

THE POLITICAL ECONOMIST

NEWSLETTER OF THE SECTION ON POLITICAL ECONOMY, AMERICAN POLITICAL SCIENCE ASSOCIATION

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WHAT'S INSIDE THIS ISSUE

FROM THE EDITORS.....1

WILLIAM ROBERTS CLARK &
MARK DINCECCO



FROM THE CHAIR.....2

CATHERINE BOONE

SECTION ORGANIZATION.....2

FEATURE ESSAY3

ALEXANDRE DEBS &
NUNO P. MONTEIRO

FEATURE ESSAY.....5

LEONARD WANTCHEKON &
OMAR GARCIA-PONCE

FEATURE ESSAY.....8

MARIA CARRERI &
OEINDRILA DUBE

FEATURE ESSAY.....10

SAUMITRA JHA &
MOSES SHAYO

GENERAL ANNOUNCEMENTS.....13

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FROM THE EDITORS

There is a long tradition of social science research on the domestic consequences of interstate conflict: the work of Charles Tilly, of course, but before him works by German sociologists including Norbert Elias and even the ancient Greek historian Thucydides. In this view, the implications of interstate conflict for domestic politics are undeniably positive, because interstate conflict – such scholars claim – promotes the development of strong and responsive government institutions.

By comparison, the study of the political economy of civil conflict is relatively new.¹ Yet this topic is of fundamental importance, since more than one-half of the world's nations have experienced violent civil conflicts or civil wars since 1960 (Blattman and Miguel, 2010: 3-4). The costs of civil conflict seem clear enough: the loss of life, the spread of disease and famine, the destruction of property, the creation of refugees, and black markets for arms, drugs, and resources. Still, further study is necessary to fully identify the political and economic consequences of this type of conflict (Blattman and Miguel, 2010: 45-6).

This issue of *The Political Economist* highlights novel research on the political economy of conflict. We are proud to bring you four contributions that show off both the breadth and depth of this research area. We are equally proud to devote this issue to younger (or young at heart) scholars. The first contribution, by Alexandre Debs and Nuno Monteiro, offers a new framework – the economic commitment problem, for short – by which to study international economic relations and the likelihood of interstate conflict. We next move to the domestic arena. The second contribution, by

1 Blattman, Christopher and Edward Miguel (2010). "Civil War." *Journal of Economic Literature*, 48(1).

Leonard Wantchekon and Omar Garcia-Ponce, analyzes a historical source of democracy in Sub-Saharan Africa, showing evidence for the political legacy of independence movements: urban protest movements promote future democracy, while rural insurgent movements promote future autocracy. The third contribution, by Maria Carreri and Oeindrila Dube, explores how natural resource endowments affect local political outcomes in Colombia, finding that violent extremists are more likely to take power when the value of oil increases. We conclude this issue on a hopeful note. The contribution by Saumitra Jha and Moses Shayo shows experimental evidence that financial instruments may reduce ethnic conflict: after trading assets from both Israel and the Palestinian Authority, voters become more supportive of peace settlements.

We now introduce you to our contributors, each of whom we thank dearly for their excellent essays. Alexandre Debs and Nuno Monteiro are both Associate Professors of Political Science at Yale University. Leonard Wantchekon is Professor of Politics at Princeton University and Omar Garcia-Ponce is a Post-Doctoral Fellow at the Center for Global Development. Oeindrila Dube is Assistant Professor of Politics and Maria Carreri is a doctoral student, both at New York University. Saumitra Jha is Associate Professor of Political Economy at the Stanford Graduate School of Business and Moses Shayo is Associate Professor of Economics at the Hebrew University of Jerusalem.

With best wishes for spring,

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FROM THE CHAIR

This Spring 2016 Newsletter arrives at a time of intense activity for the Political Economy Organized Section. Our four award committees (see p. 13) are hard at work to select the 2016 honorees, the search for a new editorial team for *The Political Economist* (headed by section treasurer Bill Bernhard at Bernhard@Illinois.edu) is underway, and APSA panels are being assembled by our 2016 program chairs, Sarah Brooks and Alberto Simpser. On top of all this, the call for nominations for PE section officers is now open (until March 30). This year we will elect a new Section Chair, Secretary-Treasurer, and three Executive Committee members. Please send nominations and self-nominations (with short candidate description/rationale for nomination) to me at c.boone@lse.ac.uk.

This edition of *The Political Economist* upholds the newsletter's reputation for substance and provocative spark. Kudos and thanks to the editors, Mark Dincecco and Bill Clark.

