

# ECONOMIC COERCION

PSC/IR 265: CIVIL WAR AND INTERNATIONAL SYSTEMS

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# Overview

1. Midterm Discussion
2. First third recap
3. Ukraine
4. Why Sanctions Don't Work
5. Selecting on the Dependent Variable
6. The Cake Is a Lie and So Was Part 4
7. External Subsidies

# Overview

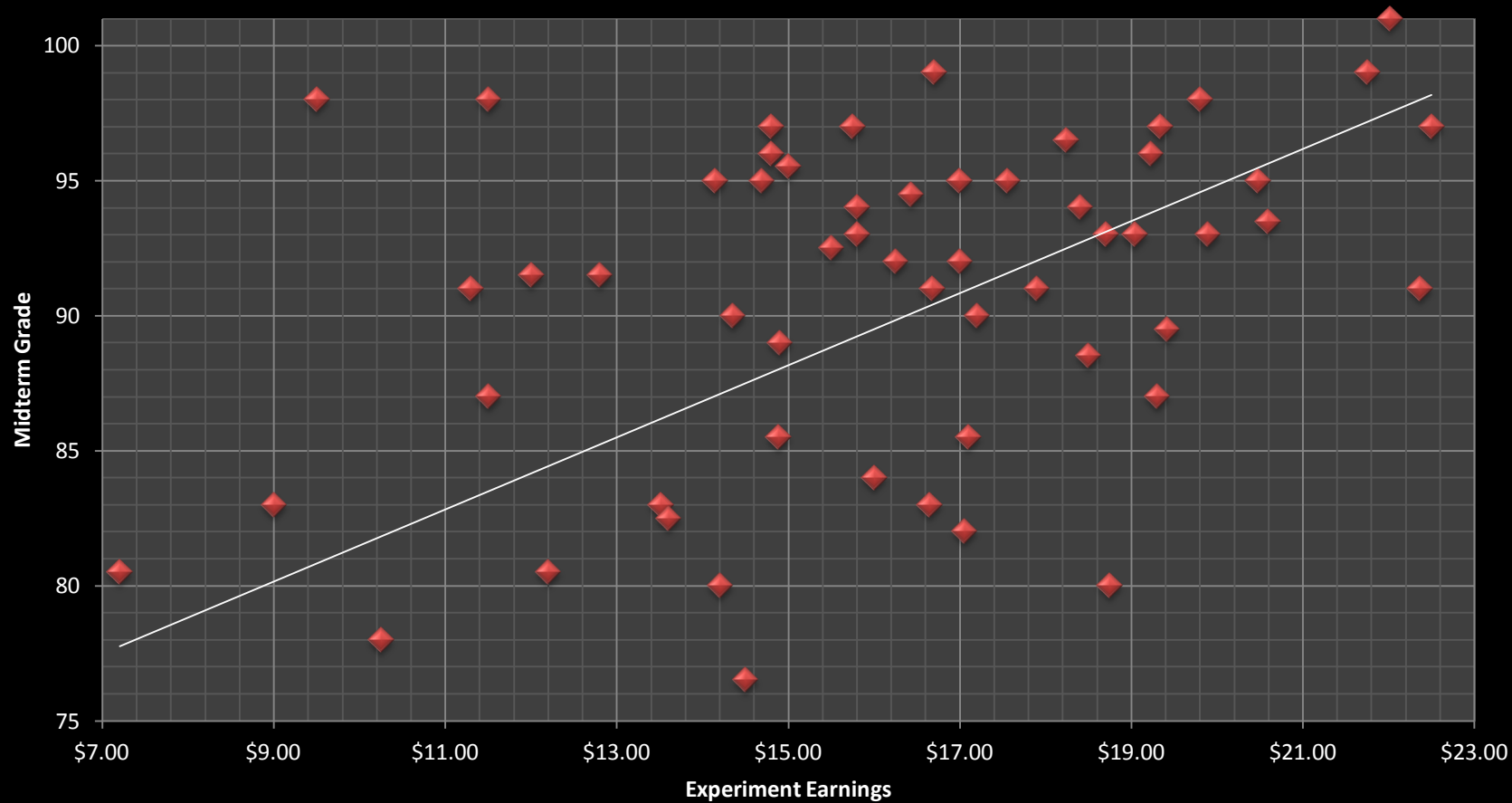
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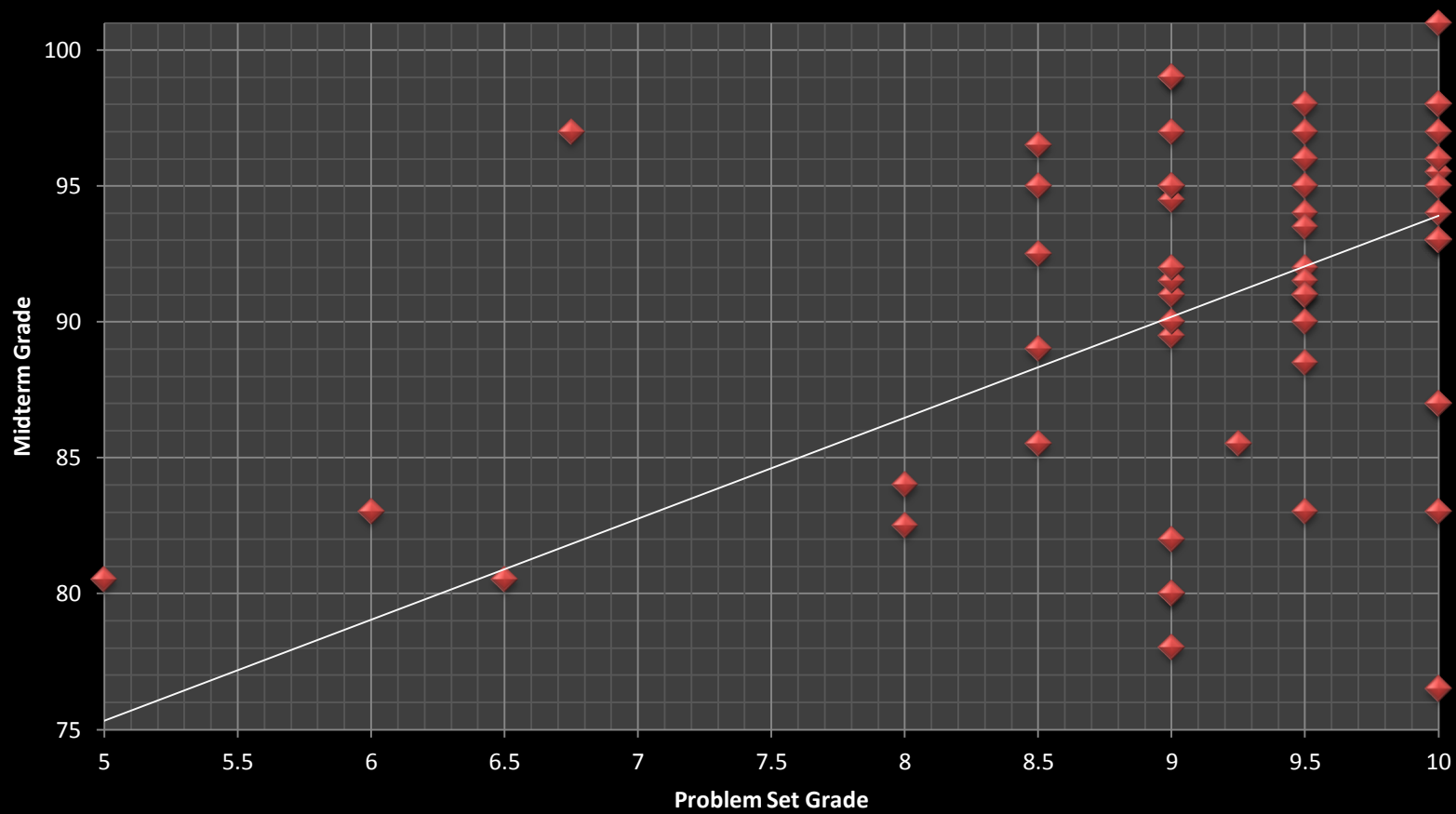
# Midterms

