one of the poorest regions of the country, where poverty had been further intensified by drought and a poor date harvest. (EIU, 1984, No. 2, pp. 30-31; Seddon, p. 11).

Perhaps equally or more important in political terms were people one step up in the socio-economic ladder, represented in the 1980 survey as spending at levels of 120 to 200 dinars per capita in the urban areas. Per capita outlays in this range were typical of households headed by artisans, small independent entrepreneurs, and non-agricultural workers--many presumably in the "informal sector." Many of these had not benefitted from the increases in the minimum wage during the past several years (discussed below), since they were self-employed, or worked in small firms. In Tunis households in this expenditure stratum represented a fifth of the total sample. In the smaller cities and towns of the central, northwest, and southern regions that stratum comprised 26-31 per cent of the total. At this level of total expenditure, typically about 53 per cent was spent on food, and about 12 per cent on cereals. For what might be labelled the "near poor"--a considerably larger category than the poor--the price hike of January 1984 represented a cut of roughly 14 per cent in real incomes, by no means a trivial sacrifice.

2. The decision to sharply increase wheat product prices.

The government's decision to raise wheat prices by 115 per cent in one step is somewhat puzzling. The country was indeed facing serious economic difficulties. Petroleum had been Tunisia's leading export since 1973, but by 1980 production was dwindling and costs were increasing at the largest of her fields. By 1983 the international prices for both petroleum and phosphates, another important export, were weak. Textile exports faced strong competition and were also inhibited by European market restrictions, as were Tunisia's agricultural exports. Recession in Europe cut earnings from tourism and remittances from Tunisian workers abroad. In mid 1983 the foreign exchange situation was such that the government limited imports to 80 per cent of the 1982 levels. A rapid increase in debt obligations also shadowed the balance of payments picture. Internally, inflation was running at roughly 13 per cent according to official statistics, and unemployment was officially estimated at 13 per cent, but unofficial estimates were much higher. Wage increases in the formal sector had been outpacing the growth of productivity. 1982 was a very bad year, and 1983 was only somewhat better, due both to international economic conditions and to drought and floods. Austerity measures were clearly in order.

Moreover, from an economic perspective the bread subsidy was an obvious target. The subsidy on wheat products had constituted roughly 8.8 per cent of the 1983 budget, and was expected to climb steeply (by 60 percent) in 1984 due to the rise in the value of the dollar and internal inflation. The bread subsidy alone accounted for 6.5 per cent of the 1983 budget. Earmarked receipts for the GCC fund, from petrol and gas oil taxes, alcohol duties, cement and other import levies, and other sources, were not rising, and the Caisse already had accumulated a sizable deficit. (EIU, 1984 No. 1, p. 26, The Economist, January 14, 1984.) From fairly early in year, Minister of Finance Mansour Moalla urged gradual adjustments in the prices of wheat products.

Moalla and Prime Minister Mzali had long disagreed on a number of issues. Moreover, reportedly a number of ministers "believed that Moalla and the subsidy cutting faction were deliberately exaggerating the anticipated decline in government revenues from petroleum in order to push unpopular measures that would damage the Mzali faction's political prospects." The Prime Minister publicly overruled his Minister of Finance and announced that he would not approve even a gradual price increase. Moalla resigned on June 18, 1983. (EIU, 1984; No. 2, p. 33.)

But between July and October, Mzali reversed his position. The 1984 budget documents were being drafted during August and September, and closer examination of the facts may have persuaded the Prime Mininster that an increase in the price of wheat products was the least bad of several unpleasant options for coping with the prospective deficit. But it is not clear why he concluded that a draconian increase was desirable. The economic situation, though serious, was not a crisis. Neither external nor internal economic advisors were pressing for such drastic action. The IMF, on its routine visit the previous March, had endorsed Tunisia's economic management. Both the Fund and the Bank had long favored adjusting the consumer prices of wheat products, but advocated gradualism. Minister of National Economy Abdul Aziz Lasram, who had "overseen the gradual and relatively trouble-free removal of subsidies on energy prices since 1980" (Seddon, p. 14), reportedly argued for a phased approach on wheat product prices.

But Prime Minister Mzali evidently judged that a bold approach to the question was both economically desirable and politically feasible. In a statement for Le Monde he argued that the alternative approach to reducing the budget deficit through raising taxes could not have brought in sums comparable to the savings anticipated from the subsidy cut. (Cited in Seddon, pp. 14-15). The household expenditure survey findings discussed above, especially the data for average household expenditures on cereals, plus the evidence of waste of bread in Tunis, undoubtedly encouraged government officials to believe that sharp price increases would not provoke serious protest. Sizeable nominal increases in wages in the past few years probably also encouraged this judgment: in 1980 these were on the order of 10 per cent, and in 1981 in the range of 15-22 per cent. Early in 1982 a wave of strikes, particularly among white collar workers, had produced a further 33 per cent increase. (ACR, 1982-3, p. B-94). Nonetheless, the government was clearly concerned about possible protest from the powerful trade unions, but counted on negotiations with the moderate leadership of the trade union federation to ensure acquiesence. Officials pressing for the price increase probably also counted on fairly widespread middle class support. Finally, they undoubtedly assumed that whatever minor protest might occur could be contained by security forces. (Seddon, p. 15)

In retrospect it is easy to see weaknesses in these assumptions. Perhaps as much as half the urban labor force were not in the formal sector and benefitted little if at all from the official wage increases. And as already indicated, the household survey data showed that a sizeable minority of households spent hefty fractions of their total outlays for cereals alone, althought average expenditures were modest relative to total outlays. Minister of National Economy Lasram was convinced that the decision to virtually remove the subsidy in a single stroke was a mistake; he resigned from the government on October 19. On October 20 the cabinet approved the price increase. It was scheduled to take effect on January 1.

3. Government measures to ensure acceptance of the price increase.

While the decision to increase prices so steeply must have been based on a judgment of political feasibility, the government did exert considerable effort to ensure acceptance. Its techniques included persuasion directed to the general public and to the trade union federation, plans (unfortunately not consummated) for partial compensation for the needy, and efforts to co-opt elements of the political opposition.

The public had plenty of warning regarding the increase. After the cabinet decision in October, the topic was again discussed as part of the budget debate in the Chamber of Deputies in November. During this time, and before the formal announcement of the increase by President Bourguiba on December 28, cabinet members attempted to explain to the public the necessity of the increase, citing the country's economic difficulties and the expected increase in the cost of the subsidies if the price remained unchanged. (EIU, 1984, No. 1, p. 26.) Arabic language newspapers reportedly also used the argument that the waste of bread (reflecting the low price) was a violation of the teachings of Islam.

Partial compensation measures for the needy were also planned by the government, but apparently were a casualty of lack of prior preparation and a tight time-table. As part of the broader calculations for the 1984 budget, a substantial fraction of the savings anticipated from eliminating the subsidies on bread and other wheat products was earmarked for compensatory aid. Moreover, in contrast to many developing nations, Tunisia had legal and administrative definitions and procedures in place which could have facilitated compensation programs. For example, there was already a system for providing free medical care for those meeting certain criteria, and standards and procedures for determining eligibility for scholarships were also well-established. However, cash transfers such as those anticipated in the discussion of compensation programs would have been an innovation, and would have required new administrative arrangements.

The possibility of targetted assistance to the needy, as an alternative to the costly cross-the-board subsidy on wheat products, had been discussed in government circles (and urged by external observers) for some years, but since the issue was not seriously pressed, the bureaucratic tendency to see difficulties and raise objections had prevailed. The October 20 decision to slash the subsidy provided only a bit more than two months before the price increases went into effect, during which the relevant agencies had to decide upon specific criteria of eligibility for aid, design means to transfer the aid, and establish the machinery for doing so. The timetable proved too tight. By January 1, there had been no specific announcements about compensation for the needy, in all probability because the details had not yet been fully worked out. Only on January 4, after several days of rioting, were measures announced.[12] By that time the protests had gained momentum and were not deterred by the new promises.

The government also tried to engage the co-operation of the most important organized interest group in the nation, the trade union confederation (UGIT), in advance of the actual price increase. Labor unions in Tunisia are much more important than in any of the other countries surveyed in this study. In part this reflects the level and pattern of development: 53 per cent of Tunisia's population is urban, and a third of its labor force is employed in industry--a half again as many as in Morocco, in relative terms, and three times the

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[12]According to the Economist's correspondent, the measures announced on January 4 included: a subvention of TD 6 to TD 10 to be paid monthly to "people in need"; an increase in day laborers' wages of TD 6 a month; a subvention of TD 2 for pensioners and orphans, and unspecified "special assistance" to be provided to public servants and others earning modest salaries. (EIU, 1984, No.

proportion in Senegal. (World Bank, World Development Report, 1984, Table 21.) Historically, the trade union federation grew up in close collaboration with the nationalist movement which became the dominant (and, from 1963 to 1981, sole legal) party. During the 1970s, however, deep strains had developed between the UGTT and the PSD and government, eventuating in a bloody confrontation in January 1978, in which roughly 100 persons died. For three years after that tragedy the unions were in eclipse, their leaders imprisoned, and government-appointed replacements viewed as puppets. The movement was restored to something like its former status only in 1981, after Mohamed Mzali replaced Hedi Nouira as Prime Minister.

The memory of the events of 1977-78, plus the influx of younger and more impatient workers, may have made the unions less disposed to co-operate with the government in adjusting to new economic problems in the 1980s. The wage increases mentioned earlier, in 1980, 1981, and 1982, had contributed to a sharp increase in previously quite moderate inflation. Basically moderate UGTT President Habib Achour faced difficult decisions: his sense of responsibility for union co-operation with national economic priorities conflicted with growing evidence of workers' impatience with what was regarded as cautious, or possibly co-opted, leadership. UGTT members in the Chamber of Deputies regarded themselves as a sort of opposition. Many strikes took place without UGTT authorization. Government discussions in November 1983, designed to win UGTT acquiesence or, if possible, endorsement of the planned price increase, intensified the strains within the federation. Achour attempted to negotiate concessions for the poor, and a review of wages (Seddon, p. 10). Whatever understandings were reached apparently did not satisfy the more militant leaders. Seven of these were ousted from the federation in November, and formed a rival federation early in 1984.