The contributions span Political Science subfields and approaches. Alexander Debs and Nuno Monteiro ask about how the volume of trade between countries affects the costs of going to war, and the credibility of threats and commitments. They believe that with respect to the latter, institutionalization of rules governing the international economy ameliorates commitment problems of powerful countries, increasing the chances for peace. Sounds like good news. Leonard Wantchekon and Omar Garcia-Ponce note that in Africa, a country's type of independence movement (Western-European style, non-violent versus Maoist-style, violent) predicts prospects of successful evolution toward democracy several decades later. This leads one to ask if "types of independence movement" are randomly distributed across African countries, and if not, what this finding reveals about historical or structural determinants of democratization trajectories in Africa. Maria

Carreri and Oeindrila Dube detect a resource-curse effect at the *municipal level* in Columbia, potentially bad news if true for some municipalities and also opening the door to more analysis of structural variation in municipal-level economies and socio-economic structure. Finally, Saumitra Jha and Moses Shayo show that financial exposure to ups and downs in your ethnic rival's economic fortunes may make you more open-minded, and shift your political preferences toward peace-seeking options. Another glimmer of hope, especially if combined with Debs and Nuno's findings. Also of note is that three of these contributors are section notables: Saumitra Jha is 2014 winner of the Michael Wallerstein prize, Moses Shayo is 2010 winner of the same prize, and Oeindrila Dube is a member of the PE section Executive Committee. Thanks to all for your contributions to the PE section.

Catherine Boone
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FEATURE ESSAY

Political Economy and the Causes of War

Alexandre Debs & Nuno P. Monteiro, Yale University

When do states resort to war for economic reasons? On the eve of the Second World War, decision-makers in Tokyo and Berlin made a case for war based in part on the importance of creating an independent economic sphere of influence. Nowadays, as U.S. officials grapple with the rise of China, understanding the role of economic motivations for war remains of crucial importance.

Such questions on the intersection of conflict and development lend themselves well to an analysis from a political economy perspective. The field has already yielded a few important insights, starting with the basic argument that war entails an opportunity cost in terms of trade. Therefore, the greater the volume of trade between two countries, the greater the opportunity cost of war and, therefore, the higher the odds of peace (see, e.g., Polachek 1980 and Martin, Mayer, and Thoenig 2008). Others have argued that war may be caused by expected changes in the level of trade. A decline in future trade could result in a decline in relative power, inducing a state to declare war before this adverse shift materializes (Copeland 2015).

While inspired by strategic approaches to the study of conflict, these explanations are limited. First, any war is costly and destructive (Fearon 1995). It is therefore not clear how the magnitude of the existing opportunity costs from trade affects the odds of war. Contrary to the conventional wisdom, it is possible that a state's willingness to escalate a crisis may become more credible as the opportunity costs of war increase (Morrow 1999 and Gartzke, Li, and Boehmer 2001). Second, it is not clear where expectations of future trade originate. Certainly, once war is deemed to be inevitable, a state would choose to start it under the most favorable conditions – i.e., before a relative decline. But we wish to explain the cause of a war, not just its timing. Under what circumstances

would states become pessimistic enough about the prospects of peace that they deem war to be inevitable?

In Monteiro and Debs (2015), we argue for a broader analysis of interstate economic relations. Trade is but the last step in a rich set of international economic interactions. States must first invest resources in producing goods and services that they may trade with one another. Through what economists call a hold-up problem (see e.g. Williamson 1985), inefficiencies may arise in this production phase. Anticipating that a more powerful competitor could impose disadvantageous terms of trade, a weaker state may underinvest in the production of wealth. This may lead a weak state to prefer war, even if it is costly, to the maintenance of a disadvantageous peace. Fighting might allow it to create an independent sphere of influence and maximize the prospects for economic growth.

Our theory highlights a hitherto underappreciated commitment problem in international relations: the inability of states to commit not to use their superior economic power to maximize their payoffs at the expense of weaker states.

Standard models focus on the inability of states to limit their use of military power (Fearon 1995, Powell 2006, Debs and Monteiro 2014). But, given that military capabilities affect both a state's payoff in war and its ability to use coercive threats, standard models cannot explain the relationship between the balance of power and war. Yet states also differ in their economic influence, providing incentives for weaker states to go to war. It is only when we endogenize the process of wealth creation that we can explain why weak states decide to dive into war, despite relatively low odds of victory. The more severe is the economic commitment problem, the greater is the inefficiency of peace, which may make war inevitable, despite its cost.

Understanding this economic commitment problem produces predictions about how conditions in the international political economy affect the odds of military conflict. States with relatively weak military capabilities are more likely to feel vulnerable to future economic changes, because their weakness reduces their bargaining power and exacerbates the hold-up problems they may face. Therefore, it is weaker states, even those that are rising, that are more likely to launch military challenges to the status quo for economic reasons.

Finally, we note that economic commitment problems are particularly severe when the international political economy is weakly institutionalized and challengers lack their own sphere of economic influence. Under those circumstances, potential challengers are most tempted to use military means to challenge an existing economic order.