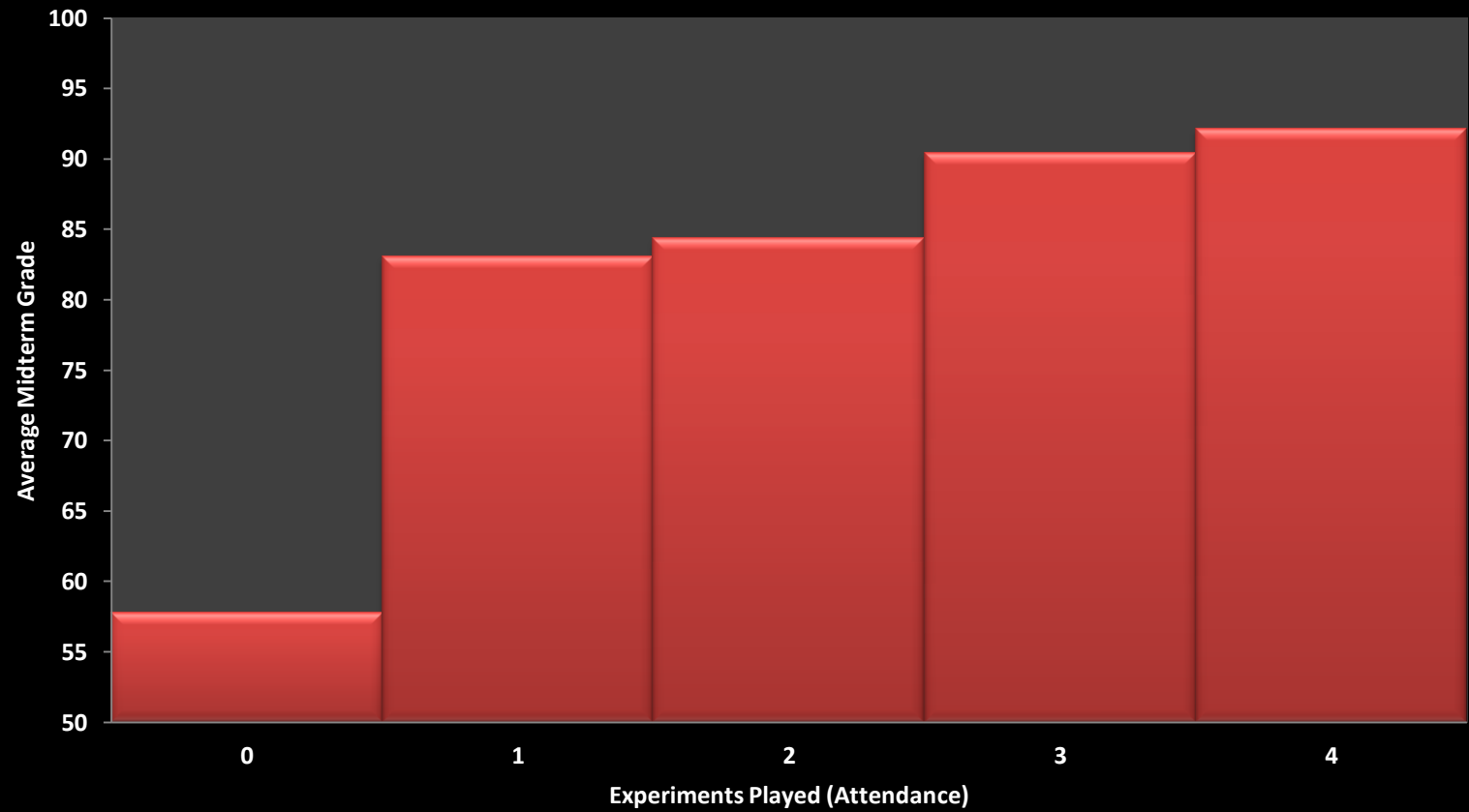
- Midterms will be handed back at the end of class.
- High: 101
- Low: 35
- Average: 89.5

# Midterms

- There was a shocking connection between consumption of a particular compound and receiving a grade higher than 90%.
  - More on that later in the lecture.









# Reading Directions

- Choose “three of four” means choose *three*, not four.
- I graded the first three.

# Risk-Return Tradeoff

- Need uncertainty (i.e., incomplete info)
  - If not, there is no risk.
- What makes you more likely to take the risk?
  - Your costs? Other side's costs? Likelihood the other side is weak? Difference in speculated strength?

# Credibility

- To be credible, you must have incentive to follow through on claimed actions when you must take those actions.

# Domino Theory

- Fight to protect *reputation*, otherwise dominoes fall

# Bargaining Range

- A lot of people failed to draw it correctly.

# Ethnic War as a Commitment Problem

- Issue of credible commitment is not just anarchy.
  - Bargaining range implies actors should be able to negotiate in anarchy.
  - Problem is shifting power.

# Rational Appeasement

- There is a tradeoff with reputation.



B-R-A-N-I-S-L-A-V  
S-L-A-N-T-C-H-E-V



# Principle of Convergence

- Info transfer works because:
  - a) you can observe battlefield outcomes and condition on whether you are winning more than you expected
  - b) weaker types accept smaller offers

# Rationalist Explanations for War

- Incomplete information and incentives to misrepresent come as a package deal.

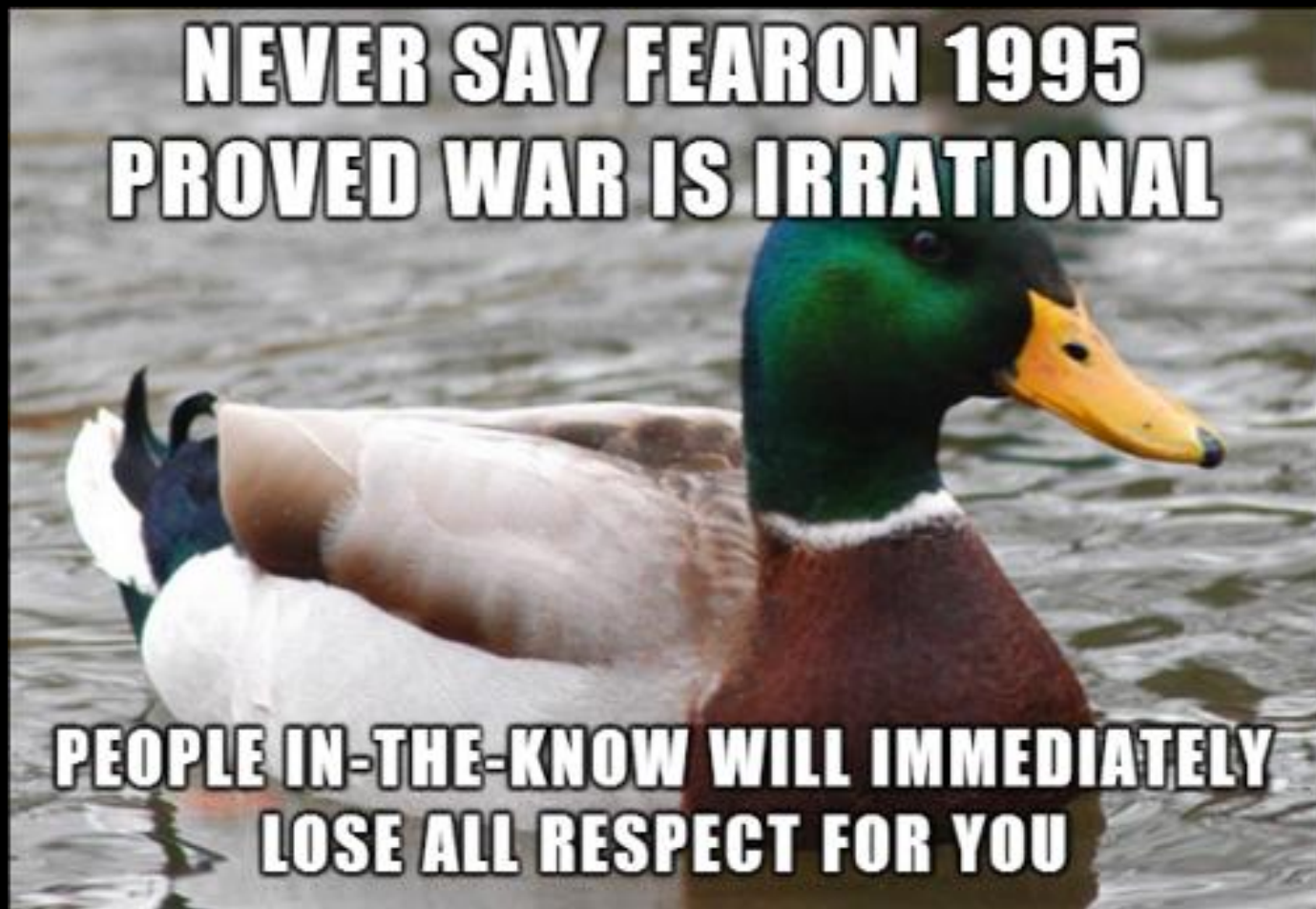
**YOU KNOW WHAT REALLY  
GRINDS MY GEARS?**



**WHEN PEOPLE SAY FEARON 1995  
PROVES WAR IS IRRATIONAL.**

**NEVER SAY FEARON 1995  
PROVED WAR IS IRRATIONAL**

**PEOPLE IN-THE-KNOW WILL IMMEDIATELY  
LOSE ALL RESPECT FOR YOU**



# Fractionalization/Ancient Hatreds

- You cannot explain variation with a constant.
- Why not bargain instead of fight?