Aside from the unions, the most vocal sources of criticism were likely to be the various opposition parties and political groups. These are much smaller and less powerful than the UGTT. From 1963, Tunisia had been a one-party state, though the government had tolerated various semi-clandestine political groups (including off-shoots of the ruling PSD) with varying degrees of flexibility during the 1970s. When Mohamed Mzali took office in 1980, he announced a new era of political liberalization ("ouverture"), raising hopes of freer political competition. As part of this policy, elections originally slated for 1984 were advanced to late 1981, and were opened up to wider competition. Non-PSD candidates were permitted to contest seats and given ostensibly equal rights to

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1, p. 26.) If these sums are recalculated on an annual basis, and compared with the sums actually spent for cereal products in 1980 by the lower-income households, it appears that the proposed compensation would have been more than sufficient to cover the price increases. There are questions, of course, about the coverage (and indeed practicality) of some of the categories announced, and more basic questions as to whether these reported plans were indeed those agreed upon within the government--or whether final plans had indeed been agreed. Such questions became moot when the price hike was rescinded. But the strong implication remains that fairly generous compensation was being planned.

hold meetings, have access to the media, and put up posters. However, President Bourguiba stated that only those parties that obtained at least 5 percent of the vote would be accorded formal recognition. The Tunisian Communist Party (PCT) was treated specially, perhaps because it had been a legal party prior to the 1963 establishment of the single party state; it was recognized in July 1981. The PCT and two other, unrecognized parties, both of which had been formed during the 1970s, contested seats in the November 1981 elections. But not one opposition candidate was elected, an outcome that predictably led to accusations of rigging. After the elections, the Minister of Interior somewhat confusingly announced that the requirement of 5 per cent electoral support for formal recognition should be regarded more as a "political index" than a legal condition; the Head of State alone would settle recognition issues. Thus the opposition groups were kept dangling in a twilight status. They were permitted to be fairly active and some publications were authorized, but they could not operate as fully constituted legal entities. On November 19, 1984, however, President Bouguiba announced that two rather moderate opposition groups were now recognized. The action may have been taken partly to defuse growing public restiveness with the slow pace of <u>ouverture</u>. But it may also have been designed as an implicit co-opting device, causing both the newly recognized parties and the more militant groups still awaiting recognition to restrain their criticism of the austerity measures about to be announced. There does not seem to be any other obvious reason for the timing of the recognition.

As events turned out, neither unions nor opposition parties played any significant role in the January demonstrations; the government's efforts at persuasion and co-option, respectively, may have contributed to this outcome. The UGTT criticized the price increases when they were announced in the 1984 budget published in December. But once the protests had broken out, Achour's reactions undoubtedly were restrained by memories of the 1978 confrontation between workers and the regime: he was "careful not to side with the rioters or antagonize the government." Reportedly, the anger of some rioters was directed against the UGTT itself: in Gabes, UGTT offices had to be protected by troops. Under pressure from more militant unionists, Achour indicated on January 4, that he was prepared to threaten a general strike unless the price increase was rescinded, but "a few hours later" he and members of the UGTT executive agreed with government representatives that they would endorse the rescinding of the price increase and would not call a strike. (EIU, 1984, No. 2, pp. 32-33.) If this version of events is correct, then the UGTT may have played a part in encouraging the reversal. But it seems clear that the UGTT did not incite nor actively encourage the demonstrations. Nor did the opposition parties, with the exception of the Mouvement de la Tendance Islamique (MTI), "a clandestine fundamentalist group" which had been gaining adherents in the past few years. (EIU, 1984, No. 2, p. 32.) In its later investigations of the riots, the government did not implicate any of these groups except the MTI.

In short, like the outbursts in Morocco only a few days later, the Tunisian protests of January 1984 were almost entirely spontaneous. Two sets of factors converged to produce the explosion: the economic frustration of important though minority segments of the population, plus the broader mood of political dissatisfaction (and skepticism about the government's claim of economic crisis) among a wider range of Tunisians. The discussion has already indicated the dimensions of poverty and near poverty, and the effects of the price increase on households in these categories. The question of the public mood bears more explicit explanation.

The public mood.

1983 had not been a crisis year in Tunisian politics. Yet for at least a decade, since the decisive defeat of the liberalizing elements within the PSD in the mid 1970s, there had been simmering and gradually spreading political discontent. Many intellectuals deplored the stifling not only of competition but also of criticism and debate under Mzali's predecessor Nouira. Their hopes had been aroused by Mzali's policy of ouverture, but dashed again by the handling of the 1981 elections and the rather unpredictable and arbitrary reactions to criticism and dissent since then. The younger generations in general regarded the PSD as old and tired. The more educated felt growing distaste for the adulation surrounding Bourguiba, and for the increasingly intense and blatant factional manuevering between supporters of rivals for Bourguiba's favor and the succession.

Added to this general political malaise was a strong current of skepticism and distrust regarding the government's austerity policies. In part the skepticism reflected the fact that the economic difficulties were indeed not yet a crisis. Ironically, therefore, government efforts to recognize and deal in a timely fashion with gathering difficulties ran into charges, within and outside of the government, of premature and unnecessary caution.

Widespread rumors about unexploited oil and gas resources heightened the suspicions that the government was exaggerating its economic difficulties. The government pointed to the dwindling reserves at the major field, El Borma, but many citizens and even some within the cabinet were convinced that there were large deposits elsewhere which would obviate the need for belt-tightening measures.

Public reluctance to accept the government's assessment of the nation's economic situation was also reinforced by widespread expectations and demands for steady improvement in living standards. These expectations had been encouraged by years of real achievement. (World Bank estimates credit Tunisia with an average annual rate of growth of per capita GNP between 1960 and 1982 of 4.7 per cent--a rate equalled or exceeded by only five of sixty low and lower-middle income nations for which data are available. 4.7 per cent compounded over twenty years represents a 250 per cent increase.) Many--perhaps most--urban Tunisians take European lifestyles as their standard of reference, a tendency reinforced by the sojourns of tens of thousands of Tunisian guest workers in Europe over the past two decades, and the annual waves of European tourists to Tunisia. The unveiling of the ambitious--and unrealistic--Sixth Economic Development Plan in mid 1982 probably also reinforced expectations of continued rapid improvement.

In sum, government efforts to explain and justify the wheat product price increase were directed at a public which was cynical about the political leadership and in large degree about the system, expected steady improvements in income and living standards, and was skeptical about the government's allegations of serious economic difficulties.

The demonstrations.

As noted earlier, the protests began at the end of December in a poor southern section of the country. From there they spread north to Gasfa, scene of an abortive rebellion in 1980, and east to El Hamma and Gabes. By January 3, there was rioting in Tunis; the demonstrations continued for a week and affected almost every town in the country. There was a great deal of property damage, hundreds were injured, and estimates of those killed ranged from the official figure of 84 to the local human rights group calculation of 120. (EIU, 1984, No. 2, p. 31. Paul ests 150, p. 5).

Several accounts stressed that the demonstrators were predominantly young men, many presumably unemployed. (See accounts in Paul and Seddon in particular.) The targets of crowd violence reportedly were often symbolic of "middle class affluence". In the center of Tunis food stores and fancy goods stores were emptied and set ablaze. The broad political nature of the protests was also clear. Prime Minister Mzali was repeatedly denounced; some prominent PSD officials were attacked; more strikingly, statues of Borghuiba were torn down from their pedestals and desecrated. The police were ineffective in controlling the rioters; most of the deaths occured when the military were called in. Later inquiries charged that in Tunis, at least, the police were deliberately instructed not to intervene forcefully. (Descriptions of the protests drawn from Paul, Seddon, and EIU quarterly resports; also Washington Post, January 4, 1984, pp, A1-A12; Steve Mufson, "Tunisians Uneasily Approach the End of an Era," Wall Street Journal, July 2, 1984, p. 22).

Strikes and battles between protestors and police and military continued until January 6. Late that morning, President Bourguiba appeared on national television and cancelled the price increases, "to lighten the heavy burden" of the poor. He ordered preparation of a new budget to shift the price increases to luxury items, including gasoline, wine, and other alcohols. After his speech, "the main streets of Tunis were a sea of hundreds of thousands of joyful demonstrators, shouting the praises of the "supreme combatant" who had guided the nation to independence twenty-eight years earlier. (Washington Post, op. cit., Economist, Janaury 14, 1984, p. 31; EIU, 1984, No. 1, p. 26).

The aftermath.

President Bourguiba's role in the events of early January caused a resurgency of his popularity. Oddly, at least for a time Prime Minister Mzali also managed to convert what appeared to be a grievous error into increased power. The first step in this recovery was the successful attribution of blame for the riots to Minister of Interior Driss Guiga. Guiga was prominent in the elite faction opposed to Mzali's automatic succession should Bourguiba die. He was closely allied with the President's wife, who favored a more rapid political liberalization and the designation of elections as the succession mechanism. Guiga was accused of withholding from the highest authorities early information from his agents around the country regarding the extent of opposition to the coming price increases. After the protests began, it was charged, he deliberately managed the police so as to let the riots get out of hand in Tunis; and then suggested to Mzali that he resign. Guiga was dismissed from office one day after the price increase was revoked. He later lost his seat on the Political Bureau of the PSD and left the country; still later he was tried and convicted in absentia. Mzali himself took over Guiga's portfolio, and promptly ordered a house-cleaning in the Ministery of the Interior. In the months following the riots, he also made several appointments to the cabinet and senior civil service which strengthened his political position vis-a-vis rival factions.

