

The Economic Cost of Political Protests

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A New Season of Political Protests

The Pakistan Democratic Movement (PDM), the 11-party alliance, has just kicked off a new season of political protests and marches to get rid of the “fake government” responsible for inflation, unemployment, and economic destruction. Pakistan has a long history of protests, strikes, and sit-down, with enormous media coverage of these activities. The right to protest is considered a sign of healthy democracy to allow people to raise their voices to get their rights. These protests are associated with the closure of economic activities. They have often caused violence and loss of private and public goods.

It is vital to observe the economic consequences of these protests, marches, and sit-downs. What are the economic costs of such protests? A recent study by [Selmi and Bouoiyour \(2020\)](#) shows that political uncertainty has adversely affected investment decisions. Financial markets react to new information concerning political events that may significantly influence the country’s macroeconomic, fiscal, and monetary policies. Investors follow political events and form or revise their expectations based on these events’ results. This study concludes that political uncertainty hurts the financial market in the USA.

International Evidence

[Shonchoy and Tsubota \(2016\)](#) look into the impact of political unrest on manufacturing sector output in Bangladesh. They show that the disruption from strikes causes costs to rise by about 1.17 percent. A study entitled “[The Economic Cost of General Strikes in Nepal](#)” reveals that the average direct cost of general strikes was 1.4 percent of Gross Domestic Product (GDP) in Nepal. These strikes resulted in a reduction of GDP growth rates from 0.6 percentage point to 2.2 percentage points. In France, the strikes caused a drop of around 0.17 percent of GDP, and over two-thirds of the loss in GDP was born by the private sector. Similarly, a strike in Spain cost 0.1 percent of GDP, while in Austria, it cost around 0.46 percent of GDP. Protests caused an average decline in stock prices between 0.4 percent and 1 percent.

In light of global evidence, especially from neighboring countries like Nepal, Bangladesh, and India, we can assume that these strikes would cost [up to 2 percent of GDP per year](#). This direct economic loss is three times greater than the total expenditure on social protection (only 0.6 percent of GDP allocated for social protection). The economic loss highlights the consequences for the poor. Pakistan can easily alleviate poverty and hunger if the same amount (loss in protests) invested in the poor. [Abbas, Ahmed, and Husain \(2019\)](#) show that political instability and policy uncertainty shatters the investors’ confidence and, hence, lowers the level of overall investment in Pakistan. Investment activity flourishes under stable political and economic conditions, while uncertainty on either front is detrimental to the investment climate. In such an

uncertain environment, firms follow a wait and see strategy and tend to postpone their investment decisions.

Pakistan's Faltering Prospects

Pakistan is a country with great prospects to develop. But today it is one of the slowest growing countries even in the South Asia region. [South Asia's economic outlook](#) (2020) shows that Pakistan is the least growing country in the region with a growth rate of 1.9 percent compared to India (4.2 percent), Bangladesh (8.1 percent), Maldives (5.9 Percent), Afghanistan (3.9 percent) and Nepal (7 percent) in 2019. Pakistan is in the third percentile for political stability, where 0 is the least desirable and 100 the most desirable rank, according to data from the World Governance Indicator of the [World Bank 2020](#). While Bhutan ranked at the 89th percentile, India ranked 21st percentile, Sri Lank ranked at the 40th percentile, and Bangladesh ranked at the 15th percentile on the political stability index.

If we can restore political stability, the economic potentials ranging from human capital to natural resources can quickly change the outlook of the country. In contrast, continuations of strikes, protests, and sit-down would further worsen the state of the economy.

Pondering the Costs of Protests

Political parties, therefore, should ponder the costs of protests and strikes before initiating these activities. Pakistan faces chronic problems such as low economic growth with a high triple deficit, poverty, hunger, low-quality human capital, terrorism, and a weak governance structure. Strikes and other similar events waste politicians and other experts' valuable time, including the media.

We can spend the same amount of time discussing the real socioeconomic challenges to improve the country's economic prosperity. They must invest energy to find some alternatives of strikes to lead the country towards prosperity and growth. The government and relevant authorities should revisit their approach to deal with strikes organized by the political parties. The revised political process requires developing a culture to deal with a problem quickly and honestly.

Final Thoughts

Economic development does not depend only on economic factors but also on non-economic aspects like institutions, political systems, and values. The political system plays a fundamental role in setting the pace and direction of economic development.

A responsible political system is committed to creating a favorable environment for economic activity. It facilitates investments to stimulate economic activities – hence, economic growth. In such a situation, citizens have less incentive to participate in political activities since they are more invested in engaging in economic activities.