# Predicting Coordination Problems

- Why can't you predict incomplete info war?
  - If I could as an analyst, I would need to know the info.
  - But so would the parties.
  - So there wouldn't be incomplete info.

# Predicting Coordination Problems

- Why can't you predict protesting?
  - If I could as an analyst, so could the government.
  - The government could then reorganize its security forces.
  - Less incentive to coordinate.

# Good Intelligence

- Peace if  $q < (c_G + c_R)/(p_R' - p_R + c_R)$
- Suppose  $p_R' - p_R \Rightarrow 0$
- $q < 1 < (c_G + c_R)/c_R$



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# What Was the Point of All That?

- We now understand why wars break out.
  - Incomplete information
  - Commitment problems

# Why No Issue Indivisibility?



# Church of the Holy Sepulchre

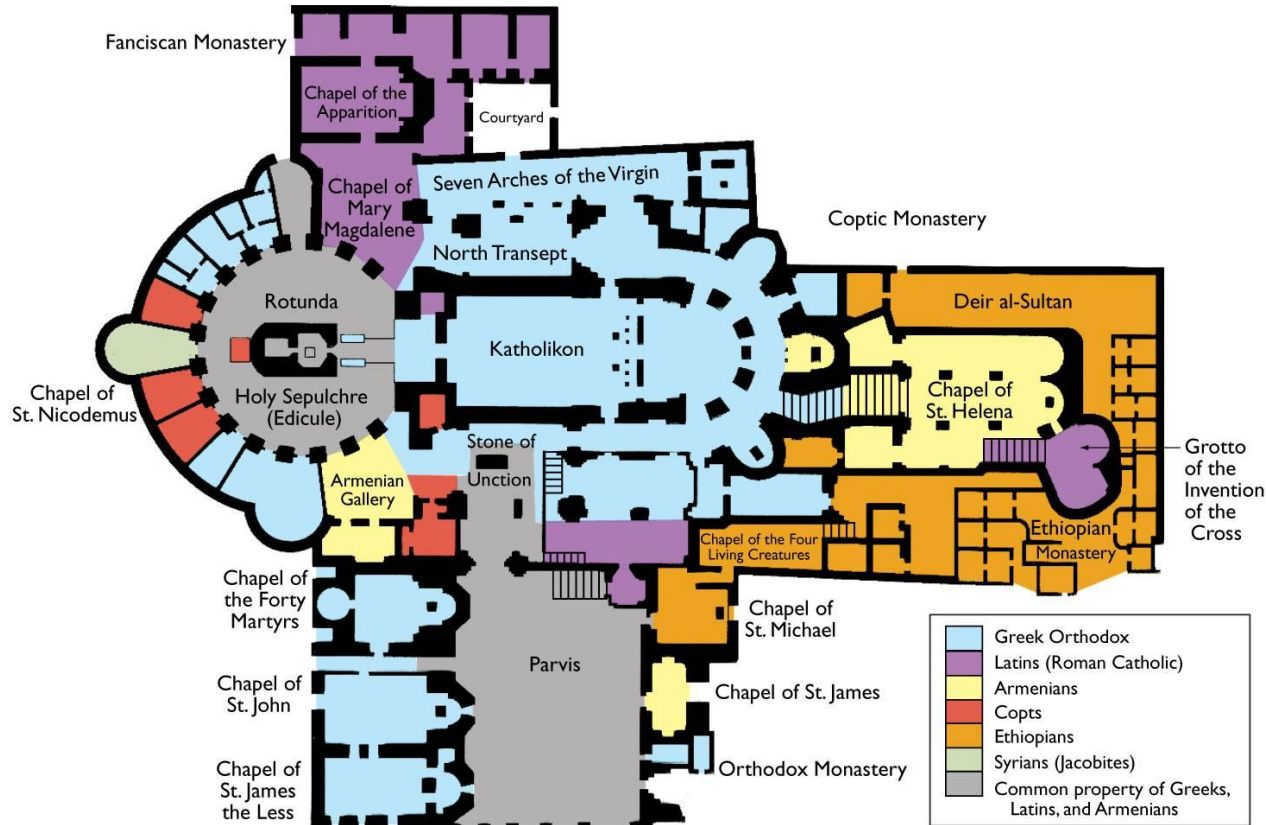
- Site of Jesus' crucifixion.
- It is the perfect indivisible issue.
  - It is a single object in a single place.
  - Everyone wants it.
  - It even has religious value!

# Church of the Holy Sepulchre

- Site of Jesus' crucifixion
- It is the most sacred site in Jerusalem.
  - It is the only place where all three religions meet in a single place.
  - Every religion wants it.
  - It even has religious value!

**WAR!!!**

# Church of the Holy Sepulchre







# Indivisibility vs. Pretend Indivisibility

- Parties will claim that object  $x$  is “indivisible” to them.
- Hard to differentiate “indivisible” as a bargaining position versus true indivisibility.



# What Was the Point of All That?

- If we know why wars break out, we can figure out how to stop them (or at least make them less bad).

# Different Routes

- Sanctions
- Aid
- Outright intervention
  - Unbiased
  - Biased/defense against

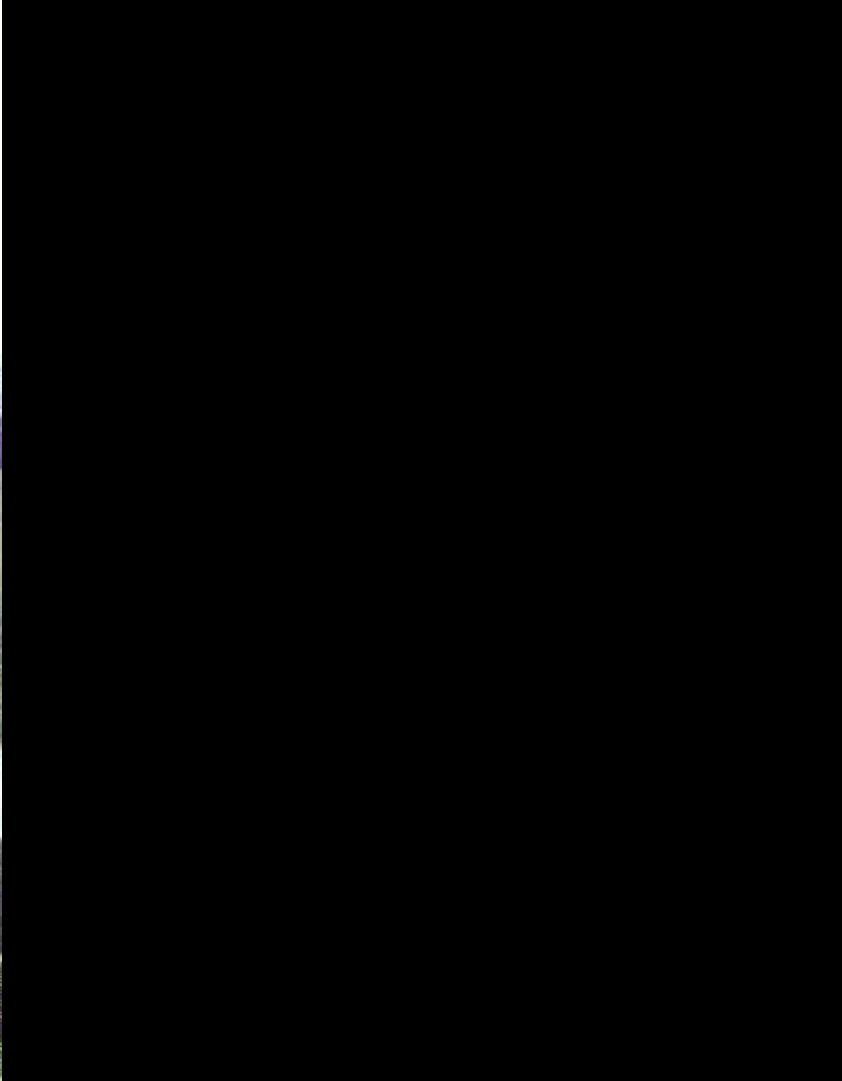
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**HEARS I AM TEACHING ABOUT  
COORDINATION PROBLEMS**

A photograph of a man with a neutral expression, wearing a dark blue collared shirt. A Ukrainian flag, consisting of a blue top half and a yellow bottom half, is placed over his mouth, obscuring it. The background is a plain, light-colored wall.