Using this perspective, two major changes in the international system have increased the prospects of peace since the Second World War. First, the spread of nuclear weapons has significantly increased the costs of war. Second, the institutionalization of the international political economy has ameliorated the economic commitment problem of powerful countries such as the United States. Taken together, these transformations increase the odds that both China and the United States will continue to have opportunities to grow economically in the current economic system, an important driver for world peace.

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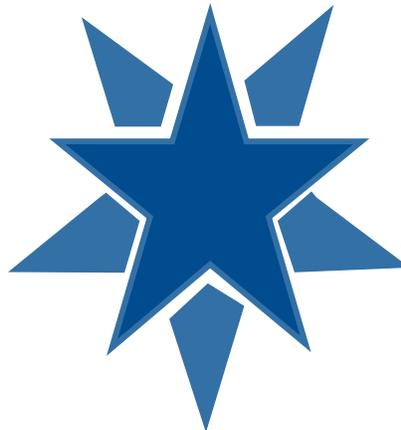
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continued on page 4

THE POLITICAL ECONOMIST

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FEATURE ESSAY

Critical Junctures: Independence Movements and Democracy in Africa

Leonard Wantchekon, Princeton University & Omar Garcia-Ponce, Center for Global Development

What explains the cross-country variation in democratic development? Following the seminal work by Lipset (1959), many social scientists have looked at the relationship between economic development and democracy. These studies provide mixed support for the hypothesis that economic prosperity leads to democracy. Other influential works emphasize the lasting impact of choices made during critical junctures in history on political institutions (e.g., Acemoglu et al. 2008). Building on the critical junctures framework, we show that current levels of democracy in Africa are linked to the nature of its independence movements. Countries that experienced rural insurgencies tend to have autocratic regimes, while those that faced urban protests tend to have more democratic institutions.

Despite cross-country similarities in economic development, Africa is the region with the greatest variation in political regimes. While a number of countries have experienced major democratic reforms after the end of the Cold War (e.g., Benin, Ghana, and South Africa), others remained autocratic or became unstable democracies plagued with political violence (e.g., Cameroon, Congo, and Zimbabwe). We argue that the drastic divergence in democratic trajectories between these two sets of countries is largely explained by crucial choices made by countries on their road to independence—in particular, the way they chose to resist and fight colonial rule. The type of independence movement significantly shaped both current institutions and norms of behavior.

The decade following the end of World War II is perceived as a foundational moment for African political development (Cooper 2002; Mamdani 1996). Resistance movements against colonial rule evolved into Pan-African social movements which were well integrated into the international socialist and labor movement, and as such, reflected its internal ideological divide. One wing was composed of Western European-style socialists (e.g., Kwame Nkrumah in Ghana and Julius Nyerere in

Tanzania). The other wing was composed of the more radical Maoist leaders (e.g., Frantz Fanon in Algeria, Dedan Kimathi in Kenya, and Ruben Um Nyobé in Cameroon). These two sets of leaders advocated radically different paths towards independence. While Nkrumah and Nyerere advocated mass mobilization and peaceful strategies, Fanon, Kimathi, and Um Nyobé encouraged violent rebellion. For example, in a May 1958 address to his party, Nyerere stressed the importance of a non-violent opposition to the colonial administration:

We shall wage a relentlessly determined battle against [colonialism] until we are free. We shall use no violence. We shall stoop to no dishonest methods. We shall be as clean in our methods as we are in our aims. We shall publicly declare our methods as we publicly declare our aims (Nyerere 1967, pp. 59–60).

In contrast, Fanon colorfully advocated the use of violence as a necessary strategy of emancipation. He wrote:

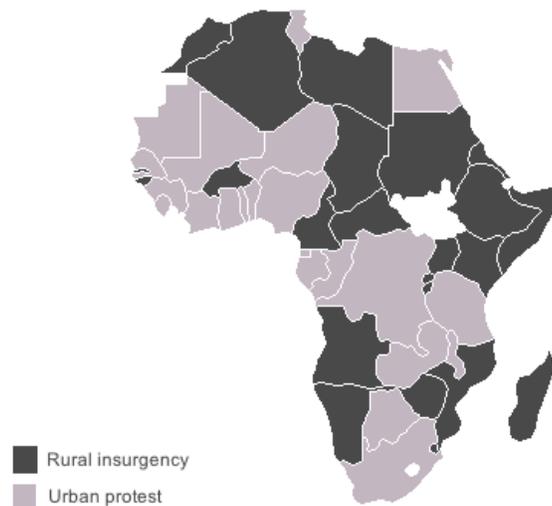
[At the national level] insurgents' violence unifies the people [...] At the level of individuals, [it] is a cleansing force. It frees the native from his inferiority complex

and from his despair and inaction; it makes him fearless and restores his self-respect (Fanon 1961, p. 94).

