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### **Dissertation précis - “Economic Interests in the Domestic Politics of War”**

Do a nation’s commercial interests favor peace? Do those that stand to profit from war promote belligerent state behavior? Or, do heterogeneous economic actors instead share similar preferences over the use of force, regardless of the economic sector in which they conduct business? Answers to these questions lie at the heart of several competing theories of interstate conflict. My dissertation reexamines this classic issue with rigorous theory, modern methods, and innovative data. In particular, my dissertation evaluates key links in the causal chain connecting individual economic interests with U.S. foreign policy. My results provide fresh theoretical and empirical insights into the ways in which economic incentives motivate both dovish and hawkish security policy preferences. These insights, moreover, provide micro-foundations for richer and more complete political economy theories of war.

In the dissertation, I weave together international trade theory, an asset theory of individual interests, and a bargaining model of war to explain how and why actors from the same country have different economic interests in interstate disputes. In particular, I explain why wars typically affect sectors differently, how and why sectoral outcomes are translated to individuals, and why variation in economic interests produces polarization in preferences over the use of force. Finally, I show that economic interests matter for individuals even though they may face similar strategic incentives to misrepresent their resolve or doubt the credibility of foreign states.

Each of these claims is subjected to careful empirical testing. I conduct well-designed event studies of the 1991 Gulf War and the Iraq War of 2003 using stock market data to provide detailed information about how the consequences of war differ across economic sectors. I then show that sector-level variation in the costs and benefits of war helps explain congressional votes authorizing the use of force in 1991 and public support for the war with Iraq in 2003. Together, these analyses provide the information necessary to validate my asset theory of security policy preferences. The results demonstrate conclusively that economic interests matter in the formulation of security policy preferences in at least two major wars and, I argue, others as well.

Thus, the dissertation provides theoretical and empirical support for key mechanisms driving political economy theories of war, mechanisms which have previously been either vaguely specified or unexamined. Rather than solely verifying existing traditions, my findings enhance our understanding of economic interests in war. Of course, it would be inappropriate to assume that causal relationships at the individual level of analysis map directly onto state-level behavior. Rather, the bargaining model in the dissertation suggests why economic interests should *sometimes* matter, though not always in obvious ways. Hence, the results of the dissertation provide the foundation for developing new hypotheses about the role of economic interests and domestic politics in war, which is the next step in my research agenda.

### **Relationship to Existing Literature**

The now canonical bargaining model of war largely brackets preferences and attributes war to private information with incentives to misrepresent or problems of credible commitment. In the standard setup, owed to James Fearon (1995) and Robert Powell (1999, 2006), issues in a dispute between countries are arrayed across a zero-one space, and can represent any possible issue on which countries disagree. Although the bargaining model demonstrates that conflicting interests are not a sufficient condition for war, too often the model has been mistakenly interpreted to imply that interests are unimportant. As I show in Chapter 2 of the dissertation, the more intensely interests conflict, the less severe information asymmetries and changes in the distribution of power need to be for misrepresentation and commitment

problems to lead to war. Unfortunately, why countries disagree, how groups in each country might differ on the issue in contention, and how domestic institutions aggregate those preferences are left unexamined in many applications of bargaining theory. Understanding how disputes arise and the intensity of preferences over issues provides a more complete understanding of why wars occur.

There is, of course, a large literature on domestic interests and war that attempts to explain the origins of interstate disputes. Unfortunately, this literature has separated itself into competing schools and produced few consensus findings. One school emphasizes conflicting social identities, especially religious and ethnic ones. In the most famous articulation of this perspective, Samuel Huntington (1993) predicts that conflict between states with different religious traditions would predominate after the Cold War. Though scholars have rejected Huntington's claims on both theoretical and empirical grounds, research continues to investigate the role of social identities in interstate war. A second school, by contrast, argues that the incentives facing bureaucrats and politicians are more important in understanding interstate conflict. For example, diversionary theories of war hold that leaders have an interest in starting war if it distracts the public from economic or political problems. The theoretical and empirical status of diversionary theory is unclear, however, with a large number of distinguished proponents (e.g. Downs and Rocke 1994, Fordham 1998, Blomberg and Hess 2002) and an equal number of distinguished critics (e.g. Smith 1998, Chiozza and Goemans 2003, Tarar 2006).