**CREATES REAL WORLD  
EXAMPLE ONE WEEK LATER**





The peak of journalism by the masses was 2011—after the invention of HD cell phone cameras but before Instagram.

# The Typical Story

- Popular protests remove corrupt, undemocratic leader who wanted to tie the country to Russia.

# The Typical Story

- Popular protests remove **corrupt**, undemocratic leader who wanted to tie the country to Russia.
  - This part seems true.



# The Typical Story

- Popular protests remove corrupt, **undemocratic** leader who wanted to tie the country to Russia.
  - He was democratically elected, though he recently passed anti-free speech legislation.

# The Typical Story

- Popular protests remove corrupt, undemocratic leader who wanted to tie the country to Russia.
  - Ukraine does not have a huge love affair with the West.

# A Lightning Quick History

- 1991: Ukraine declares independence.
  - Russia/United States vie for influence. No clear winner.

# A Lightning Quick History

- 2004: Disputed election.



Viktor Yushchenko



Viktor Yanukovich

**2004 DISPUTED  
UKRAINIAN ELECTION**



**BOTH CLAIMED TO BE  
THE VIKTOR**

Viktor Y

ukovych

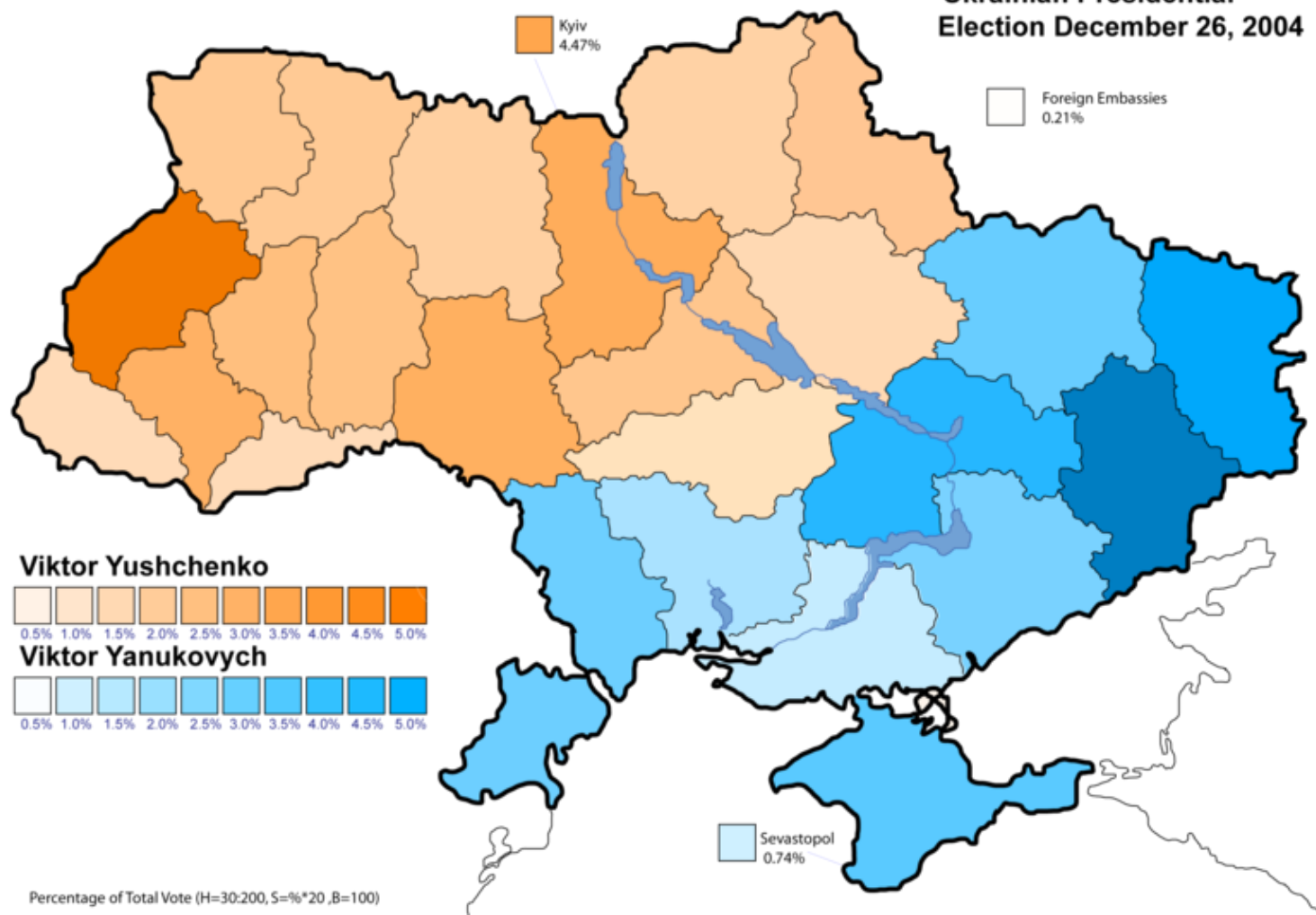
# A Lightning Quick History

- 2004: Disputed election.
- Court orders a second runoff.
- Yushchenko wins.





# Ukrainian Presidential Election December 26, 2004





# A Lightning Quick History

- 2010: Yanukovych runs again and wins.
- November 2013: Yanukovych rejects EU trade deal and signs deal with Russia.

# A Lightning Quick History

- Protests begin.
- But only 43% of the country supported the EU trade deal.
  - 30% supported the Russian deal.

# A Lightning Quick History

- So the majority favors closer ties with the West.
- But this is not an overwhelming majority.





# Ukraine Faces EU Sanctions After Deadly Day of Protests

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By Ian Wishart and Jonathan Stearns | Feb 20, 2014 10:41 PM ET | [7 Comments](#) [Email](#) [Print](#)

European Union governments imposed sanctions on Ukrainian officials, and the country's parliament rejected President **Viktor Yanukovych**'s crackdown following the deadliest day of protests in the capital Kiev.

Ukrainian authorities reported 75 protesters were killed and 363 hospitalized in the violence that began Feb. 18 as diplomatic efforts in Kiev and Brussels to end three months of anti-government demonstrations left Yanukovych to consider mounting calls to step aside. Ukrainian markets rebounded as investors anticipated an endgame was at hand.



Photographer: Vincent Mundy/Bloomberg

*Anti-government protesters hold weapons while they rest following recent clashes in...* [Read More](#)



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# Why Sanctions Don't Work

- North Korea? Not working there.

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- Remember Serbia? Didn't work there.

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- Remember Serbia? Didn't work there.
- Remember Iraq? Didn't work there.

# Why Sanctions Don't Work

- North Korea? Not working there.
- Remember Serbia? Didn't work there.
- Remember Iraq? Didn't work there.
- Remember the Axis? Didn't work there.

# Why Sanctions Don't Work

- 
- North Korea? Not working there.
  - Remember Libya? Didn't work there.
  - Remember Cuba? Didn't work there.
  - Remember the Axis? Didn't work there.

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The medical examiner of a small city made a limited claim about the likelihood that the apparent association of consuming beverages containing dihydrogen monoxide with death represents a real effect. This finding is based on the fact that there were 16 deaths in the previous week. All 16 regularly consumed large quantities of dihydrogen monoxide; none was a non-drinker. Compared to chance (i.e., A coin flip between drinking and not drinking beverage x), this result would occur less than 1 in 55,000 trials. Therefore, we recommend an immediate ban on dihydrogen monoxide.