The President's speech of January 6 had called for revisions in the 1984 budget to compensate for the costs of the bread price roll-back. The revisions were to be presented by April 6. After a debate in the Chamber of Deputies on March 17, revenue increases were adopted, including a new tax on departures overseas by Tunisian citizens, increased taxes on alcoholic beverages, an increase in the "solidarity tax" (a surcharge on salaries and business profits), higher taxes on imported luxuries, and a surcharge for registration of motor vehicles, plus increased prices for fuels and modest cuts in current ministry expenditures and development outlays. The parliamentary debate apparently focussed on possible ill effects of these measures on farmers and the poor, and some adjustments in the government's proposals were made to minimize such effects. (EIU, 1984, No. 2, pp. 39-40).

Bourguiba's speech on January 6 had been careful not to promise an indefinite freeze on bread prices. In February, the government reportedly was considering a 10 percent increase for April, to be followed by a similar increase in July. In the event, modest increases (on the order of 10 millimes a bread loaf) were announced only in July. There was no sign of popular resentment of the new price schedule. It is worth noting that food prices in general had been quite stable during the first half of the year. (EIU, 1984, No. 1, 29; No. 3, p. 40.)

In theory, the measures adopted since January 1984 could have been adoped the previous autumn, but at that time Mzali chose the steep price increase instead. The riots themselves probably changed the political equation. Middle and upper class groups may have been frightened into conceding that they must bear more of the burden of adjustment. Alternatively, or in addition, Mzali's enhanced power vis-a-vis his rivals may have made it less risky to irritate the more affluent core supporters of the PSD and the regime. Finally, workers and the poor had won a victory, but had also been reminded that the price of wheat products could not remain unchanged forever. The harsh sentences meted out to many of those involved in January's riots, and the suppression of several opposition groups during the spring, undoubtedly also deterred any would-be protestors. But it seems likely that the modest increases of July were widely viewed as acceptable.

# The Rice Subsidy in Madagascar, 1980-1982

## Synopsis

Madagascar was beset with increasing economic difficulties from 1978 on. As part of the response to these pressures, the official price of rice was increased moderately both in 1980 and in 1981, cumulating to a 36 per cent increase in the nominal price. A third dramatic increase, of 87 per cent, was announced in May 1982. Although deteriorating economic conditions had prompted sporadic protests in the previous three years, the sharp price rise of May 1982 provoked no apparent political reaction. Later in 1982 presidential elections were held without serious incident, and re-elected President Ratsiraka. By mid 1983 the government had moved decisively to reverse earlier policies of tight state control over rice purchasing and distribution. As a result, prices have risen rapidly, again with no clear-cut political repercussions.

## The subsidy system.

Rice is the staple food of Madagascar: all groups and all regions rely on it. Until the mid 1970s, enough rice was grown to meet domestic requirements and allow for some exports. Much of the rice was of high quality. The new military government that took power in 1972, and especially the Ratsiraka regime that governed from 1975 on, sought a basic reorientation of the economy along socialist lines. As part of the thrust, the rice procurement and distribution system was nationalized. Initially a new state agency, SINPA, was given monopoly authority for purchasing and milling paddy, storing and transporting rice to deficit areas, and selling rice to consumers through official outlets. These outlets were run by the <u>fokontany</u>, the lower units of the elaborate decentralized system of local administration or, less frequently, by co-operatives. From 1976 forward, SINPA shared these responsibilities with four previously private, but by that time nationalized marketing firms, plus two irrigation authorities.

The official price paid to producers was very low, and the procurement agencies sometimes failed to pay cash. As a result, farmers increasingly produced mainly for their own consumption and channeled as much as possible of whatever surplus they might have into the illegal parallel market. By the late 1970s, informed estimates were that roughly 20 per cent of total production was sold by producers, and much of this did not enter the state distribution system. Since the supply of domestic rice flowing into the state distribution channels was not sufficient to meet the needs of rice deficit areas, including the cities, the government increasingly imported rice to cover the deficit. Imports of rice rose sharply in the late 1970s and peaked at 350,000 tons in 1982, an election year. From about 1980 on, as quantities and costs rose, a growing proportion of the imported rice was low grade "brokens".

A major goal of the system was to maintain low prices for consumers. The uniform, nation-wide price was set at FMG 65 per kilogram by the first military government in the early 1970s, and was reduced to FMG 55 under President Ratsiraka in 1977. As discussed in greater detail later, economic pressures forced increases to FMG 60 in late 1980, FMG 75 in mid 1981, and FMG 140 in May 1982. However, the real price of rice fell steadily from the mid 1970s until

1982. By 1981, after the second increase, the real price was 57 per cent of its 1975 level, and even the big jump in 1982 restored the real price to only 81 per cent of the 1975 level. (AIRD Report, Table 3.02, p. 34; based on Ministry of Commerce data).

In principle, enough rice was supposed to be provided through the official channels to provide a total (in conjunction with locally grown rice in producer areas) of 400 grams daily per person. In practice, from 1980 onward the system clearly had difficulty meeting this commitment, and in many areas households could purchase only a small part of their needs through official channels at the low subsidized price. Any additional purchases were made on the illegal market at prices often three or more times the official price. This was overwhelmingly the case in rural areas, where, however, many households grew much or all of their own needs. Even in urban areas, some people (particularly the better off, and particularly in Antananarivo and Antsirabe) grew part of the rice they consumed. (AIRD Report, Tables 2.06 and 2.08, pp. 16 and 19.) More precisely, a number of households either owned land, or had relatives with land in nearby areas on which rice was grown. But most urban households relied on a combination of official sources and the private market.

To the extent that consumers could not buy rice at the low official price, their indifference to increases in that price is no mystery. Accounts of economic conditions in 1980 and 1981 repeatedly describe shortages, queues, and black market trade in rice, cooking oil, sugar, and other staples. The supply situation in Antananarivo was exascerbated not only by shortages in marketed domestic production and restricted imports (of cooking oil, in particular), but also by poor rail and road connections with the capital's main port of supply, Toamasina.

Despite the difficulties, however, there is evidence that most people in the capital and in three other main cities did in fact rely heavily on official sources of rice, and were therefore directly affected by the price increases, above all the big increase of May 1982. Starting in autumn 1982, an on-going survey of urban household expenditures has been conducted every four months, covering a sample of 800 households. The survey is conducted in the capital and six other cities. Data from the first three rounds of that survey indicate that in late 1982 and the first half of 1983 households in Antananarivo, Toamasina, Mahajanga, and Antseranana procured the great bulk of their rice (between 84 and 98 per cent) through the official local fokontany outlets or, to a much more limited extent, through co-operatives. In the capital this was true of all income strata; the most affluent quartile of households in the sample brought 75 per cent of their rice through the fokontany or co-operatives, while the corresponding figure for the poorest quartile was 91 per cent. (Table 2.08. p. 19). In some other cities--Antsirabe, Fianarantsoa, and Toliary--households relied much less extensively on official sources and much more on the market or (especially in Antsirabe) "autoproduction." (Table 2.06).

Is there any reason to suspect that these data on household expenditure patterns, collected in late 1982 and thereafter, are not representative of patterns before the May 1982 price increase, and more specifically, that they overstate the degree of reliance on official sources? The price hike itself, we can assume, would have tended to reduce reliance on official sources, especially among high income groups, by narrowing the difference between the official and free market prices. But increased supplies of rice available through the fokontany might have led to increased utilization despite the price hike, since the official price remained well below the free market rate even after the increase. And imports of rice were in fact particularly high in 1982, a fact almost surely linked to the presidential elections scheduled for the autumn. Moreover, it is clear that the capital and the port cities were receiving top priority in the allocation of imported rice among regions of the country.[13]

However, a comparison of data on the quantities of rice sold through the fokontany outlets in the capital, month by month, in 1981 and in 1982, shows that after allowing for population increase, the 1982 quantities were only slightly greater than those sold in 1981. (Information provided by Theodore Ahlers, AIRD). A good part of the unusually high imports of 1982 were held over into 1983, so that the jump in imports in 1982 is not matched by a corresponding jump in consumption.

But how do we square the repeated journalistic accounts of shortages and queues for food, from 1980 forward, with the fairly stable and substantial flows of rice being distributed, at least in 1981 and 1982, through the official channels in the capital? Some of the shortages were surely for staples other than rice, particularly cooking oil (which was almost wholly imported, and was hard-hit by tightened import licensing and exchange controls). Some of the queuing may have resulted from cumbersome distribution procedures, particularly the practice of permitting purchases of rice only in small quantities, rather than reflecting real supply shortages. One additional bit of evidence suggests that households in the main cities were not short of rice through official channels, before or after May 1982. Both the household surveys conducted in 1982/83, and an earlier survey conducted in 1977, gathered data on the absolute quantities of rice purchased, measured in terms of kilograms per person. In each of the four cities where the 1982/83 survey found most households buying the bulk of their rice through official channels, levels of per capita consumption had increased between 1977 and 1982--quite substantially in Antananarivo and in Toamasina. (AIRD Report, Table 2.10, p. 21). This result, of course, is in accord with the steady and large fall in the real price of rice during this period, a fall only partly recouped by the price increase of 1982. To summarize, a variety of kinds of data support the judgment that while most of the island's population could not rely on the official distribution network for rice, the capital and the major port cities could and did depend on it, and therefore were directly affected by the price increases.

The household survey data permit us to gauge the degree of that impact on poorer and wealthier households in the capital. Table 1 provides such estimates. The data on household expenditures were collected after the price increase. Table 1 assumes that households bought the same quantity of rice through official channels before the price rose. It then calculates the difference in the percentage of household income required to pay for that amount

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[13]Theoretically the allocation of rice--domestic and imported--through the official system was determined by an elaborate procedure based on local estimates of needs. In practice, the local estimates tended to be highly

of rice, after as compared to before the price increase. This is a crude estimate, which does not allow for any simultaneous changes in nominal income or in relative prices and expenditures on other items. But there is no reason to think nominal incomes rose, aside from a token increase of 4 per cent for civil servants. Table 1 indicates that the price increase required additional spending (or, put differently, meant a reduction in real income) of about 24 per cent for the poorest quarter of households, ranging down to about 8 per cent for the most comfortable quarter.

