Financial Market Exposure Raises Support for Peace

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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 reevaluate 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.

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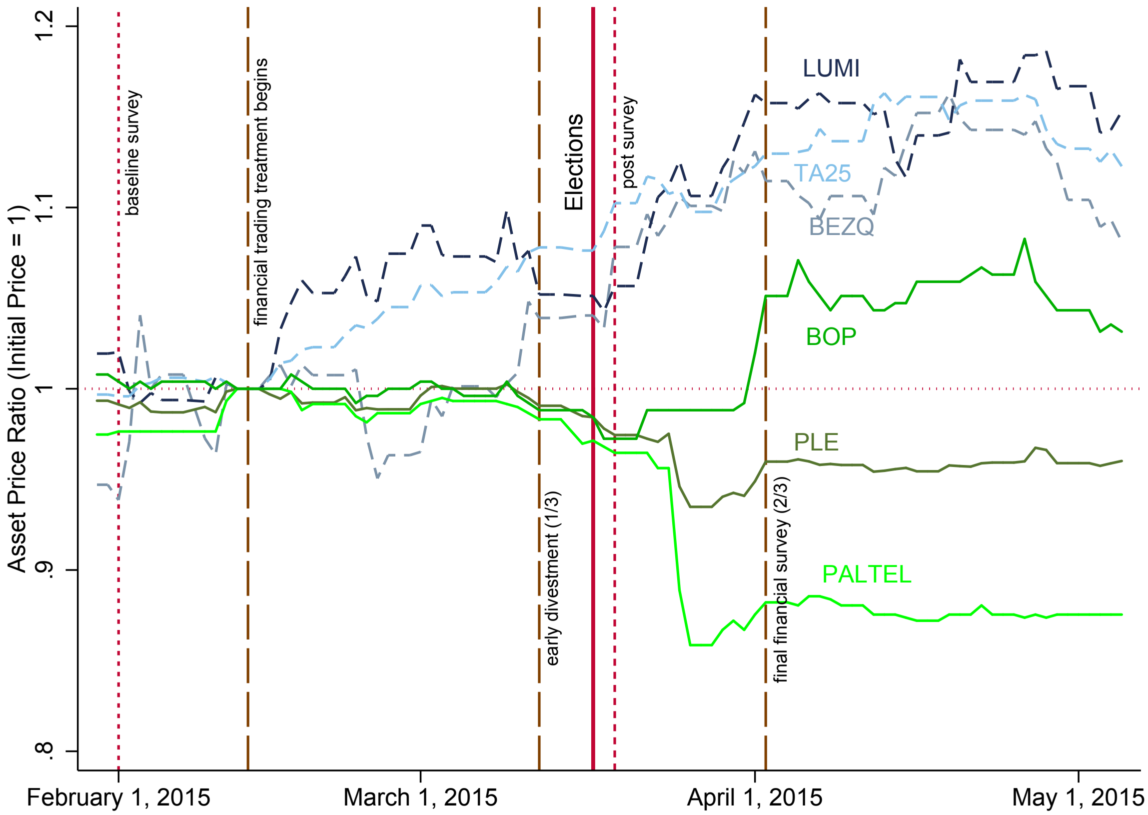
Figure 1: Asset Prices during the Experiment and 2015 Elections.

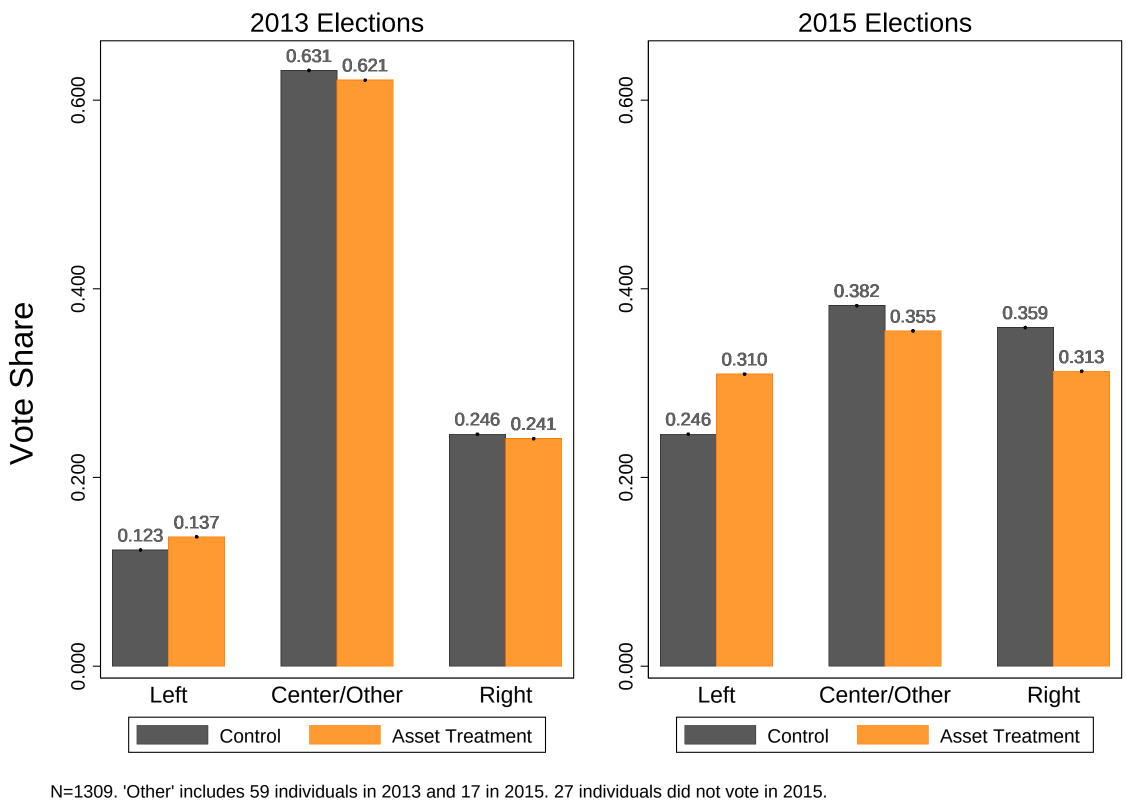


The figure shows the timeline of the experiment as well as the price performance of the stocks participating. Israeli stocks are dashed and blue, Palestinian stocks are solid and green. The elections were held on March 17. 1/3 of our treatment group were divested prior to the elections and 2/3 after it.

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.

Beyond votes, exposure to the stock market also affected individuals' willingness to

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



We over-sampled center voters (based upon their choice in 2013) at twice their vote share. Notice that the treatment and control groups are well-balanced on vote choice in the 2013 elections. However, during the 2015 elections that followed the treatment, there is a shift to the left and away from the right in the asset treatment group relative to the control.

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 straight-forward 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 process.[1]

Yet, perhaps due to the relatively small stakes involved, we find limited 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 schools.[2]

The thrust of contemporary policies aimed at addressing persistent ethnic conflict has been towards increased diplomatic efforts or international peacekeeping. 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 intriguing possibility is that rather than focusing on providing aid to governments or even directly

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

[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.

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.

References

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