These historical accounts illustrate very well the theoretical foundations of our paper. Mass protests enabled participants to develop norms of peaceful political expression and compromise which facilitate the emergence of democracy. Armed rebellions generated a culture of political exclusion that tends to perpetuate the use of violence as a form of political expression and conflict resolution.

To empirically analyze the relationship between the type of independence movement and democracy in Africa, we conducted an in-depth review of historical events to code each country as either having a legacy of rural rebellion or urban protest. While these two forms of struggle are not mutually exclusive, African independence movements can be characterized by the adoption of strategies and tactics of political dissent that were either mostly rural (armed rebellion) or mostly urban (mass protest). Figure 1 shows the dominant type of movement experienced by each country.

Figure 1: TYPES OF INDEPENDENCE MOVEMENTS IN AFRICA



Notes: This figure shows countries where independence movements relied heavily on rural insurgency strategies (dark gray) versus countries that relied mostly on urban protests (light gray).

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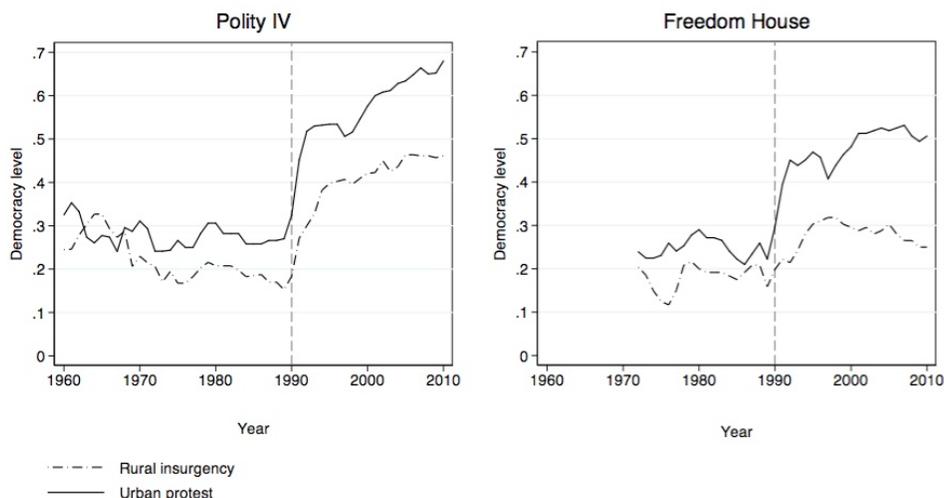
Wantchekon & Garcia-Ponce Feature Essay...continued from page 5

Figure 2 displays the relationship between the type of independence movement and democracy levels over time, as measured by the Polity IV and Freedom House indices. The data indicate that countries exposed to a legacy of rural insurgency tend to be less democratic than their coun-

terparts. This trend seems to run parallel to the so-called “third wave” of democratization and is very clear after 1990, that is, after the end of the Cold War. We believe this is due to the fact that it was not until the collapse of the Soviet Union that African countries became relatively free from the

influence of international geopolitical factors, and as a consequence, domestic political actors started playing a more decisive role in shaping local institutions. In other words, democracy levels in Africa tended to be lower during the Cold War for reasons that provisionally nullified the effect of the

Figure 2: DEMOCRACY LEVELS BY TYPE OF INDEPENDENCE MOVEMENT



Notes: This figure shows annual changes in the average level of democracy in rural insurgency versus urban protest countries, based on data from Polity IV (left) and Freedom House (right).

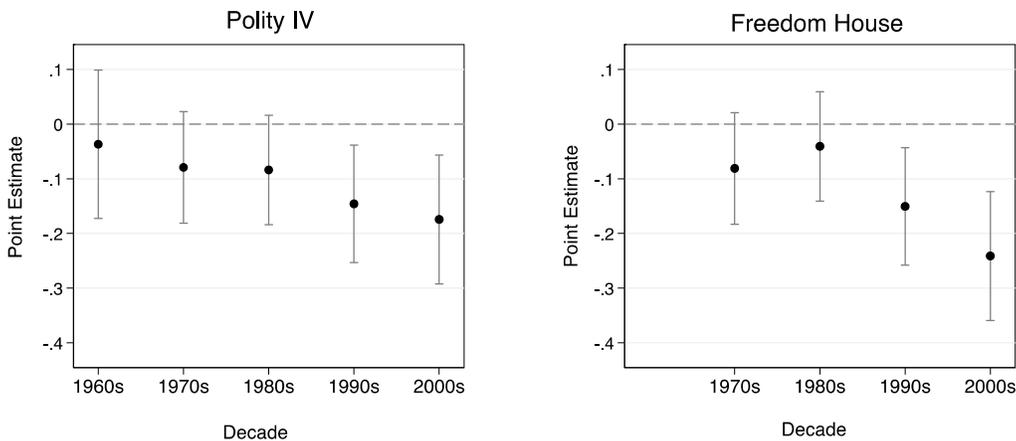
type of independence movement.