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inflated. Since the actual supply of rice was inadequate to cover even realistic claims, actual decisions about allocation ignored the formal procedure. Those close to the system believe that the President himself often decided where within the country to direct specific boatloads of imported rice.

Table 1

The Effect of the Rice Price Increase of May 1982
On Households in Antananarivo

| Households by per capita levels of expenditures | Lowest Quartile | Second Quartile | Third Quartile | Highest Quartile | Average |
|---|---|---|---|---|---|
| 1. Expenditures on rice as a per cent of all household expenditures (after price rise). | 56 | 44 | 34 | 23 | 34 |
| 2. Per cent of rice procured through official sources (after price rise). | 91 | 88 | 83 | 75 | 84 |
| 3. Per cent of household expenditures on official rice (after price rise). (Line 1 X line 2). | 51 | 39 | 28 | 17 | 29 |
| 4. Increase in outlay for official rice after price rise, over and above outlay for same amount of rice before price rise, expressed as percent of household income.* | 24 | 18 | 13 | 8 | 13 |

*The price increased from FMG 75 to 140/kg, or FMG 65. That increase = 46.4 per cent of the post-May price. Line 4 calculates 46.4 per cent of the data in line 3.

Source of data in lines 1 and 2: AIRD Report, Tables 2.07 and 2.08, pp. 18-19.

Given the very considerable economic effect of the rice price hike for most households in Antananarivo and (in all probability) in the port cities, we are left with the question of why there was no discernible political reaction to the increase.[14]

[14]The above analysis of the impact of the price increase is of course a static or "snap shot" estimate. In longer run perspective, the real price of rice had been falling steadily since the mid 1970s, as noted earlier. In one

The Economic Setting.

Madagascar, like many other nations, had faced ever more severe economic difficulties from 1978 onward. The island's problems at the end of the 1970s were due partly to drought and to the second oil price rise. In addition, in 1979 and early 1980 the government had engaged in a flurry of spending and borrowing. The combined effects were a rapidly widening balance of payments deficit, almost totally depleted reserves, and mounting arrears on external account. Domestically, imports dropped sharply, shortages and queues were frequent, and inflation accelerated.

Mid-1980 saw the first of what turned out to be a series of standby agreements with the IMF. As part of the measures to address the economic crisis, late in 1980 the government increased prices on several key consumer goods, including rice,[15] bread, bottled gas for cooking, and petrol.

These and other measures, however, were not sufficient to turn the economy around, nor was the government able to meet the performance targets of the standby agreement that had been approved in June 1980. By late 1980 the agreement had broken down. By this time also, there were open political protests against worsening economic conditions, culminating in January 1981 with a march on the Presidential palace, stopped by heavily armed troops. Student riots broke out in autumn 1980 and flared up again in February and March 1981. A number of prominent intellectuals were arrested, as was veteran opposition politician Monja Joana, whose main base of support was among southern peasants, but who had spoken out in support of the student protests of early 1981.

A second agreement was negotiated with the IMF in March and April 1981, and was followed by a debt rescheduling. As part of the broader package of measures, the rice price was again increased, this time to FMG 75--a 25 per cent hike over the 1980 price of FMG 60. Again, however, government efforts were not sufficient. In economic terms, 1981 was the worst year yet: real GDP declined by more than 9 per cent. In the (relatively small) industrial sector, short hours, lay-offs, and plant closings were widespread. Unemployment and inflation continued to increase, the latter spurred in part by the unofficial decline of the Malagasy franc in line with the declining French franc. Scarcities continued. And again the government could not meet the IMF standby targets. The agreement approved in spring 1981 was moribund by the end of the year.

In January 1982 where was a cabinet shakeup (breaking a four-year record of stability) in which the Ministers of Finance and of Economy and Trade were

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interview for this case study, it was suggested that consumers recognized this fact and realized that increases were inevitable. While that may be true to some extent, the same focus on real price trends leads us to notice that the 1982 increase caused a 42 per cent jump in the real price--from 57 to 81 per cent of the 1975 level. Surely that sharp a jump in real prices in the course of one year was more likely to draw consumers' attention than was the comparison of the newest price level with an inflation-adjusted recollection of the price some seven years earlier.

[15]Ministry of Commerce data indicate a price increase of 9.1 per cent (from FMG 55 to FMG 60, in 1980. The Economist Intelligence Unit correspondent writing in late 1980 recorded an increase to FMG 64, or 16 per cent.

dismissed. The two were generally regarded as favoring economic stabilization. There was speculation at the time that they were being made scapegoats for economic decline, and that more radical forces in the government would now have a freer hand. In fact, however, stabilization discussions within the government and with the IMF continued and made some progress. In March 1982 an IMF team arrived in Antananarivo, indicating movement towards agreement. The terms of a new, third standby were concluded in April. And in May the dramatic third rice price increase was announced, along with a 15 per cent devaluation, and increases in the prices of flour (50 per cent, but this is a minor item for most households), bottled gas (13 per cent) and gasoline (in the neighborhood of 20 per cent, with slight variations depending on grade). As noted earlier, a wage increase for civil servants of 4 per cent was also announced. But this was little more than a gesture in the face of brisk inflation.

Thus the rice price increase of May 1982 was not only very large, but also followed closely on two smaller but significant increases. By late May 1982 the new official price was 155 per cent higher than the nominal level only two years earlier. (During the same period the consumer price index had risen 73 per cent.) (International Financial Statistics, 2nd quarter 1982 compared to 2nd quarter 1980.) Real incomes for much of the population had been falling and unemployment increasing.

Only two considerations slightly mitigated the generally bleak economic outlook from the consumer's perspective. First was the ample supply of rice in Antananarivo and the port cities. Second, and much less important in these cities, was the timing of the increase, just as the domestic harvest became available and free market prices therefore hit a seasonal low. However, market prices still remained substantially higher than the new official price (one informed estimate places the gap at 80 per cent), so the seasonal drop was far more relevant in other parts of the country where people did rely mainly on the market or on their own production.

The political setting.

No explanation for the lack of protest over rice price increases seems available from the economic evidence. The political setting provides some better clues, though far from a satisfying answer to our questions.

Madagascar is not a nation characterized by chronic or frequent outbursts of political violence. But there had been enough open protest over deteriorating economic conditions in the early 1980s so that further outbreaks in mid 1982 could reasonably have been expected. Descriptions of conditions in 1980 and 1981 record widespread grumbling, the setting of brush fires in rural areas (a traditional signal of dissent in Madagascar), and a tendency among civil servants to "manifest their discontent by withholding their labor." (EIU, 1980, No. 1, p. 2). In December 1980 crowds of youths ransacked a dozen stores in the capital. (ARB, December 15, 1980-January 14, 1981., p. 5780). The march on the Presidential Palace of January 1981 was mentioned earlier. In November 1981 there was again an outbreak of demonstrating and looting in the capital, as well as an unprecedented political statement by the Conference of Bishops deploring economic conditions and civil unrest. There had also been student demonstrations and teacher strikes late in 1980, and rioting by students in February 1981, focussed mainly on educational and university issues. Early 1982 saw rioting in Antseranana (formerly Diego-Suarez) and the island of Nosy-Be, leading to the resignation of the governer of the province, and more serious rioting in the southwest. Both sets of disturbances were directed against rice and other food shortages and official corruption; 110 deaths were recorded in the southwest. (EIU 1982, Nos. 2 and 3).

This history of disturbances at the very least raises questions about the thesis sometimes suggested, that the Malagasy are inherently extremely unlikely to resort to protest or riot, due to cultural factors and/ political repression. Second, the sporadic disturbances do not seem to have been direct public responses to government austerity measures, but rather, random reflections of general discontent with economic conditions. Thus in 1981 there were sizeable disturbances early in the year, but none (at least, none recorded in sources available for this study) at the time of the second rice price increase from FMG 60 to FMG 75. The 1981 price increase probably was announced--by coincidence or design--shortly after a series of government moves to ease political tensions, including the lifting on June 26, National Day, of the curfew imposed at the time of the riots, and the release a few day later of intellectuals arrested in February. Monja Joana had also been released somewhat earlier, in March. The disturbances of 1982 broke out several months before the rice price increase.[16] The apparently random nature of the outbursts in these years is closely related to a third point: there is no evidence of organized political groups involved in most cases. (The Palace March was probably an exception. The student demonstrations were also organized, but focussed on different issues).

Since sporadic unrest occurred randomly and spontaneously, it seems probable that President Ratsiraka was much less concerned with potential public protest than with the delicate balance of factions, ideological leanings, and regional/ethnic interests within the ruling circle. During 1981, in the face of sharp economic decline and scattered public protest, he had stretched the government coalition to encompass what was labelled the "broad church", that is, a wider range of factions and ideological leanings. The conciliatory gestures of late June 1981 were described above. By early autumn 1981 the President seemed confident enough that he had rebuilt his frayed bases of support to permit himself not only a trip abroad on governmental matters but also a foreign holiday. And at the beginning of 1982, while announcing postponement of legislative and local elections until 1983, he confirmed that Presidential elections would be held on schedule late in 1982. This decision ran counter to political speculation among several foreign observers regarding the shakey nature of his hold on power. The decision to hold the election is all the more interesting for this study since the President knew that a third round of austerity measures, more vigorous than before, would be required before the elections.

Paradoxically, the scheduling of the elections may have dampened rather than fanned criticism of May's austerity measures. The elections promised

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[16] I have not been able to locate the precise dates of the 1980 and 1981 rice price increases. The somewhat vague wording of the available accounts

individuals an opportunity to express opposition without personal risk. Conceivably also, leaders of semi-dissident factions or parties might have hesitated to voice criticism or encourage demonstrations, if they feared that arrests or harrassment following on such action would impair their ability to contest the fall elections. That the rice price was a tacit issue in the campaign was clear from Ratsiraka's promise, before the elections, that the price would not be further increased throughout 1983--a promise which was honored. (Prices increased 11 percent early in 1984 and further increases followed.) The election results did demonstrate widespread dissatisfaction with the current regime in Antananarivo: 37 percent of the capital's voters abstained, and the President's AREMA party won the barest of majorities among those who did vote. Those voting against AREMA, however, split their votes among four other parties.