A third tradition of scholarship contends that economic motivations drive domestic interests in interstate conflict. The most prominent claim from this tradition is that commercial interests promote peace (e.g. Doyle 1983, Russett and Oneal 2001). Others, however, argue that economic actors sometimes have expansionist interests and can form influential coalitions supporting aggressive foreign policy (e.g. Lenin 1917, Snyder 1991). Recently, Brooks (2005) and McDonald (2009) have offered interesting synthesis of these competing views of economic interests. McDonald argues that trade only promotes peace if trading interests are sufficiently influential. Brooks, by contrast, argues that the globalization of production, rather than trade, promotes peace. (Nonetheless, the status of claims about the relationship between interdependence or other economic variables and conflict is unsettled.

I do not try settle the competition between these schools, as I believe there are multiple pathways through which domestic politics can affect interstate conflict. In addition, I see little value added in providing another analysis of conventional conflict data that suggests that domestic politics matter—since surely they do. Instead, what is needed is a closer examination of the internal mechanisms of these theoretical traditions.

My dissertation contributes to the political economy tradition by providing theoretically and empirically rigorous answers to four foundational questions: What, exactly, are the economic consequences of war? How are they distributed across the economy? What are individuals' economic interests in war? And, are those interests, in fact, important enough to influence their preferences over the use of force abroad? I answer these questions by showing that war has sharply divergent consequences across sectors, which produce economically based coalitions of support and opposition to war. I derive my key claims using well-established models of interests and strategic interaction. I test them with methodologically sound research designs that employ precise measurements of key concepts. Broadly speaking, my theory and evidence support a more contingent view of the role of commercial interests in conflict, though my approach can better explain how and why economic interests would sometimes promote belligerent state behavior.

## **Chapter Summaries**

Chapter 1 introduces the key question of the dissertation, reviews the existing literature, and highlights my contributions. Chapter 2 extends the bargaining model of war to illustrate how and why economic

interests affect state behavior, laying the foundation for the closer examination of the determinants and influence of economic interests. With the theoretical importance of economic interests established, I then turn to an empirical investigation of economic interests and war in the United States in the Persian Gulf War of 1991 and Iraq War of 2003.

In Chapter 3, I investigate a fundamental assumption in political economy theories of war: that conflict has variegated economic consequences, producing both losers and winners at home. In particular, I investigate how the Persian Gulf War was expected to affect different industrial sectors in the United States. Given that access to oil was a central motivation for the initial dispute between Iraq and Kuwait, I develop a set of predictions about the distributional consequences of the conflict from a well established literature on oil shocks (Hamilton 2001, Killian 2008).

To assess these predictions, I identify key events in the initial stages of the conflict and then use the event study methodology to determine the effect of the crisis on 53 S&P 500 sectoral stock indices. I find that the market expected the initial conflict between Iraq and Kuwait to be especially detrimental to transportation-related sectors, but relatively beneficial to energy-related industries. However, I find that the Bush administration's decision to intervene on behalf of Kuwait largely reversed these initial effects, hurting energy-related industries, including oil, and helping transportation-related sectors. The market also expected that U.S. military action would benefit the defense industry and harm sectors related to consumer discretionary spending. Compared to previous studies, my analysis provides a far more complete picture of how the consequences of war vary by industry. Interestingly, the results support claims made by *both* traditional liberal political theorists and left-leaning critics of U.S. foreign policy. The war was very damaging to the banking industry, and industries requiring new investment, like telecommunications, as liberal theories hold. At the same time, it was relatively beneficial for the defense and automobile industries, as critics on the left contended. Contrary to claims of some opponents of the war, however, the market expected the invasion of Kuwait to *hurt* the oil industry, since operation desert shield had already protected Saudi oil fields and the lower oil prices that would result from resolving the stand-off would reduce incentives for oil drilling.