The relationship between the type of independence movement and level of democracy is shown in regression form

in Figure 3. For each decade, we estimate cross-country OLS regressions of the average level of democracy on a dichotomous indicator equal to 1 if a country experi-

enced rural insurgency and 0 otherwise. The point estimates show that the effect of rural insurgency on democracy is negative and statistically significant in the post-Cold

Figure 3: ESTIMATED EFFECT OF RURAL INSURGENCY ON DEMOCRACY BY DECADE



Notes: Black dots represent point estimates from OLS regressions of the average democracy score by decade on the rural insurgency dummy. Vertical bars indicate 90% confidence intervals.

continued on page 7

Wantchekon & Garcia-Ponce Feature Essay...continued from page 6

War period.

The statistical association between the type of independence movement and democracy that we document in this study is robust to a number of potential confounding factors, which include: time-invariant geographic features and natural resources in each country before independence; social and institutional changes induced by colonialism; and a host of post-independence controls, including income per capita, population size, ethnic cleavages, and religious fractionalization. Our baseline results suggest that the average level of democracy among rural insurgency countries is about 0.2 points lower (on a 0–1 scale) than the average level of democracy achieved by urban protest countries during the post-1990 period.

Since the type of anti-colonial movement could be endogenous to past democratic or quasi-democratic institutions or experiences, we provide evidence for causality in this relationship by employing two different strategies. First, we use an instrumental variables approach that relates the degree of terrain roughness to the level of democracy through its impact on the probability that a country experienced an anti-colonial rural insurgency. The second strategy is based on a difference-in-differences design that tests whether democracy

levels changed differentially after the end of the Cold War in rural insurgency versus urban protest countries. We argue that the collapse of the Soviet Union served as a plausibly exogenous shock that allowed domestic political actors in Africa to play a more decisive role in shaping local institutions without much international pressure. Our results confirm that democratic development is significantly lower in rural insurgency countries than in urban protest countries in the post-1990 period.

Finally, we formally test potential channels of causality, and find evidence that anti-colonial movements affected post-independence political development through the persistence of specific forms of political dissent. Urban mass protests led to non-radical forms of political expression, such as demonstrations or workers' strikes, which facilitated peaceful transfers of power, political compromise, and ultimately the consolidation of democratic reforms after the Cold War. The reverse is true where rural armed rebellion was the dominant strategy: armed rebellions created norms of violent collective action and repressive forms of government, which hindered the development of democratic institutions. Furthermore, using survey data from the Afrobarometer, we find that respondents from rural insurgency countries are signifi-

cantly more likely to support the use of violence and one-party rule than respondents from urban protest countries.

We believe the main contribution of this study to the literature on democracy and development is to highlight the impact of historical events and political culture on democratic change.

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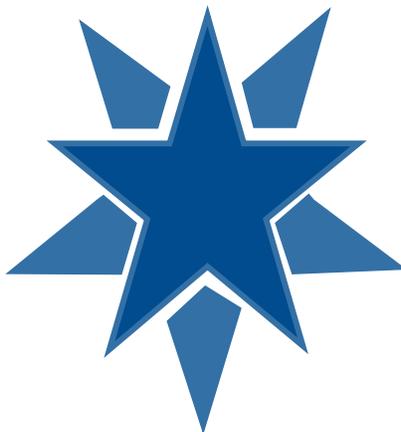
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FEATURE ESSAY

Do Natural Resources Influence Who Comes to Power, and How?

Maria Carreri & Oeindrila Dube, New York University

Do natural resources impair institutional outcomes? Past theoretical work has illuminated how natural resources can distort politicians' incentives. For example, they may lower accountability by easing taxation (Madhavy 1970; Huntington 1991), or sustain autocracy as leaders buy out the opposition (Acemoglu et al. 2004) and hold onto power in response to redistributive demands (Boix 2003).

This theoretical literature focuses on how natural resources distort politicians' behavior once they hold power. But can these resources also distort who comes to power, and how? After all, the desire to control windfall revenues may motivate influential groups to seize power through coercive strategies. These groups can constrict electoral participation in their bid to alter election outcomes; or, they can turn to violence, skewing elections outcomes toward those willing to use force.

The question of whether natural resources undermine democracy by marrying elections holds global relevance. From Iraq to Nigeria to Burma, there is no shortage of countries that have both natural resources and armed groups ready to intervene violently in elections. In Carreri and Dube (2016), we examine this question in the context of Colombia. We focus on one institutional context since this facilitates a clean research design.

We harness data on local elections from nearly 1,000 municipalities over 1997-2007. Our differences-in-differences design determines whether movements in the international price of oil influence election outcomes differentially in more oil-dependent municipalities. We also incorporate year effects and municipality fixed effects to sweep out time invariant confounds.