The specific constitutencies and concerns of potentially critical groups and factions may help to explain the failure to seize on the rice price increases as a political issue. While the Ratsiraka government does not permit extensive political competition, in mid 1982 the regime was drawing some support from the so-called "broad church"--all or almost all the nominally socialist parties or factions, loosely linked in an officially sanctioned "front". The clearest legal opposition came from semi-dissident regional parties: Monima, led by veteran politician Monja Joana and representing perhaps two million southern peasants, and Vonjy, representing conservative northern coastal interests. But the latter may be broadly favored the austerity effort, while southern peasants were not concerned about a reduction in consumer subsidies from which they derived little direct benefit, and considerable indirect harm (because of the artifically low official producer price of rice, and sanctions for selling rice on the private market). At the annual meeting of the Monima party on July 25, 1982, Monja Joana inveighed against the gendarmerie and army for their management (or mismanagement) of extensive cattle rustling, and asked for authorization from the party faithful to run against Ratsiraka in the autumn elections. But the recent rice price increase was not mentioned as an issue of concern to the party. (EIU, 1982, 3rd quarter, p. 9.)

Logically, the most likely source of criticism of the rice price hike would have been the Marxist-oriented, though legal, AKFM, representing middle income Merina groups in the capital and the highlands cities. But the fragments of evidence available suggest that Richard Andriananjato, leader of the AKFM, was co-operating fairly closely with President Ratsiraka at this time,[17] although he had often been sharply critical in earlier periods. In July, when the National Assembly was asked to endorse Ratsiraka as the Presidential candidate in the elections scheduled for November, not only the President's own AREMA party but also the AKFM had already endorsed him.

Thus none of the semi-dissident organized groups were prepared to criticize the rice price increase, much less to mobilize demonstrations on the issue.

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indicate that both rounds followed the conclusion of standby agreements with the IMF; for 1981, that would place the increases some time after the middle of the year.

[17]For instance, the Africa Contemporary Report claims that Andriananjato joined Ratsiraka in circulating reports (widely disbelieved) that there had been a coup attempt early in 1982. (ACR, 1981/82, B 211).

Indeed, despite widespread public discontent, and despite open speculation in some French and other circles that the regime was ripe for replacement, there were no plausible alternatives to President Ratsiraka. This fact, and the continued loyalty of the army, undoubtedly contributed to the President's sense of security.

Perhaps because of this sense of security, or because of habitual governing style, or perhaps even as a deliberate tactical decision, the government made rather little effort to prepare the public in advance for the austerity measures of mid-1982, or to explain or justify the measures after they were taken. From 1980 onward, President Ratsiraka had made occasional speeches recognizing the country's economic difficulties, and blaming these variously on the enemies of the revolution (especially in the earlier years), on difficult external economic conditions, and on internal inefficiency and mismanagement by the bureaucracy, with SINPA (the main rice distribution agency) coming in for particularly harsh criticism. Public co-operation was also solicited occasionally; for instance, in 1980 there was a campaign to persuade people to eat less rice. (The campaign had no significant impact). (EIU, 1980, No. 2, pp. 2, 8). If the history of the past two years was not sufficient to warn the pubic in 1982 that more austerity measures were likely, the President gave explicit notice in his address to the legislature on January 10, a few days before the cabinet reshuffle. In that speech he made lengthy references to the world economic situation, pointing out that even the United States, the richest and most powerful nation in the world, was not able to avoid high levels of unemployment. He had also underscored the collapsing world markets for Madgascar's major exports, including coffee, vanilla, and chromite. Malgasy and foreign experts, he stated, were drawing up a new "economic model" for the country. More explicit mentions of coming price increases may have been made in March or April. (The evidence available is not entirely clear.)

When the measures were announced in May, Ratsiraka explained them as unavoidable if the country was to benefit from the upper credit tranche drawing available from the IMF; he may also have linked the reforms to the loan from the Compensatory Financing Fund (which in fact did not entail conditions of this nature). He offered an interpretation of the rice price increase calculated to appeal to national loyalty, arguing that Madagascar could not continue to "subsidize the peasants of other countries" (by paying high world prices for their rice).

In sum, the public had some advance warning (albeit oblique) of the 1982 price increase, and the government offered a modicum of explanation, but made much less effort along these lines than in any of the other cases in this study.

President Ratsiraka and his key economic advisors were almost surely much more concerned with holding the support, or at least the acquiesence, of the major factions within the "broad church" or government coalition, than with warding off possible public protest. No direct evidence is available regarding what must have been intense discussions and maneuvers within top ruling circles. We do know that the rice subsidy issue was only part of a much larger and long-drawn-out debate and power struggle within top official circles over whether to maintain or even strengthen the highly dirigiste economic policies and institutions adopted during the 1970s, or to change course and liberalize some aspects of the economy. In May 1982, when the rice subsidy was slashed, the government was apparently not yet prepared to adopt more far-reaching reforms. By early 1983, however, discussions within the government were shifting in favor of reforms. Perhaps the completion of the Presidential elections in November 1982 had relaxed the political atmosphere somewhat, although elections for an elaborate heirarchy of local and district councils and the national assembly were stretched out over much of 1983. The evidence of the failure of earlier policies and approaches was also becoming ever more evident. By April 1983 the government announced at the Consultative Group meeting its intention to liberalize the rice market. In June 1983 the state monopoly on rice procurement, processing, and marketing was largely dismantled.

For most of the country, which had benefitted little if at all from the low controlled prices for rice through official channels, the effect of relaxing official controls was to almost entirely dry up the already modest flow of domestically grown rice into official channels, switching the entire flow to the now legalized private market. Somewhat increased supplies and reduced risks in the private market probably damped prices. In Antananarivo and the port cities, where most people did rely on imported rice sold at controlled prices through official outlets, the freeze on the official price of imported rice promised by Ratsiraka during the 1982 elections expired at the end of 1983. Moderate price increases promptly went into effect early in 1984, and were followed by further rises. By early 1985 the official price was FMG 185-200/kg, depending on quality. Moreover, since imports had been reduced and virtually no domestic rice now moved through official channels, households even in the capital could not meet their needs through official outlets, and had to turn to the private market, where rice now cost roughly FMG 300/kg. Little is known about patterns of household adjustment and the impact on welfare, through it seems probable that poorer households, at least, are eating less rice. No significant political outbursts have been reported.

Reprise

This survey leaves us with only partial explanations for the absence of protest against the series of rice price increases, especially the dramatic jump of May 1982. We have argued that most households in the capital and the major ports relied heavily on official sources of rice. For the poorer half of Antananarivo's households the price increase was the equivalent of a sudden reduction of roughly a fifth in real spending power. The general economic situation exascerbated the blow. Salary increases had lagged far behind inflation, and much of the urban population had not benefitted from these increases, or indeed were unemployed. There were sporadic protests during 1980-1982. Nor did any aspects of the situation in mid 1982 seem to offer a plausible hope for rapid--or even slow but sure--economic improvement. Government handling of the measures entailed only minimal explanation and no attempt at partial compensation, even as window dressing. And the big increase of 1982 followed closely on two other, non-trivial, increases. The situation, in short, appeared to have many of the characteristics that has provoked serious public disturbances in other countries.

The fact that no such disturbance occurred surely is partly due to the absence of any significant organized interest groups or opposition parties (other than groupings with regional and interest bases irrelevant to the issue). The presence of widely recognized and fairly formidable security forces undoubtedly also inhibited potential protestors; more specifically, it is possible that the containment of student protests in Antananarivo only two months earlier may have discouraged student and youth activists. The possibility of voicing disgruntlement in the up-coming elections may have served to some degree as a safety valve. But Madagascar's experience seems less well explained by the factors in this study's analytic framework than are the other three cases.

## III. Comparative Analysis

The experiences of the four countries covered in this study provide a partial test of the analytic framework outlined in Part 1. They also provide a basis for some tenative generalizations regarding the nature and likelihoold of riots, and the range of government tactics that may help to prevent them.

### 1. Does the analytic framework work?

Four sets of explanatory factors were examined in the case studies: objective economic impact of food price increases; the role of organized opposition groups; the role of broader public attitudes (especially as regards government's economic competence, the equity of its measures, and its legitimacy), and the regime's tactics to encourage acceptance of price increases. How well do these factors explain public responses in the four countries? They do a rather good job of explaining the reactions in Morocco to the series of price increases from 1979 forward, and an adequate job for Senegal's experience. Events in Tunisia and particularly Madagascar are less satisfactorily explained. Attachment I summarizes the key facts regarding the size and timing of price increases (in nominal and real terms), plus the major government measures accompanying the increases, for all the cases.

In Morocco, we can understand the three sets of price increases which did not provoke protest in terms of the moderate size of the price hikes themselves, coupled with accompanying government measures, and the changing public mood. The price increases of 1979, 1980, and 1983--none of which prompted serious protest--ranged in size from modest (1980) to moderate (1983). (See Attachment I.) The 1980 and 1983 increases were preceded by measures designed to conciliate and perhaps co-opt political opposition. The 1980 measures were accompanied by ostensible (though probably ineffective) measures to relieve economic pressure on the poor. The 1979 and 1983 price increases exempted low-grade flour. The 1983 increases were accompanied by a 20 percent increase in the industrial minimum wage; the 1979 increases had been preceeded (five months earlier) by a 30 percent increase in SMIG and a 15 percent raise for civil servants.

The riot-provoking increases of May/June 1981 contrasted on all these points. The initially proposed increases were large (40 percent for both high and low grade flour and for sugar, or 27.3 percent in real terms). There were no compensatory gestures offered, save for a minimal (5 percent) increase for civil servants. The government had taken no special political measures prior to the announced increases. Only 8 months had passed since the last round of increases. Moreover, general economic conditions were particularly bad. In January 1984, though no food price increases had been announced, they were widely anticipated (coming only six months after the August 1983 round). There had been a long string of price and fee increases for non-food goods and services in the preceeding months. More generally, public confidence in the regime's economic management and perceived prospects for economic improvement were very low.