The medical examiner of a small city made a limited claim about the likelihood that the apparent association of consuming beverages containing water with death represents a real effect. This finding is based on the fact that there were 16 deaths in the previous week. All 16 regularly consumed large quantities of water; none was a non-drinker. Compared to chance (i.e., A coin flip between drinking and not drinking beverage x), this result would occur less than 1 in 55,000 trials. Therefore, we recommend an immediate ban on water.



# Midterms

- There was a shocking connection between consumption of a particular compound and receiving a grade lower than 80%.
- I recommend not consuming that ever again.

# Midterms

- There was a shocking connection between consumption of a particular **water** and receiving a grade lower than 80%.
- I recommend not consuming **water** ever again.

Everyone who drowns was near  
water. Therefore, we should ban  
close contact with water.

WHO HAS TIME TO

# comparison shop ? We do.

We check hundreds of prices each week so you don't have to.

## Compare & Save

Whitehouse  
Liquor & Wine

Marketview Liquor

Bacardi Superior 1.75L

19.79

21.99

Tanqueray Gin 1.75L

31.99

35.99

Bogle Old Vine Zin 750mL

9.99

10.99

Toasted Head Chard  
750mL

8.99

10.99

Mirassou Cabernet 750mL

6.99

7.99

Beringer White Zin 1.5L

7.99

8.49

Don't shop around town —  
shop Whitehouse Liquor & Wine.

Prices Checked on

2/14/2014

**PRICE GUARANTEE:**

**WE WILL MEET OR**

# How to Really Compare Prices

1. Randomly select products. (Or select *all* products.)
2. Gather price data on all of them.
3. See which prices are better.

# Why Bargaining Doesn't Work

- Failed during WWI.
- Failed during WWII.
- Failed in Iraq.
- Therefore, bargaining doesn't work.

# How to Really Judge Bargaining

1. Gather all potential instances in which war could have occurred.
2. Compare the frequency of conflict.
3. Judge how effective bargaining is.

# Selecting on the Dependent Variable

- A methodological fallacy in which a researcher restricts sample to the outcome she wants to explain.
  - Also called “sampling on the  $y$ ”
- Leads to invalid inferences.



# How to Really Judge Sanctions

1. Gather all potential instances in which sanctions could have been implemented.
2. Compare the quality of all those outcomes.
3. See if there is a difference.

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# Sanctions Are Okay

1. Hidden hand
2. On the margins
3. Soften targets

# Hidden Hand

- Most of sanctions' heavy lifting is never observed.
- Unfairly biases our perception of their usefulness.

# An Interaction

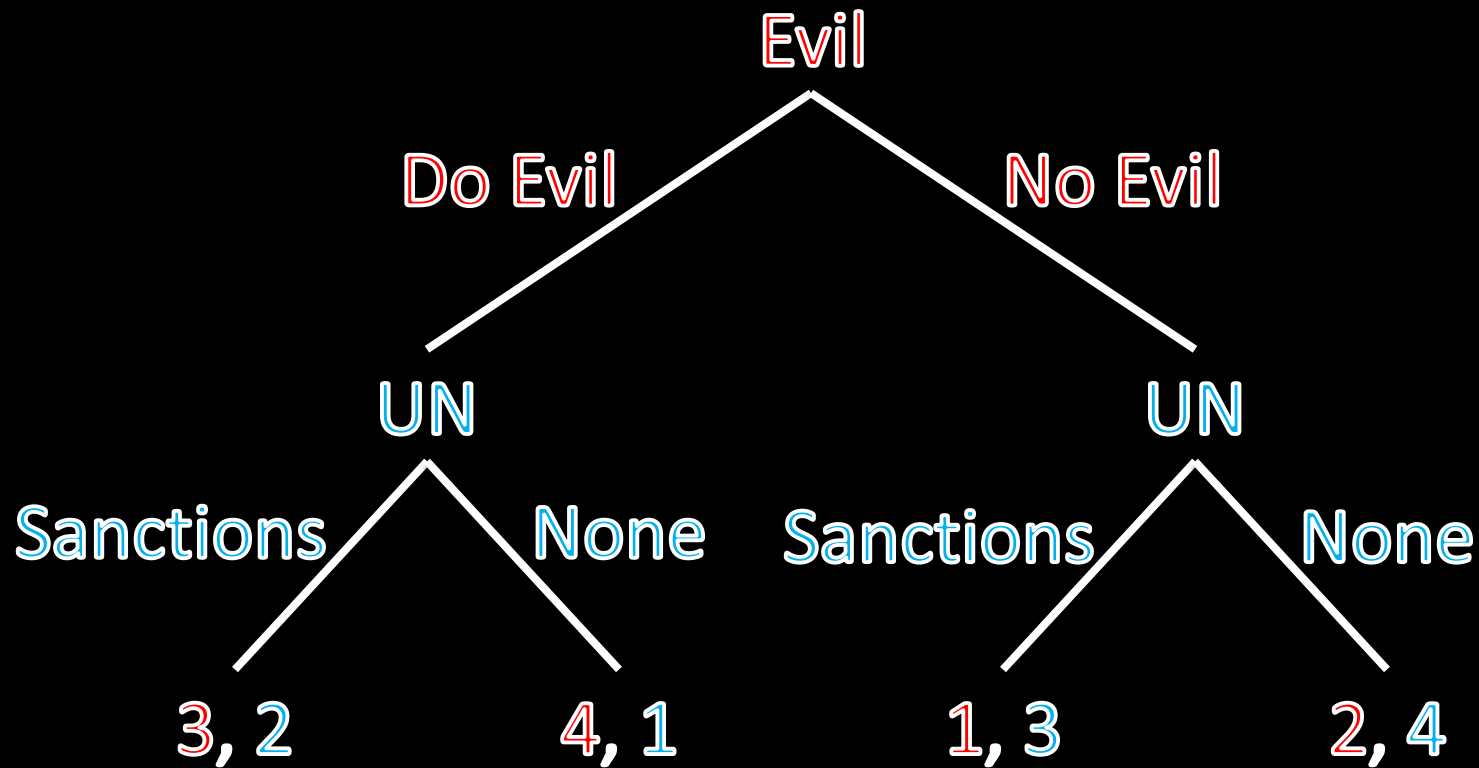
- Imagine the Good Guy UN.
  - Most wants to stop evil countries from doing bad things.
  - But also prefers sanctions to no sanctions if bad things are done.

# An Interaction

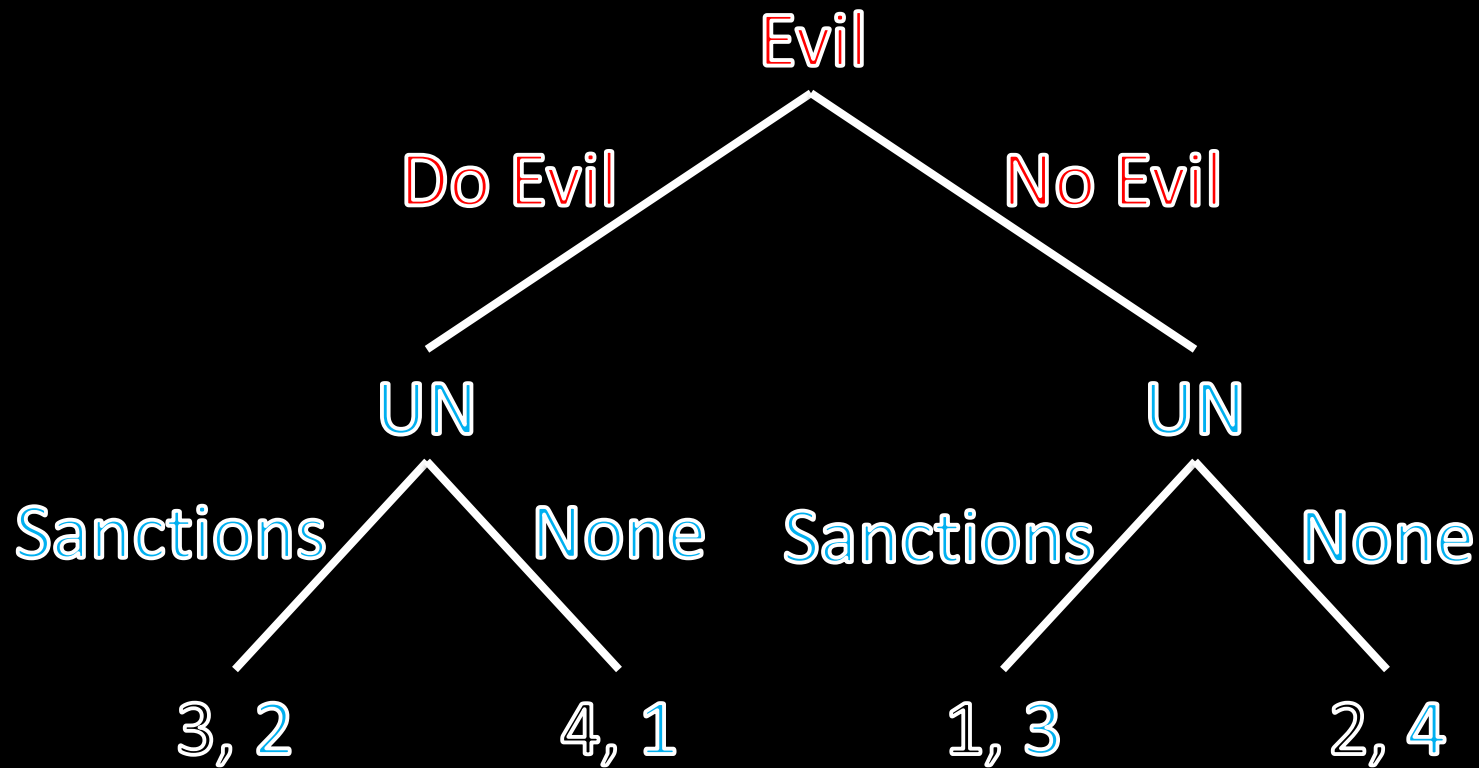
- Imagine an evil country.
  - Best outcome: do evil things without punishment.