This strategy poses several identification advantages relative to cross-national analyses of natural resources and

democracy. (This rich literature is summarized comprehensively in Haber and Menaldo 2011 and Andersen and Ross 2014). First, the price of oil is clearly exogenous to small producers like Colombia, but this is a questionable assumption for large producers in a global sample. Second, there are fewer potential cross-sectional confounds: municipalities are more homogeneous than countries; and local elections outcomes are more standardized relative to democracy measures across countries. Third, the availability of rich micro data allows us to pinpoint effects on specific electoral outcomes and unpack the mechanisms through which resources impair institutions.

The Colombian context also offers specific advantages for examining this topic. Its long internal conflict has bred violent left-wing guerrillas and right-wing paramilitary groups that seek control of both politics and rents from natural resources. Paramilitary groups in particular have been known to intervene directly in elections, assassinating candidates and helping allied politicians gain office in exchange for favorable policies (Acemoglu et al. 2013). Fortunately, recent data tracks whether legislators were affiliated with political parties that coluded with various paramilitary groups (Fergusson et al. 2013).

Drawing on this data, we find that a rise in the price of oil leads to the differential election of pro-paramilitary legislators in more oil-dependent areas. We see these effects for both mayors and local councils, and the implied effects are substantial. For example, the 130% increase in the price of oil over 1997-2007 implies that the average oil dependent municipality had a 72% greater chance of getting at least one pro-paramilitary mayor over the course of four elections. This is a per-election effect of 18%.

Importantly, these effects go hand-in-hand with lower competition in local

elections: positive oil price shocks widen the vote margin of winners and reduce the number of candidates running for office, particularly from non-pro-paramilitary parties. Correspondingly, fewer centrist mayors are elected to office, reducing representation at the center.

These results suggest that armed paramilitary groups seek political control of oil-rich areas (Dube and Vargas 2013), and intervene violently in local elections to achieve this goal. Consistent with this mechanism, we also find that oil price hikes also increase municipal revenue and induce more paramilitary activity in oil-dependent municipalities. In contrast, we observe no significant effects on taxation and spending patterns or party-level incumbency, suggesting a limited role of other mechanisms related to the behavior of those already in power.

In conclusion, our results show that oil price shocks altered the political equilibrium in Colombia, leading to more officials from parties affiliated with violent paramilitary groups. Thus, we demonstrate how natural resources can undermine local democracy by distorting who rises to power, and how they gain power.

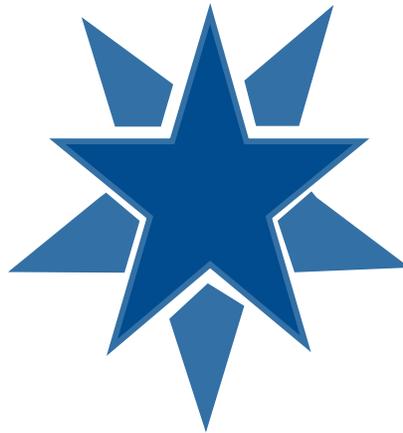
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continued on page 9

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FEATURE ESSAY

Financial Market Exposure Raises Support for Peace

Saumitra Jha, Stanford University & Moses Shayo, The Hebrew University of Jerusalem

Attention in conflict-afflicted societies is often focused on violence, ethnic animosities and territorial disputes, rather than the economic costs. Can exposure to financial markets, that align individuals' risks and returns with those of the broader economy, also lead individuals to re-evaluate the costs and benefits of conflict and peace initiatives? Can this happen even in the context of a persistent ethnic conflict, and even affect votes? Answering this question is extremely challenging in observational data given the selection processes by which individuals choose to hold and trade financial assets. In Jha and Shayo (2016), we present results from the first study to experimentally assign