Senegal's experience is also explained reasonably well in terms of the factors this study highlights. The three rice price increases between January

1982 and January 1985 were all moderate in size (much more so in real than nominal terms). In the first and last instances, increases in prices of other staples, including sugar and cooking oil, were timed to disperse rather than concentrate the impact on households. Only the last of the three increases was accompanied by a modest wage increase, but the industrial minimum wage, at least, had maintained its real value reasonably well since 1980. (This was not true, however for public sector workers nor for higher-paid private employees. It was probably also not true for many workers in the informal sector.) The government made vigorous efforts to prepare public opinion for the increases. The first round took place against a backdrop of general political liberalization, and the second was preceeded by well-publicized attempts to win the co-operation of opposition parties. The timing of all three increases was picked with some deliberation. The general public mood throughout the period was one of increasing concern and impatience with economic conditions, but not desperation.

In contrast to Morocco and Senegal, events in Tunisia and in Madagascar are less readily explained in terms of the converging influence of objective economic impact and political and psychological factors. The Tunisian experience invites speculation that, had more attention been given to preparation and announcement of measures to compensate the poorer strata, the riots might not have occured. Much of the population were not seriously affected in economic terms. The government had taken pains to explain the need for the measure, though it seems likely that many Tunisians doubted the need for austerity measures. The government had also arranged in advance for reluctant union acquiesence, and had presumably purchased non-intervention by the opposition parties by according two of them the legal recognition so long withheld. Neither unions nor parties were active in the protests. General political malaise seems to have joined with the strong perception of inequity to spark the riots: hence the speculation that vigorous, credible, and timely compensation measures might have been able to prevent them.

The absence of protest in Madagascar in the face of the steep rice price increase of May 1982 is the single event (or non-event) that fits the general explanatory framework in this study least well. The objective impact for most people in Antananarivo and the port cities was extremely large, and the broader economic trends and conditions only made things worse. The government engaged in very little public explanation nor apparent political manuever to head off protest. The absence of organized groups in a position to incite, or take advantage of spontaneous protest clearly is relevant, but does not explain the fact that there was no spontaneous protest.

Part I's checklist of causal variables, we conclude, is useful but incomplete. Without additional cases, it is hard to tell whether what is missing is some systematic factor or set of factors applicable in most cases, or simply the "margin of uniqueness" in each country, which means that no set of shared variables can be devised that will give a satisfactory explanation of outcomes in all or cases.

2. Some tentative generalizations.

While four cases cannot support strong assertions, a number of tentative generalizations do emerge from the experience reviewe here. The discussion that follows is organized under a series of such generalizations, regarding the nature of public reactions to food price increases, the roles of various partial determining factors, and the scope for governmental management of various factors.

Large-scale violence is unusual.

The first point, though obvious, is worth emphasizing since it is often overlooked. Out of fourteen sets of price increases in four countries, spanning three to five years in each country, there were only three instances of serious protest following the announcement of price increases. Arguably, the events of January 1984 in Morocco ought not to be included in the list, since in fact food price increases had not been announced. A fuller list of instances for more countries would almost surely confirm the point that large scale violence is an exceptional, not a routine, reaction to increased prices for government-controlled and subsidized food staples. However, Bienen and Gersovitz' research cited earlier and based on more cases makes plain that smaller scale protest is quite common, though the particular cases in this study did not demonstrate the point.

"Pocket-book" impact is only part of the story.

As common sense suggests but is sometimes ignored, the objective economic impact of a given price increase is important but not determining in shaping public reactions. Two of the three incidents of large-scale violence in this sample were indeed associated with price increases that were unusually large in both nominal and real terms: Morocco in June 1981 and Tunisia in January 1984. But the third instance of violence, (Morocco, January 1984), was triggered by other factors, and did not directly involve increased food prices at all. Conversely, the third notably large price increase in the sample (Madagascar, May 1982) did not prompt protest. When additional components of "objective economic impact" are considered, including short-run impact on household budgets, simultaneous price increases in other products, and wage and employment trends prior/to the increases, then "objective economic impact" is a still less adequate explanation. Taking all these factors into account, Tunisia "should not" have had riots, and Madagascar "should" have done so.

It is sometimes argued that consumers react not so much to nominal price changes as to real price trends. It is hard to prove or disprove the suggestion on the basis of the evidence in this study. The two large nominal price increases which provoked violence entailed sharp rises in real prices as well. But the largest single real price increase, measured in terms of percentage change from the previous price adjustment, was the Madagascar increase of 1982, which did not provoke violence. For the whole set of instances, the real price data are interesting in that (with the three exceptions noted) all the remaining real price increases were small or negative. But it seems likely that Senegalese in January 1982, or residents of Antananarivo in 1980, regarded nominal price increases of 30 and 9 percent (respectively) as increases, even though both adjustments still left the real price of rice considerably lower than it had been in 1976/77, when rice prices last had been adjusted. And of course, in terms of out-of-pocket expenditures, a household in Dakar in January 1980 had to pay 30 percent more for rice the day after the price hike. It was unlikely to be consoled by the thought that despite the increase, in real terms the rice it bought was 20 percent less costly than it had been five years earlier.

Another aspect of objective economic impact is the acceptability and availability of substitute goods. Often one goal of increased prices for selected staples is to encourage consumers to shift to cheaper substitutes, or from mainly imported to mainly domestically produced staples. Economists sometimes suggest that if such substitutes are available in adequate quanitity and at prices competitive with the (newly increased) price of the staple the government wishes to discourage, there will be less dissatisfaction with the price rise. In the four cases reviewed here, however, there were no acceptable subsitutes at competitive prices, in the short run. In Senegal, rice has replaced millet as the preferred urban staple food in the last two decades. Millet must undergo considerable processing before it is both palatable, and about as easy to prepare as rice. But such processing raises the price of millet to the point where it often exceeded the price of rice, in Dakar during the period reviewed.[18] In Morocco and Tunisia, barley and millet are viewed as distinctly inferior to wheat products. In Madagascar, cassava has a similar relationship to rice. Consumers usually shift to goods regarded as inferior only slowly and reluctantly. Such shifts may be a reasonable medium-term goal of economic policy. But they are not likely to play an important role in moderating immediate public reactions to sizeable changes in staple prices.

Organized opposition usually plays a minor role.

If most analysts and practitioners think first of objective economic impact as affecting public reactions to price increases, they are likely to think next in terms of the role of organized labor and political opposition groups. And the countries in this sample where violent outbreaks occurred (Tunisia and Morocco) are indeed those with the largest and most powerful labor unions and arguably, the most vocal and potentially potent opposition parties. (Senegal also has a number of opposition parties, and probably permits freer political dialogue than either of the other two, but the opposition parties are so small and disorganized as to be insignificant.) However, only the Casablanca riots of mid 1981 entailed extensive union or opposition party organization and involvement. In fact, the protests of January 1984 in both Morocco and Tunisia were so patently spontaneous and unorganized that both governments explicitly absolved unions and parties (with one exception in Tunisia) of any responsibility for the events.

In these two countries and in Senegal, the governments were usually careful to touch base with union leadership to solicit their understanding of planned price increases. In all three countries governments also attempted to co-opt or at least disarm opposition parties in advance of major price increases. The very fact that such groups are organized and have a stake in the existing system (even though they may oppose the current regime with varying degrees of intensity) makes such negotiations possible. Organized groups generally have little to gain, and often a good deal to lose, by widespread public disorder,

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[18] Efforts are underway to develop improved processing techniques.

unless they judge the regime to be so weak that it can be toppled and the way opened for a new coalition. Even in the case of the union-instigated demonstrations in Casablanca in June 1981, it is probably true that most leaders did not intend the violence that ensued: the demonstrations got out of hand.

A less obvious point should probably be added: Unions and opposition parties may have an indirect effect on the likelihood of public protest, without taking a direct role in such protest. Unions and parties are sources of on-going criticism of government economic management; they also frequently offer alternative policies or programs. The effect on the "attentive public" is to encourage criticism and the assumption that alternative approaches might produce better results. Unions and opposition parties are also likely to encourage aspirations for improvement--aspirations which may or may not be "reasonable" from the standpoint of neutral observers. Thus, for instance, in Tunisia in the early 1980s, the expectations of unionized workers for rapid improvement in real incomes may well have been "unreasonable" in view of the country's internal and external difficulties. But the expectations themselves proved to be potent political factors. In contrast, unions play virtually no role in Madagascar, and the quasi-opposition factions play only an ambiguous and limited role. This not only meant that organized protest was extremely unlikely, but also that the urban population, though increasingly dissatisfied with the long economic decline, lacked clear expectations or demands for governmental measures to improve the situation.

Government techniques for attempting to co-opt opposition groups obviously vary with the political setting. Bourguiba, having withheld recognition of opposition parties, could offer recognition (or, for less favored groups, increased prospects therof) as a bribe in autumn 1983. Hassan and Diouf, having legalized the opposition parties, offered various forms of co-operation. Release of political prisoners or reinstatement of workers dismissed in retaliation against earlier strikes are other techniques. Morocco and Madagascar illustrate still another, less obvious approach. Both can be characterized as "semi-closed systems" (Madagascar more so than Morocco). Some opposition is permitted, but the regime is likely to impose sanctions if the opposition oversteps vaguely defined but generally understood boundaries. Elections in such systems will not overturn regimes, but do offer semi-opposition groups an opportunity to demonstrate the scope of their support. Paradoxically, therefore, if a regime in such a system takes unpopular measures fairly shortly before an election, opposition groups may be more likely to mute their criticism than if no elections were scheduled. They will not want to jeopardize their ability to contest the elections by risking the arrest of key leaders, closing of their newspapers, etc. Such consideration were clearly at work in Morocco at the time of the 1983 price hikes, and may have played some role in Madagascar in mid-1982. The contrasting reluctance of President Diouf to cut subsidies before elections (in early 1983, and again in late 1984) may be a measure of the degree to which the Senegalese system is more truly open, so that the regime cannot confer or withhold the right to participate in elections from opposition groups.