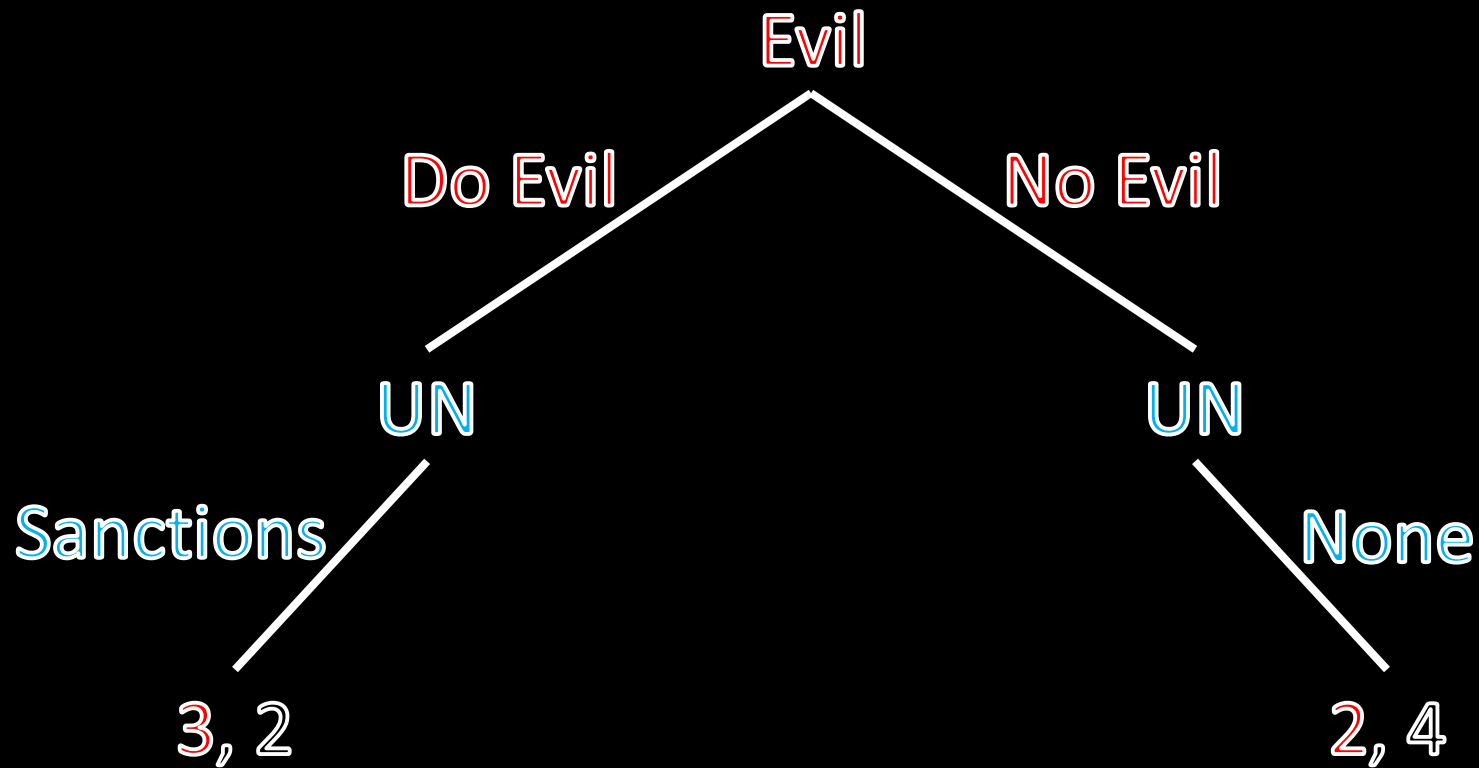
# An Interaction

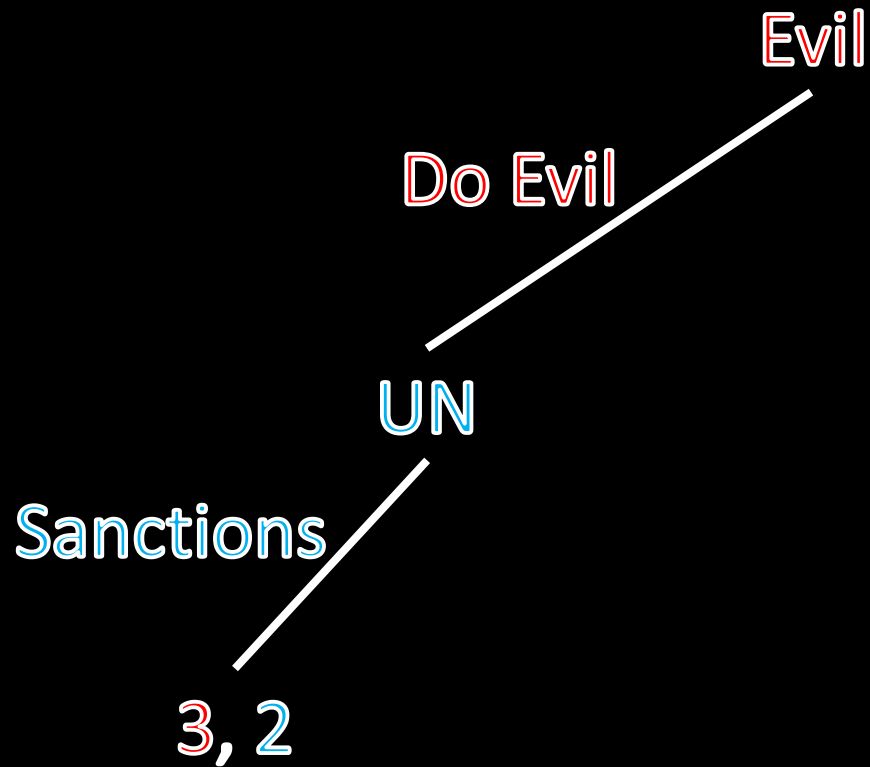
- Imagine an evil country.
  - Best outcome: do evil things without punishment.
  - If the country is **tough**, it prefers doing evil things and suffering the punishment to not.