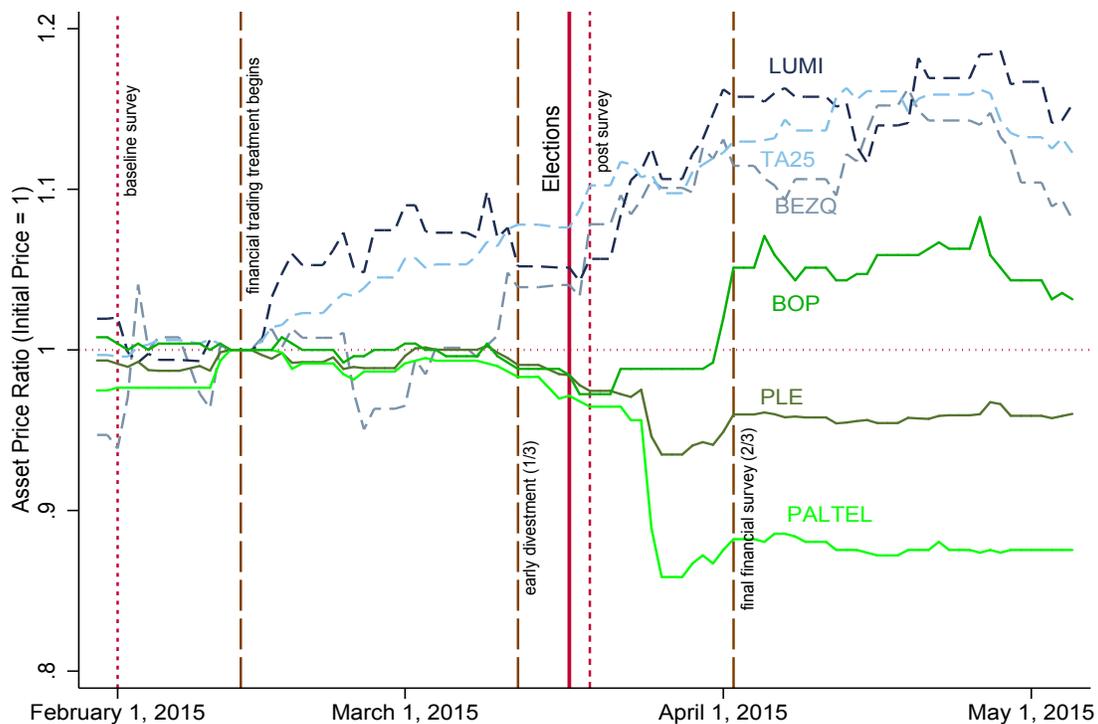
individuals financial assets, allow them to trade in those assets, and trace the effects on their political views and behavior.

A month and a half prior to the highly contested 2015 Israeli elections, we randomly assigned 1,345 Jewish Israeli voters to either a financial asset treatment or a control group. Individuals in the asset treatment received endowments of assets that tracked the value of specific funds or company stocks from both Israel and the Palestinian Authority, or an endowment of cash they could invest in an asset that tracked the Tel Aviv 25 index. They were also given incentives to monitor the performance of their asset and to make weekly decisions to buy or sell part of

their portfolio. We further randomized the dates at which individuals would be entirely divested of their portfolio to be either before or after the elections, and randomly assigned the initial value of the portfolio (\$50 or \$100).

Individuals also participated in a series of social and political surveys. This allowed us to track not only their investment behavior but also their social and political views and, crucially, their voting decisions. Importantly, participants did not associate the political surveys with the financial study, thus mitigating potential social desirability biases. Figure 1 provides a timeline.

Figure 1: Asset Prices during the Experiment and 2015 Elections



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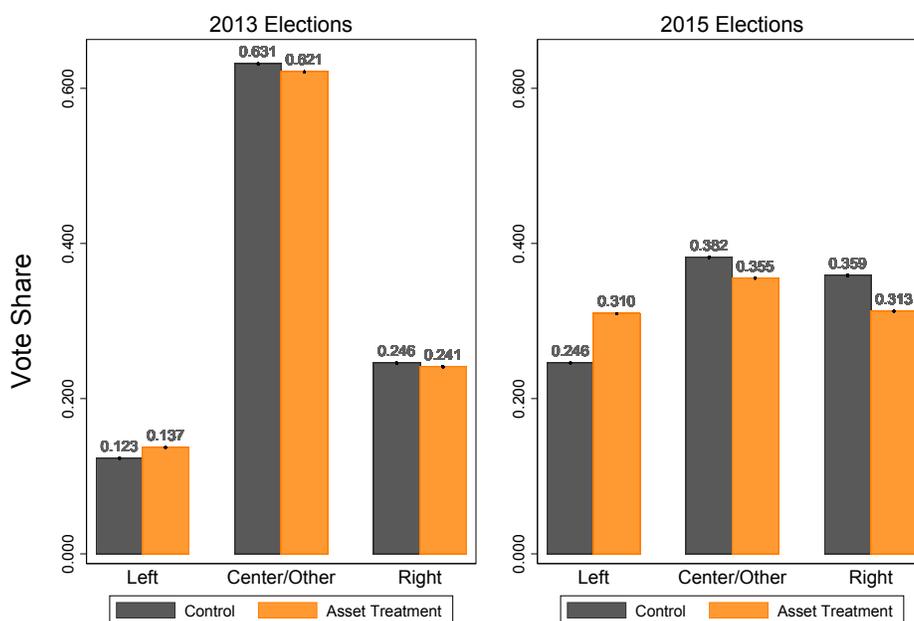
Jha & Shayo Feature Essay...continued from page 10

We find that exposure to financial markets causes large and systematic shifts in voting behavior. Figure 2 shows the raw vote shares across the asset treatment and control groups. As the left panel reveals, in 2013—just two years prior to our intervention—treatment and control groups had very similar distributions of votes across left, right and center parties.

