

Populism and War

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Introduction

- ▶ Commitment to **protectionism** and **disengagement** are the main commitments by Trump vis a vis international relations “my preferred word on the dictionary is tariff” said Trump.
- ▶ They are part of general commitment to **America first**, and consequent **exclusionary** policies endorsed by the ethnic majority.
- ▶ Simple exclusionary policies replace redistributive policies as most promising avenues of protection for middle and lower classes → inequality internal to country not countered.
- ▶ Moving towards nationalism helps the rich because distracts the people from asking more redistribution.
- ▶ → if populists win they are expected to close markets, close borders, nationalism, disengagement from “luxury” international affairs, and if this happens in superpower we have to be concerned about spillovers.
- ▶ Effect of disengagement on Ukraine and NATO in general is only the macro intuitive interstate first effect, but we need a framework to understand and analyze how all potential conflict

This paper

- ▶ We show that the consequences for civil war risk and inequality are largely negative, i.e. **more civil conflict risk** and **greater inequality**.
- ▶ Interstate conflict risk increases for symmetric country pairs and for asymmetric dyads in terms of trade openness and relative military power.

Intuition for divided countries

- ▶ America first commitment will affect exporting countries almost everywhere, causing reduction of divisible surplus within each such country.
Reduction of the cake should imply a decrease of greed incentives.
- ▶ **However**, we show that when the group(s) in power can alter the social contract, they react to lower divisible surplus with a cut of the share for opposition group(s)
 - ▶ → greater inequality if the revision is accepted
 - ▶ and conflict otherwise.
- ▶ Strategic disengagement also contributes to strengthen the position of governments in ethnically divided countries with previous support for a minority.

Summary effects at interstate level:

- ▶ Protectionism and consequent trade wars can create interstate conflict risk for same reasons as emphasized in liberal theory (lower opportunity cost of conflict).
- ▶ We show that the risk of interstate wars goes up more in symmetric country pairs and in pairs where the stronger country militarily is the one suffering the most from the cut in global trades.

Model for civil conflict

Time line:

1. First, the government G offers a share $x > 0$ of the surplus W for the opposition group R , under uncertainty about their cost of war c_R .
2. Then R observe the realization of c_R and decide whether to accept the offer or reject it.
3. If the offer is rejected, a civil war ensues.

Payoffs

The expected payoffs under conflict are

$$u_R^C = \lambda \xi W - c_R$$

$$u_G^C = (1 - \lambda) \xi W - c_G$$

where $\xi \in (0, 1)$ is the percentage of the divisible surplus that survives to the conflict.

For any x , the offer is accepted if

$$xW \geq \lambda \xi W - c_R \Rightarrow c_R \geq (\lambda \xi - x) W$$

Assuming that the distribution of costs for r is uniform from zero to $\bar{c} > W$, the probability of war as a function of x can be expressed as:

$$p(x) = \begin{cases} \frac{(\lambda \xi - x)W}{\bar{c}} & \text{if } 0 \leq x \leq \lambda \xi \\ 0 & \text{if } \lambda \xi < x \end{cases} \quad (1)$$

Government offer:

G chooses x to maximize

$$\max_{x \in [0,1]} p(x) ((1 - \lambda)\xi W - c_G) + (1 - p(x))(1 - x) W$$

- From the FOC we show that the equilibrium offer x^* is **increasing** in W .

Conflict risk:

In the absence of the possibility to revise x when W changes, conflict risk is increasing in W

However, we show that when x can be revised by the government then

Prob of conflict is *weakly* decreasing in W

– *and strictly so* when x^* is interior and for all $\xi < 1$.

Main result:

Proposition 1. *Under assumptions guaranteeing interior solution, a reduction in W (due e.g. to a protectionism shock) $\rightarrow$ higher group inequality and higher probability of conflict.*

Therefore, our analysis suggests that the election of a committed populist in a superpower *spreads inequality* around the world and raises the likelihood of civil wars in divided societies.

- ▶ More likely to happen in countries with low level of democracy and concentrated power since in democratic polities with checks and balances and multiple veto players revisions of economic and especially political power are more difficult.

The role of disengagement:

If in most countries disengagement of US implies lower λ , then this second feature of populism further spreads inequality.

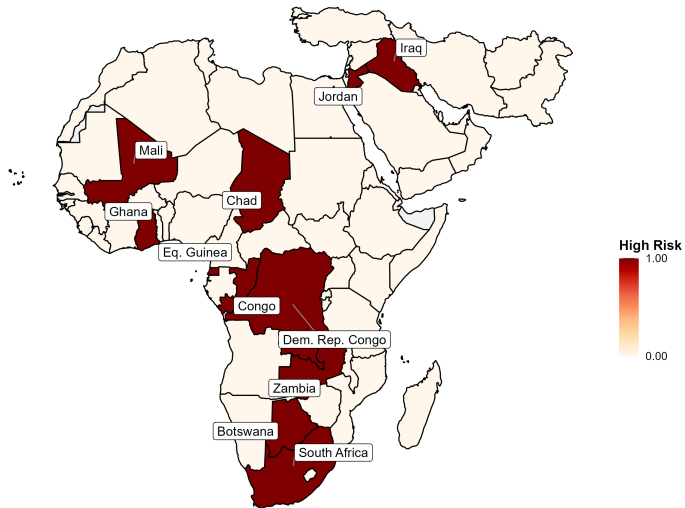
So the overall picture is summarized as follows:

Proposition 2. *Populism in the form of protectionism and disengagement raises the likelihood of civil wars in ethnically divided countries that are net exporters. Furthermore, if the super power had been engaged on the rebels side, populism exports inequality through both channels.*

Predictions

- ▶ **Civil war risk:** Taking the intersection between the set of countries with power mismatches between ethnic groups and the set of countries whose export-to-GDP ratio exceeds the regional median (25.7%), we identify the countries that, according to our theory, are most likely to experience an escalation in their risk of civil conflict arising due to a populist shock.
- ▶ **Interstate level:** Israel and Russia should be expected to become more hawkish with Trump, and not only for reasons related to political connections. Moreover, countries in south Asia or south America which could suffer a multilateral trade shock could become more hawkish in their bilateral disputes.

Prediction Map: High Risk of Civil Conflict



More general threats of populism for poverty of groups

- ▶ Deglobalization and nationalism are general trends, and the populist commitments → demand and supply of reductions in checks and balances → illiberal democracies – lower protection of minorities, exclusion.
- ▶ Hence poverty and exclusion may be difficult to counter for the World Bank facing populist governments with prevailing exclusionary policies and closed borders.
- ▶ Changing geopolitical order also creates more instability in the global south also due to lower international cooperation.