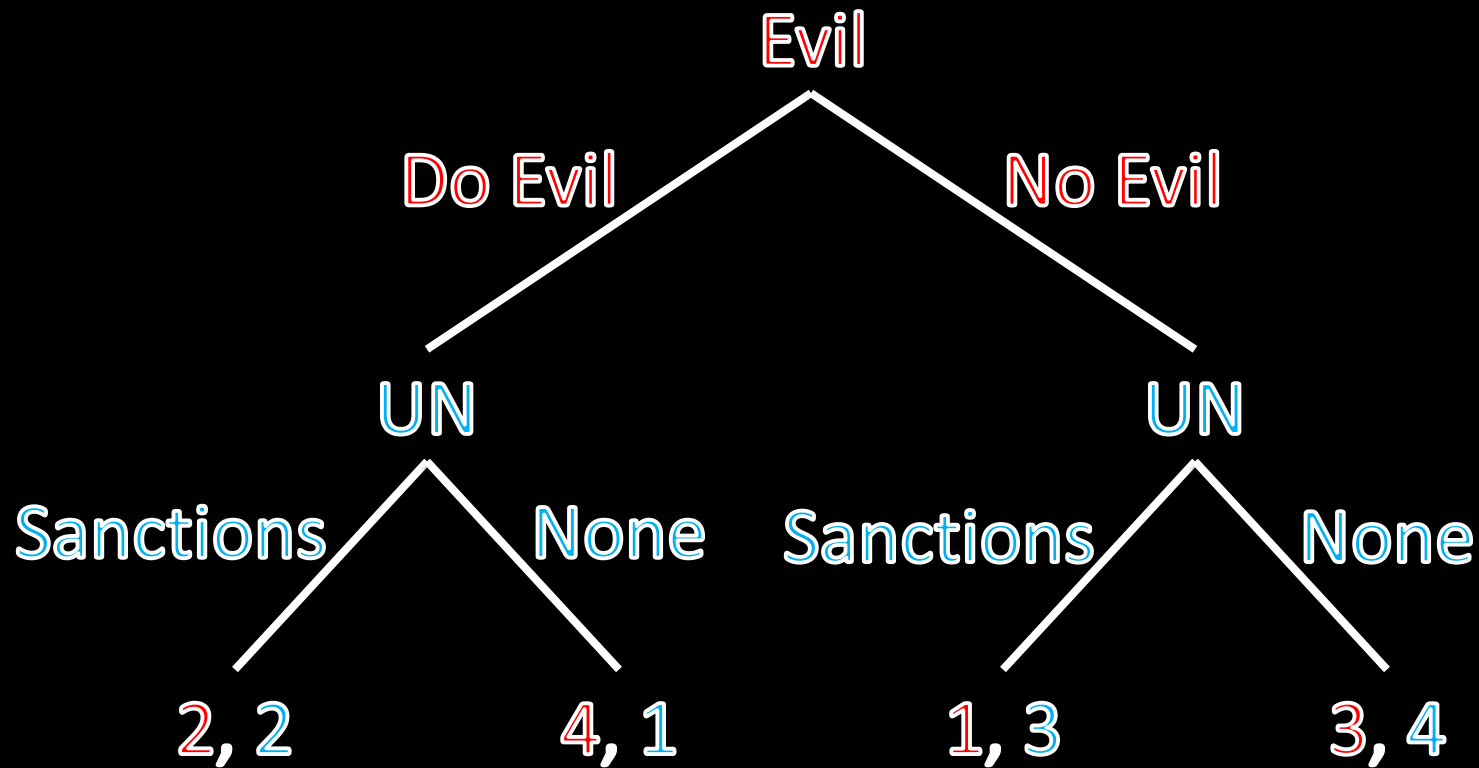


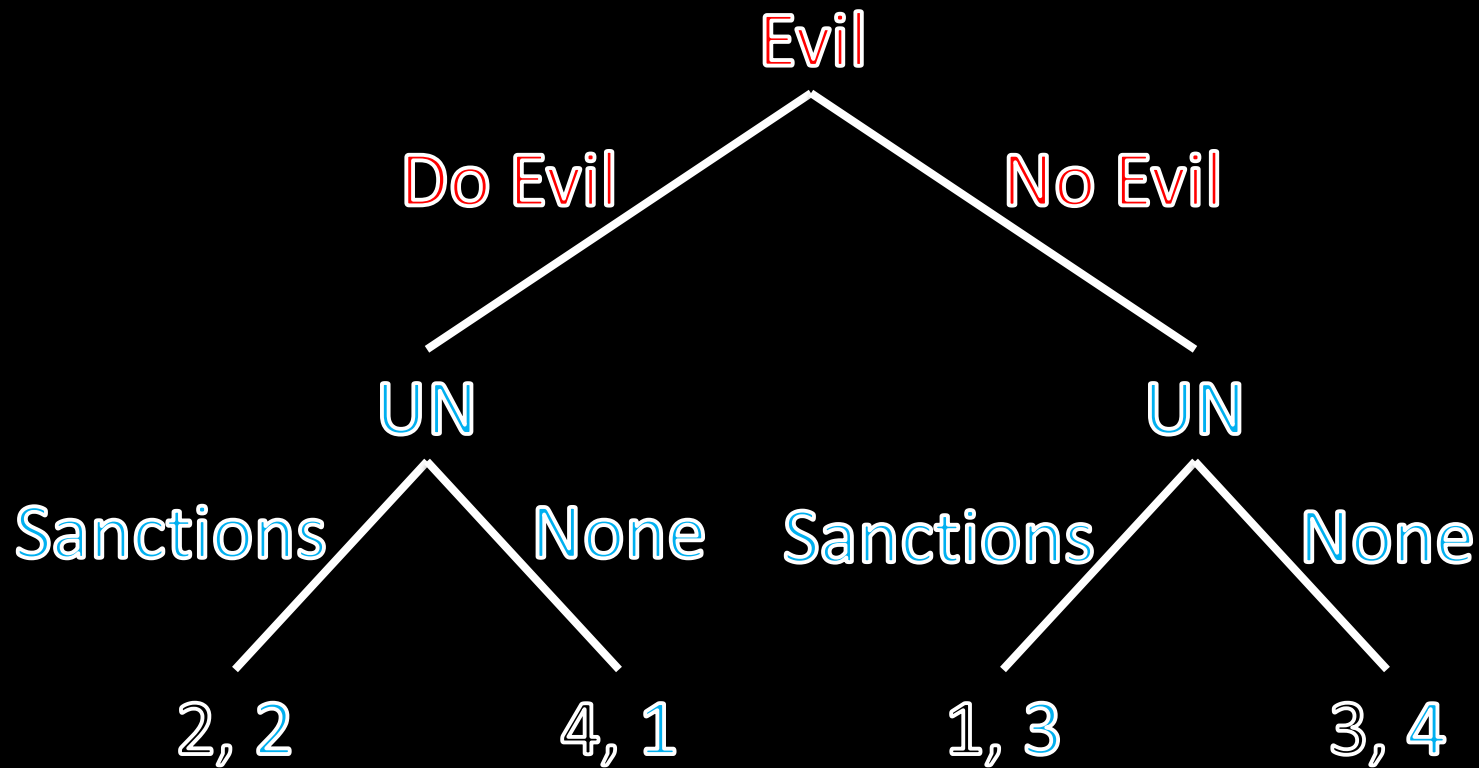


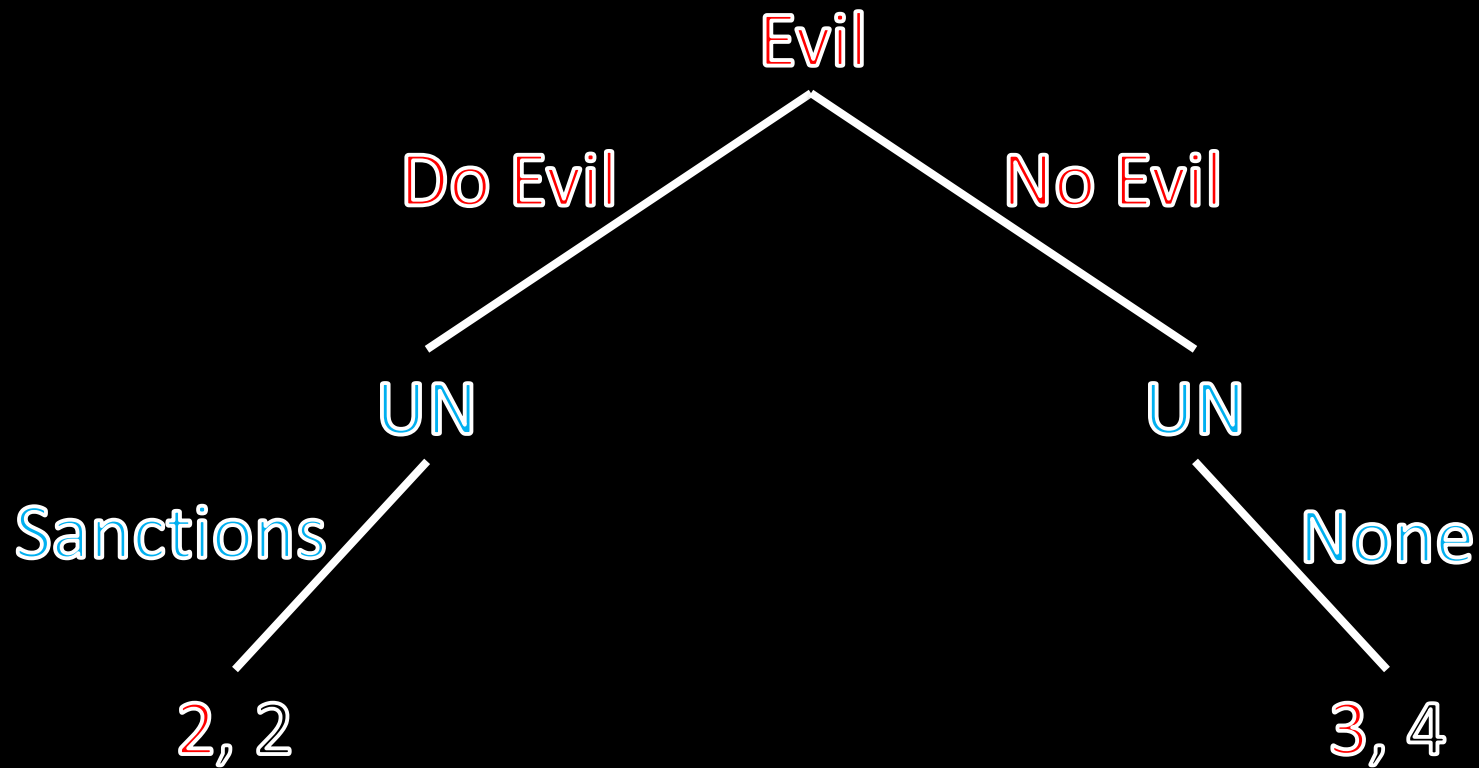
Sanctions fail.

# An Interaction

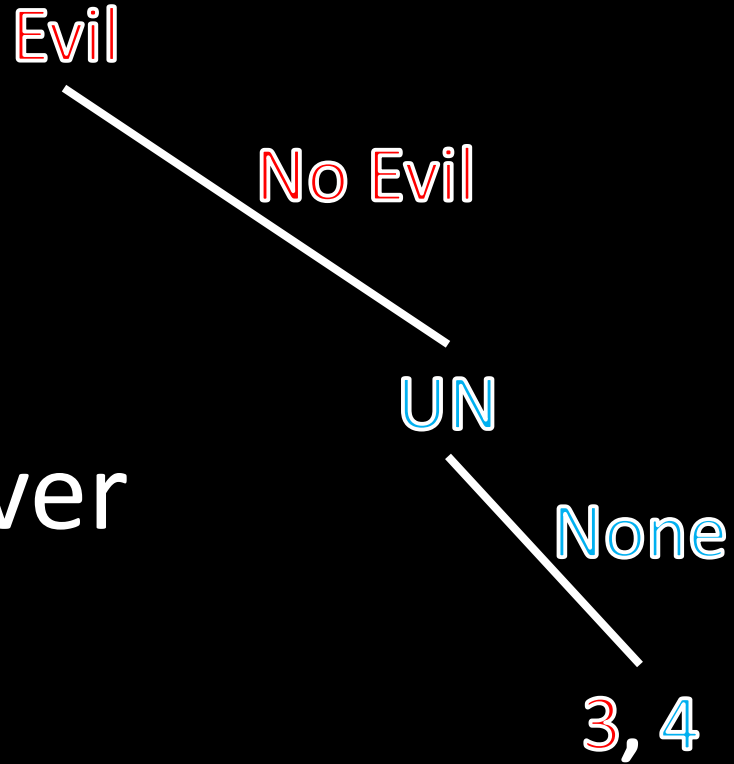
- Imagine an evil country.
  - Best outcome: do evil things without punishment.
  - If the country is **weak**, it prefers doing not doing evil things and to doing them and suffering the punishment.







Sanctions never  
exist.





# Selectively Sanction

- What if you only want to sanction when it will be effective?
  - i.e., only sanction when you will be able to effectively overturn leadership

# Risk-Return Tradeoff

- When you make the offers, do you fight wars against strong opponents or weak opponents?

# Risk-Return Tradeoff

- When you make the offers, do you fight wars against strong opponents or weak opponents?
  - Strong. Weak types accept to avoid war.

# Risk-Return Tradeoff

- Is war ineffective?
  - No, because the *threat* of war gets you a better outcome on average.

# Risk-Return Tradeoff

- Imagine you are uncertain whether a leader is in a fragile position or not.
- Instead of war, you threaten sanctions.
- Do you sanction the most secure or least secure leaders?

# Risk-Return Tradeoff

- Answer: Most secure.
  - Less secure leaders will accept your demands.
  - You won't find out that you were wrong until it is too late.

# Empirics

- Sanctions are correlated with bad outcomes.
  - Leaders more likely to survive given sanctions.
  - Policy outcomes less likely to change given sanctions.

# What You Observe

- In every case in which sanctions are implemented, bad things happen.
- There are no “successes” in which sanctions are implemented.



# Deterrence

- Bad inference: sanctions don't do anything.
  - They do—but you can't actually see when they help.
- Sanctions are **most** effective when you never have to use them.

# The Lesson

- You can't judge the usefulness of  $x$  purely by what you see.

# Sanctions Are Okay

1. Hidden hand
2. On the margins
3. Soften targets

# Temper Expectations

- Sanctions are not jackhammers of foreign policy.
  - That's what war is for.
- They are merely a tool—a useful tool.

# The Causal Chain

- Sanctions mean lost revenue.
- Lost revenue is supposed to upset particular bases.
- Leaders then cave to keep those bases from throwing them out of power.

# Minor But Noteworthy

- Imagine a totalitarian regime needed the support of a majority of 1000 key individuals to stay in power.

# Minor But Noteworthy

- 499 people already dislike the regime due to bad economic policy.