<u>The probability of Spontaneous outbursts is shaped by public perceptions of regime competence, equity, and legitimacy.</u>

Two of the three outbursts covered in this study were genuine spontaneous outbursts. The obvious practical and symbolic importance of staple foods means that price increases for such staples are particularly prone to ignite spontaneous protest, more so than other, less "transparent" economic measures which have equally strong but less immediate and obvious effects on ordinary people's lives.[19] If spontaneous, unorganized outbursts are more likely in response to food price increases than organized demonstrations, analysts interested in anticpating and avoiding such outbursts must give attention not only to the strength and orientation of organized groups, but also the more nebulous, but real, factor of "public attitudes."

Three aspects of public opinion or public attitudes were important in the cases in this study:

- Perceptions of prospects for economic improvement, and confidence in the regime's economic management
- Perceived equity or inequity of the measures taken
- More generally, the legitimacy and trust accorded the regime.

People are likely to react quite differently to sacrifices viewed as part of a plausible plan for economic recovery, compared to sacrifices seen as the result of a long-term economic decline over which the government has lost control. Government efforts to persuade the public that price increases are necessary of course portray them as part of a game plan for recovery. The history of recent austerity measures is itself a powerful determinant of whether the public will accept or dismiss the government's arguments. In Morocco, the price increases of September 1979 and September 1980 apparently were accepted as unpleasant necessities for coping with temporary difficulties. The new Five Year Plan announced in 1980 encouraged optimism. But eight months later, in mid-1981, economic conditions were much worse, and the government again had to resort to price increases, this time much steeper than the previous two rounds. Not only the threatened pocket-book impact, but also the doubt and anger caused by these measures, erupted in violence. Two years later, confronted with the necessity of again raising staple prices, the government went to considerable pains to carefully cultivate understanding. The August 1983 program may have been accepted partly because it was perceived as a fresh new attempt to come to grips with Morocco's problems. But the cumulative pressures on consumers by the end of the year apparently convinced many Moroccans either that the plan was not working, or that the medicine was worse than the disease.

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[19] Bienen and Gersovitz found almost all the instances of large and small-scale violence in their larger sample were spontaneous, although opposition parties or unions, especially in Latin America, often tried to take advantage of such outbreaks.

In Senegal, in contrast, Diouf apparently was able to maintain a substantial degree of public confidence, perhaps bolstered by his reputation as an experienced and skilled technical director under Senghor's presidency. By January 1985 there was growing impatience with the slow pace at which both economic problems and internal party reform were being tackled, but the mood was quite different from the anger and despair in Morocco a year earlier. Even in Senegal, however, high economic officials complained that the people understood the regime's arguments about the need for certain reforms, but did not accept those arguments. (Interview). In Tunisia in late 1983 and early 1984, there was less a sense of despair about economic prospects than, perhaps, an unrealistic expectation of continued and revived good times: much of the public questioned not merely the government's proposed approach to budget problems but more fundamentally whether there was an economic crisis that needed to be addressed at all. Vigorous governmental efforts at persuasion apparently were unconvincing.

The second aspect of public attitudes--perceived equity--was also clearly recognized and addressed by governments in three of the four cases reviewed. But there are interesting differences in the approaches to the issue.

The approach that probably comes first to mind is partial compensation for poorer workers through increased wages. In this study, however, a sizeable wage increase (20 percent in nominal terms) accompanied a price hike in one instance only: the Moroccan package of August 1983. Smaller, mainly symbolic increases were announced in Morocco at the time of price increases in mid 1981 (5 percent for public sector workers); in Senegal in January 1985 (5 percent for the industrial minimum wage, and a token flat increase for public sector workers), and in Madagascar in May 1982 (4 percent for civil servants). In several other instances wage increases preceeded staple price increases by a few months, and the governments may well have taken the earlier wage rises into account in calculating political risks.

Morocco used a different approach to the issue of equity: differential pricing for higher and lower quality staples. In September 1980 and again in August 1983 the price of high quality flour was increased more sharply than that of low quality flour; indeed in 1983 high quality flour was hiked by 35 percent while low quality flour was unchanged. In September 1979, sugar and oil prices were increased somewhat but flour was exempted. Increases in butter were routinely much higher than those for cooking oil. While Madagascar priced luxury rice higher than regular rice, it does not appear that it attempted any similar differential approach to increases, probably because most luxury rice was domestically grown and purchased on the private (parallel) market in any event. In 1979 and 1980 Tunisia adjusted prices on the baguette, used by the middle classes, and the larger loaf favored by poorer familes differentially, but not consistently in favor of the larger loaf.

Among these four countries, only Tunisia attempted to use direct subventions targetted to the needy to compensate for staple price increases. In principle, cash transfers (or, alternatively, targetted rather than general food subsidy programs) are a much more efficient means of helping those who most need help. Such programs avoid the main drawbacks of general subsidies: the channeling of benefits in part to those who do not really need them; the distortion of relative consumer prices; and the depression of domestic producer prices for the staples or close substitutes. Cash transfers or targetted subsidies are also likely to cause less pressure on the balance of payments, to the extent that the commodities provided through targetted subsidies, or those purchased by recipients of cash transfers, are imported--simply because the quantities involved are smaller. Thus the economic arguments for this form of compensation are very strong.

The problems, of course, are administrative and, often, political. Established working class and even lower middle class households in many poor countries are sufficiently hard pressed so that the subsidy on staple food represents a significant increment to their incomes. And the strictly administrative difficulties of establishing eligiblity and transferring either cash or commodities to target groups are usually formidable. Tunisia faced these difficulties in less degree than many countries, which probably explains why the government was prepared to make use of this form of compensation. Incomes for much of the population had reached a level such that the subsidy element in the price of bread or couscous made only a small contribution; therefore a new system which removed that contribution was not likely to prompt backlash from the middle classes or even the lower middle and upper-level working classes. And some of the statistical and administrative requirements for determining eligiblility for subventions were already in place, as described in Part II. Nevertheless, working out the details of effective implementation of a cash transfer program was a substantial task, and the government failed to allow enough time for that task to be completed. The broader lesson is obvious but worth emphasizing: if the political acceptability of a sharp cut in subsidies (or elimination of a general subsidy for an important staple) depends in good part on partial or full compensation for those most severely harmed, then adequate time to prepare the compensation system and full and convincing publicity about the system are top priority requirements and should be treated accordingly. It is interesting to contrast Tunisia's experience on this point with the Sri Lankan government's detailed and careful preparation for modifying and greatly shrinking the rice subsidy and ration system, phased over a period of more than two years starting in January 1978.

A variety of other methods for partly compensating those most damaged by staple price increases are possible, and several were used in the cases in this study. Thus Morocco's King Hassan, prior to the price increases of September 1980, announced rent and tax relief measures intended to assist the poor, though the effectiveness of the measures is very much in doubt. Targetted employment programs are another approach. Finally, it is interesting to note the measures taken in Senegal, designed not to relieve pressure on the poor but to demonstrate solidarity and willingness to share in sacrifices at the top. In February 1984, for example, warnings that austerity measures would probably need to be extended were coupled with announcements that cabinet members were giving up one month's salary and President Diouf was giving up two months' salary. Spending on official celebrations was to be reduced; later the size of the fleet of government cars was cut quite drastically. The effectiveness of such gestures in influencing public perceptions of equity probably depends on both the general reputation of the government for honesty, and the effectiveness of other measures that directly benefit (or reduce burdens on) the lower income groups. The symbolic sacrifices at the top can be a useful supplement, but cannot substitute for, perceived top-level honesty and some protection for the poor.

Governments thus have a variety of possible approaches to influencing public attitudes and attempting to encourage acceptance of increased staple prices. Explanation and persuasion, directed to the general public or to key groups such as labor union leaders, can seek to bolster confidence that the price increases are part of a program which will bring back better times. And there are many partial compensation devices that may enhance the public's perceptions of equity. The effectiveness of efforts at persuasion and compensation, in shaping public attitudes, depends not only on how vigorously and skillfully the measures are designed and presented, but also on the broader political climate, and especially the legitimacy of the regime. One cannot get away from the fact that much of the public, particularly younger people, in both Morocco and Tunisia viewed the parties and officials heading their governments as old and tired, divorced from and indifferent to the needs and concerns of the people. President Diouf, in contrast, benefitted from the "fresh regime effect"--bolstered by many of his political measures in the first year or two of his Presidency, somewhat eroded by his later failure to follow through on rejuvenation of his party, the anti-corruption drive, and economic reforms--but nonetheless in early 1985 still looked to with a moderate degree of confidence and hope.

Containment and security measures play a role, but it is usually limited.

The probability that staple price increases will prompt demonstrations and violence is also affected by government's perceived ability to contain and put down violence. But efficient and loyal security forces are clearly more effective in deterring organized than spontaneous violence. Morocco's union leaders were clearly not eager, in January 1984, to subject themselves and their followers to a replay of the bloody events of two and a half years earlier. Similarly, Tunisian labor federation leader Achour's reactions to the initial riots in January 1984 were probably influenced by memories of the loss of life and shattering of union power resulting from the confrontation between unions and government in 1978. The Senegalese government's firm (though bloodless) prevention of the announced illegal parade by opposition parties in September 1984, entailing sealing off sections of Dakar by the military, may have had some effect in cooling over-vigorous reactions by those parties to the price increases of January 1985. But--as the cases of Morocco and Tunisia in January 1984 both illustrate--the memories and considerations that restrained union leaders did not restrain young spontaneous demonstrators.

Some implications for the size and frequency of price increases.