However there are substantial differences in their voting decisions in 2015 (right panel). While 24.6% of the control voted for left parties—those seen as more supportive of peace initiatives—the left won 31.0% of the vote among the treatment group. At the same time, right parties won 31.3% of the votes of the treated group, down from 35.9% in the control.

These effects remain very similar across specifications, including with individual fixed effects. Overall, exposure to the stock market increased the likelihood of voting for the left in the 2015 elections by 5-6 percentage points. It similarly reduced the likelihood of voting for the right by about 4 percentage points.

Figure 2: Vote in Treatment and Control Groups in 2013 and 2015



N=1309. 'Other' includes 59 individuals in 2013 and 17 in 2015. 27 individuals did not vote in 2015.

Beyond votes, exposure to the stock market also affected individuals' willingness to make concessions in order to settle the conflict between Israelis and Palestinians. It raised willingness to support not only the general principle of a two-state solution, but also a range of specific concessions for peace, including the 1967 borders as a basis for negotiations, the splitting of Jerusalem, and the right of refugees to return to Palestine.

Perhaps not surprisingly, being experimentally assigned exposure to financial markets mainly affected the voting decisions of individuals who had

not already been active investors in the period preceding the experiment—by 7-8 pp to the left—and had less of an effect on experienced investors. Since experienced investors already tended to vote for the left, the experiment appears to align the political attitudes of new investors with investors with prior experience.

We use the various sub-treatments along with specific survey questions to examine a range of potential mechanisms that might drive these effects. We first examine perhaps the most straightforward channel: that individuals holding stocks on Election Day have *skin-in-the-game*,

and can therefore internalize the gains to the economy from the peace process. Given that conflict tends to lower—and peace overtures tend to raise—both Israeli and Palestinian asset prices (Zussman, Zussman and Nielsen, 2008), stockholders may be more likely to vote for parties that favor the peace process¹.

Yet, perhaps due to the relatively small stakes involved, we find limited

¹ Indeed, Jha (2015) shows that a similar mechanism can explain elite support for representative government in revolutionary England.

continued on page 12

Jha & Shayo Feature Essay...continued from page 11

overall evidence for skin-in-the-game effects: the average treatment effect is at least as strong among individuals that were exogenously divested prior to the elections as among those that held stocks on election day. However there are interesting differences by sub-treatment. Among those endowed with Israeli stock—arguably the most familiar to our subjects—the treatment effects do appear to be greater for those that held assets on election day.

In contrast, the Palestinian stock and the cash endowment effects are present even for those that had already been divested prior to the elections. We unpack these exposure effects. We find that treated individuals become more optimistic about the likely benefits of a peace agreement for the Israeli economy. In fact, these effects are even stronger for the risk-averse, consistent with exposure to financial markets causing individuals to reevaluate the riskiness of continuing with status quo policies. Individuals in the treatment group also had more accurate knowledge of stock market performance after the experiment, and, even four months after the elections, continued to follow financial news.

Exposure to assets that performed

better in terms of their price increases leads to stronger asset treatment effects. Intriguingly, controlling for asset prices, exposure to Palestinian stocks has particularly strong effects on support for peace. Individuals exposed to Palestinian stocks also show evidence of increased empathy towards Arabs, as measured by increased support for inter-ethnic social integration, including when questioned whether Jewish and Arab Israelis should live in the same neighborhoods and attend the same schools².

The thrust of contemporary policies aimed at addressing persistent ethnic conflict has been towards increased diplomatic efforts or international peace-keeping. Our results suggest that financial instruments also hold much potential. As this is the first study to experimentally assign individuals incentives to trade financial assets and trace the effects on their votes and attitudes towards peace, there is much need to investigate whether the effects are robust in other contexts as well. If our results do generalize, then one

² In contrast, we find no evidence for other potential channels, including wealth effects, informational spillovers from following financial markets into political domains, and effects on subjective well-being.

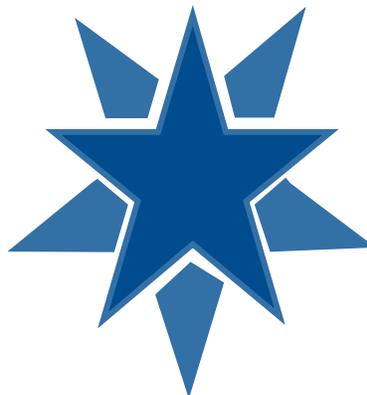
intriguing possibility is that rather than focusing on providing aid to governments or even directly to households, donors in conflict-ridden societies could provide individuals with resources earmarked to invest in stock in their national or regional exchanges, with limitations on their divestment opportunities. Beyond the direct aid provided, such policies may lead recipients over time to internalize and take greater account of the gains and risks of conflict and peacemaking to society more generally. In so doing, financial exposure may be conducive to both development and peace.

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