- 2 people will dislike the regime if their policies lead to sanctions.

# Minor But Noteworthy

- Did the sanctions do the heavy lifting in removing the leader?



# Minor But Noteworthy

- Did the sanctions do the heavy lifting in removing the leader?
  - No, the leader was mostly disliked for bad economic policies.

# Minor But Noteworthy

- Did the sanctions cause the leader to be overthrown?
  - Yes. In the absence of sanctions, the leader would have remained in power.

# Minor But Noteworthy

- Since sanctions may only matter on the margins, they might not give you your most preferred outcome.
  - But relevant question isn't "are sanctions perfect?" but rather "do they help?"

# Sanctions Are Okay

1. Hidden hand
2. On the margins
3. Soften targets

# Minor But Noteworthy

- If all else fails, comprehensive sanctions will eventually destroy your entire economy.



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# External Subsidies

- If sanctions are the stick, external subsidies are the carrot.
  - “I will give you money if and only if you don’t start a war.”



# Return of the Incomplete Info

- War occurs if  $q > (c_G + c_R)/(p_R' - p_R + c_R)$ 
  - How do external subsidies affect this calculation?

# External Subsidies

- Basic effect is to make war more costly.
- If war is more costly, information/commitment problems are less likely to trigger.

# Why Pay?

- Wars create **negative externalities**—losses in utilities for states not involved in the conflict.
  - Pakistan in U.S/Afghanistan War
  - Everyone around Syria

# Why Pay?

- Civil wars cause spillovers.
  - Two states, no civil wars: 2.1% chance of a militarized interstate dispute per year.
  - Two states, one civil war: 4.3% chance of a militarized interstate dispute per year.

# Why Pay?

- War is costly for you.
- You might want to pay a little to support peace than pay more in warfare.
  - Seems intuitive but is hard to actually detect in practice.

# Camp David Accords



- Israel/Egypt make peace.
- U.S. promises to throw money at both of them.

# Muslim Brotherhood

- Comes to power during the (ongoing) Egyptian revolution.
- Implements policies United States does not like very much.

Stop, or we'll  
cut the  
subsidies.





Stop, or we'll  
cut the  
subsidies.

You do realize that  
the subsidy is the  
what's keeping the  
peace, right?





The effect is real. Subsidies increase when information and commitment problems are most likely and decrease when they are least likely.