This consideration heightens the importance of the "public mood", and particularly of confidence in the government's economic management and at least a semblance of equity, in shaping public reactions to price hikes. The key role of the public mood, in turn, will often bear on the choice between moderate but frequent price increases, in the context of continuing austerity efforts, versus less frequent but larger increases. If frequent increases are viewed as evidence of the ineffectiveness of government policy, they will fuel the disillusionment and anger that sparks riots. Not only may public confidence, hence tolerance for the smaller increases wane with repetition, but the government will almost surely have less ability to choose the politically opportune time and to try to prepare public opinion and to co-opt or divert part of the expected opposition, for more frequent price increases. Only if the price increases are not merely made smaller, but also depoliticized, is this tactic likely to reduce the chances of protest.

The classic form of depoliticization is, of course, to remove both subsidies and controls and permit market forces to determine prices. But the expectation that the government will--and should--put a brake on rapid price increases for staple foods is so strong among the public in many countries that dismantling of controls will not necessarily remove the issue of food prices from the political arena. The history of France and other European nations over several centuries is studded with instances where the behavior of market prices for food prompted public outcry. Other possibilities, such as indexing, might also permit depoliticization of price increases in some countries. But simply moving toward a pattern of more frequent though smaller price increases is not likely in and of itself to heighten political acceptability.

ATTACHMENT I

Nominal and Re[illegible]onsumer Price Increases for Food Gains, and Associated Government Measures: 4 Countries

| COUNTRY AND DATE | PROTEST? X=YES | NOMINAL INCREASE % | REAL 1/ INCREASE % | SIMULTANEOUS OTHER NOMINAL PRICE INCREASES % | SIMULTANEOUS NOMINAL WAGE INCREASES % | MONTHS SINCE LAST INCREASE 2/ | GOVERNMENT PERSUASION EFFORTS 3/ | GOVERNMENT EFFORTS TO CO-OPT OPPOSITION | PARTIAL COMPENSATION (OTHER THAN WAGES) |
|---|---|---|---|---|---|---|---|---|---|
| MOROCCO | | | | | | | | | |
| September 1979 | | 0 | | Sugar 13-14<br>Oil 14 | No, but previous April:<br>SMIG 30<br>low-paid gvt. wkrs, 15 | 60+ | Minimal | No | No, but note flour not affected |
| September 1980 | | High qual. 17<br>Low qual. 10 | 6.9<br>1.0 | Sugar 33-36<br>Oil 21<br>Milk, Butter 2[illegible] | No | 12 | Modest | Series of conciliatory gestures July-September | 1/3 rent cut & tax relief for poor, probably ineffective |
| May 1981 (attempted) | X | 40 | 27.3 | Sugar 40<br>Oil 27 | Public sector 5 | | | | |
| June 1981 (revised) | | High 18.5<br>Low 20.0 | 7.7<br>9.1 | Milk 14<br>Butter 76 | Public sector 8 | 8 | Minimal | No | No |
| August 1983 | | High 35<br>Low 0 | 12.8<br>-16.5 | Sugar 0-17<br>Oil 30<br>Butter 66 | SMIG 20 | 24 | Vigorous | PM post offered to USFP head | No, but note low-quality flour not increased. |
| January 1984 | X | Rumors that staples to be again raised. Butane, utility rates, bus fares, etc. had been raised in November-December, petrol raised January 1. School fees, exit taxes also involved. | | | No | 5 | ? | Legislative elections postponed, national unity government formed. | No, but speech on 'wealth survey' may have fanned expectations. |
| SENEGAL | | | | | | | | | |
| January 1982 | | 30 | -20 | Bus fares 80<br>Rail fares 200<br>Aug.'81:sugar 25 | No | 60+ | Vigorous? | Nothing specific, but '80-'81 liberalization. | No |
| August 1983 | | 24 | 1 | Sugar 15<br>Oil 22<br>Petrol 8 | No, but earlier private sector increases of 10-15% | 19 | Vigorous | Invited dialogue with opposition parties | No |
| January 1985 | | 23 | [illegible] | No | SMIG 5<br>Civil servant token flat raise | 16 | Vigorous | No | No |

**ATTACHMENT I**
**(continued)**

Nominal and Real Consumer Price Increases for Food Gains, and Associated Government Measures: 4 Countries

| COUNTRY AND DATE | PROTEST? X=YES | NOMINAL INCREASE % | REAL 1/ INCREASE % | SIMULTANEOUS OTHER NOMINAL PRICE INCREASES % | SIMULTANEOUS NOMINAL WAGE INCREASES % | MONTHS SINCE LAST INCREASE 2/ | GOVERNMENT PERSUASION EFFORTS 3/ | GOVERNMENT EFFORTS TO CO-OPT OPPOSITION | PARTIAL COMPENSATION (OTHER THAN WAGES) |
|---|---|---|---|---|---|---|---|---|---|
| TUNISIA | | 700 gram (Bread loaves) | | | | | | | |
| 1979 | | 7.9 | | ? | ? | ? | ? | No | No |
| 1980 | | 14.2 | 4.0 | ? | No, but 10% during year | 12 | ? | No | No |
| January 1984 (attempted) | X | 11[illegible].0 | 49.6 | No | No, 33% increase in early 1982 | 48 | Vigorous | Legalized two parties | Generous cash transfers, planned but not announced by Jan. 1. |
| MADAGASCAR | | | | | | | | | |
| 1980 (late) | | 9 | -31 | Bread<br>Butane<br>Petrol | ? | 36+ | Minimal | No | No |
| 1981 (mid?) | | 25 | 0 | Bread<br>Butane<br>Petrol | ? | 8? | Minimal | No | No |
| May 1982 | | 87 | 56 | Flour 50<br>Butane 13<br>Petrol 20 | Civil servants 4 | 12? | Minimal | No, but elections pending. | No |

1/ Nominal prices were converted to 1980 equivalent, using CPI data from International Financial Statistics, for the month or quarter of each price change.

2/ Estimated, where month of prior price change is not available.

3/ Evaluations in this column are obviously rough and tentative.

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Attachment II

Nominal Prices of Grain Staples and CPI Data: Four Countries

| COUNTRY, COMMODITY, AND DATES OF INCREASES | NOMINAL PRICE | | CPI (1980=100) (annual unless noted) |
|---|---|---|---|
| **MOROCCO** Wheat, DH/ton | quality: low | high | |
| September 1979 | 900 | 1,150 | 91.4 |
| September 1980 | 1,000 | 1,350 | 100.4 (Q3) |
| June 1981 | | | |
| announced | 1,400 | 1,890 | 110.4 (Q2) |
| realized | 1,200 | 1,600 | |
| August 1983 | 1,200 | 2,160 | 132.1 (Aug.) |
| **SENEGAL** Rice, CFA/kg. | | | |
| 1976 | 80 | | 73 |
| January 1982 | 105 | | 120 (Q1) |
| August 1983 | 130 | | 147 (Aug.) |
| January 1985 | 160 | | 172 (est.) |
| **TUNISIA** Bread, millimes/loaf | loaf type: 700g. | baguette | |
| Prior to 1979 | 65 | 38 | |
| 1979 | 70 | 45 | 90.9 |
| 1980 | 80 | 50 | 100.0 |
| January 1984 announced | 170 | 110 | 141.7 (Jan.) |
| **MADAGASCAR** Rice, FMG/kg | | | |
| 1977 | 55 | | 69.6 |
| late 1980 | 60 | | 110.2 (Q4) |
| Late (?) 1981 | 75 | | 138 (Q3 + 4) |
| May 1982 | 140 | | 164.7 (Q2) |
| January 1984 | 155 | | 220.3 (Q1) |
| End 1984 | 185-200 | | |

## Attachment III

### A Partial Catalogue of Fiscal and Non-Fiscal Subsidies

The following kinds of distinctions are important for the analysis of economic effects and the incidence of benefits of various subsidies, and the probable effects of modifying them. The partial catalogue assumes that a subsidy is an unrequited transfer of income or resources, and takes the world price as a point of reference.

1. Government imports staple at world market prices and sells to consumers at lower prices. The government is subsidizing consumers. There is an explicit fiscal cost (or subsidy).

2. Government buys from domestic producers at world prices and sells to consumers at a lower price. The government is subsidizing consumers. There is an explicit fiscal subsidy.

3. Government buys from domestic producers at lower than world prices, and sells to consumers at a price that only partly covers its costs. Both producers and the government are subsidizing consumers. There is an explicit fiscal subsidy.

4. Government buys from domestic producers at lower than the world price, and sells to consumers at a price that covers its costs (prourement plus storage, transport, etc.) but is lower than the world price. Producers are subsidizing consumers. There is no fiscal subsidy.

5. Government buys from domestic producers and/or processors at a price above the world price (reflecting a policy of protection). Government sells to consumers at a price that covers direct costs. Consumers are subsidizing domestic producers/processors. There is no fiscal subsidy.

6. Government buys from local producers/processors above world price, and sells to consumers at a price that does not cover costs, but is nonetheless above the world price. Both consumers and government are subsidizing producers. There is a fiscal subsidy.

7. Government buys from local producers/processors above world price and sells to consumers at a price that does not cover costs, and is below the world price. Government is subsidizing both producers and (to the degree the consumer price is less than the world price) consumers. There is a fiscal subsidy.

In this study, the subsidy on rice reaching urban consumers in Madagascar mainly consisted of category 1; to the limited extent that local rice flowed through official channels, category 3. The subsidy on wheat products in Morocco and Tunisia consisted of categories 1 and 3. In Senegal, at the time of each price adjustment the Caisse deficit was closed and there was no subsidy. But with rising world prices and an eroding franc, the situation would gradually slide into a category 1 type subsidy. Sugar in Senegal was managed in a manner which sometimes fit category 5 and sometimes category 6. Cone and cube sugar in

Morocco usually fit category 5. I believe that granulated sugar in Morocco was handled in a manner fitting category 6, or possibly 7; I did not try to check the point in the course of the study.

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III. Interviews

The following people provided information and assistance on the various case studies. Some also commented on the draft report as a whole.

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