Of course, the heterogeneity of the economic consequences of war are only relevant for interstate conflict if they influence political preferences over the use of force abroad. Thus, in Chapter 4, I analyze how the expected economic effects of the U.S. decision to remove Iraq from Kuwait influenced congressional votes authorizing the use of force. I do so by weighting my estimates of the expected effect of intervention by district-level employment shares and summing the weighted results together. This produces a measure of the average economic effect of intervention in each district. I then use this variable to predict congressional votes on war authorization bills in a multivariate probit model. While politician's partisanship and ideology were highly related to votes, the economic characteristics of their districts appear to be important as well. In short, the expected economic winners and losers of the war produced constituencies of political support and opposition. Although Fordham (1998, 2007) and Trubowitz (1998) have provided evidence of a relationship between economic interests, defense spending, and institutional commitments during the Cold War, this is the first systematic demonstration that private economic interests influence congressional behavior directly concerning the decision to use force abroad. Baum and Groeling (2009) and Howell and Peevehouse (2007) have recently shown how congressional behavior limits the rally-around the flag effect and constrains presidential discretion during war and my analysis provides an important explanation for such opposition.

Arguing that constituencies of economic winners and losers influence congressional votes raises the question of how war affects individual constituents. In Chapter 5, I conduct an analysis of public support for the war with Iraq in 2003. In this chapter, I embed an asset theory of policy preferences within the bargaining model of war to generate expectations about how sector-level economic outcomes affect individual security policy preferences. Fortunately, during the run-up to the invasion of Iraq,

tradesports.com allowed anyone to buy and sell a "Saddam Security" whose value reflected the market's belief about the probability of invasion. Wolfers and Zitzewitz (2009) have used changes in the value of the Saddam Security to assess Wall Street's expectations about the consequence of war with Iraq. I expand their analysis with much finer-grained sectoral data to estimate the relative winners and losers of war at home. These estimates show that the market believed the war was relatively good for the defense, construction, and oil sectors, but disastrous for airlines, information technology, insurance, and consumer discretionary sectors.

I match these estimates to respondents' industries of occupation in the ANES 2000-2002 opinion survey. I show that respondents working in sectors that the market expected to suffer from the use of force were most likely to oppose it, while those working in sectors expected to benefit from war were more supportive of the intervention. Moreover, the panel nature of the ANES data allows me to construct "pre-test" measures of the respondents support for war as well as several other potential determinants of opinion, greatly reducing concerns that selection into "pro-war" industries drives the results. In addition, I show that the relationship between industry of occupation and opinions about war is driven entirely by respondents whose jobs skills are specific to their industry of employment, consistent with an asset theory of preferences.

Since this project focuses heavily on two wars involving the United States and Iraq, it would be unwise to use its results to draw firm conclusions about the relative importance of economic factors in war, in general. Rather, I view this project as a starting point of larger research agenda focused on the origins of preferences over the use of force and their relevance in interstate war. As I discuss in the concluding chapter, the next steps in this agenda include expanding the investigation of the distributional effects of war to other conflicts and other countries and developing a model of the aggregation of preferences. In the future, I intend to conduct studies of the consequences of the conflicts in the former Yugoslavia on the U.S. economy as well as the impact of the Iraq War on the British and Spanish economies. Moreover, I plan to use these results to explore new insights into how economic interests influence state behavior in international disputes.

The dissertation will be completed by June 2010. I have already presented complete drafts of Chapters 3 and 5 at conferences and conducted data analysis for Chapter 4. A substantial portion of the model in Chapter 2 appears in the presented version of Chapter 5. I intend to publish chapters 3-5 as free standing articles. All of the data from the empirical chapters will be made available on my website for replication.