

## **Evidence Brief**

# What Works in Addressing Global Poverty – Conflict and Polarization

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## Key Points

1. **Intergroup conflict are among the most formidable obstacles to economic development, and the problem is getting worse.** Sectarian warfare, including internal fighting and armed clashes with foreign state intervention have been rising over the past two decades, according to the Uppsala Conflict Data Program.
2. **Promising approaches to mitigating polarization and conflict include economic interventions,** like providing financial assets that empower individuals, raising their financial understanding so that they can better assess the benefits of peace, and facilitating opportunities for otherwise antagonistic groups to cooperate for mutual financial gain.

## The Problem

In poor and middle-income countries, the most intractable obstacles to socioeconomic development frequently involve political and intergroup conflict. A large body of research has shown that ethnic, religious, and class antagonisms can thwart development, taking the biggest toll on vulnerable communities. All too often, political polarization erupts into sectarian warfare. Over the past two decades, internal fighting and civil conflicts with foreign state intervention have been on the rise, according to the Uppsala Conflict Data Program. Even when we know what reforms are needed, such as expansion of women's education, civil violence or entrenched interest groups may stand in the way.

Hostilities are frequently linked with the rise of populist political movements, a trend evident in rich and poor countries alike. In turn, populism appears at least in part to

be a reaction to political and economic uncertainty, which has increased dramatically in many parts of the world in recent years (Baker, Bloom, & Davis, 2019). Populism often feeds intergroup tensions by blaming economic hardship on immigrants or ethnic and religious minorities. This kind of scapegoating may stem from ignorance about how the economy works. Financial literacy is low even in advanced democracies where large percentages of the population—and a majority of women—are unable to answer basic financial questions about savings and market investments correctly.

A fundamental question is how to persuade those who have something to lose, such as political power or control over economic resources, to pursue peaceful settlement of conflicts. How can people come to see the broader benefits of compromise, even though they might lose power or privilege in the short term?

## What We've Learned

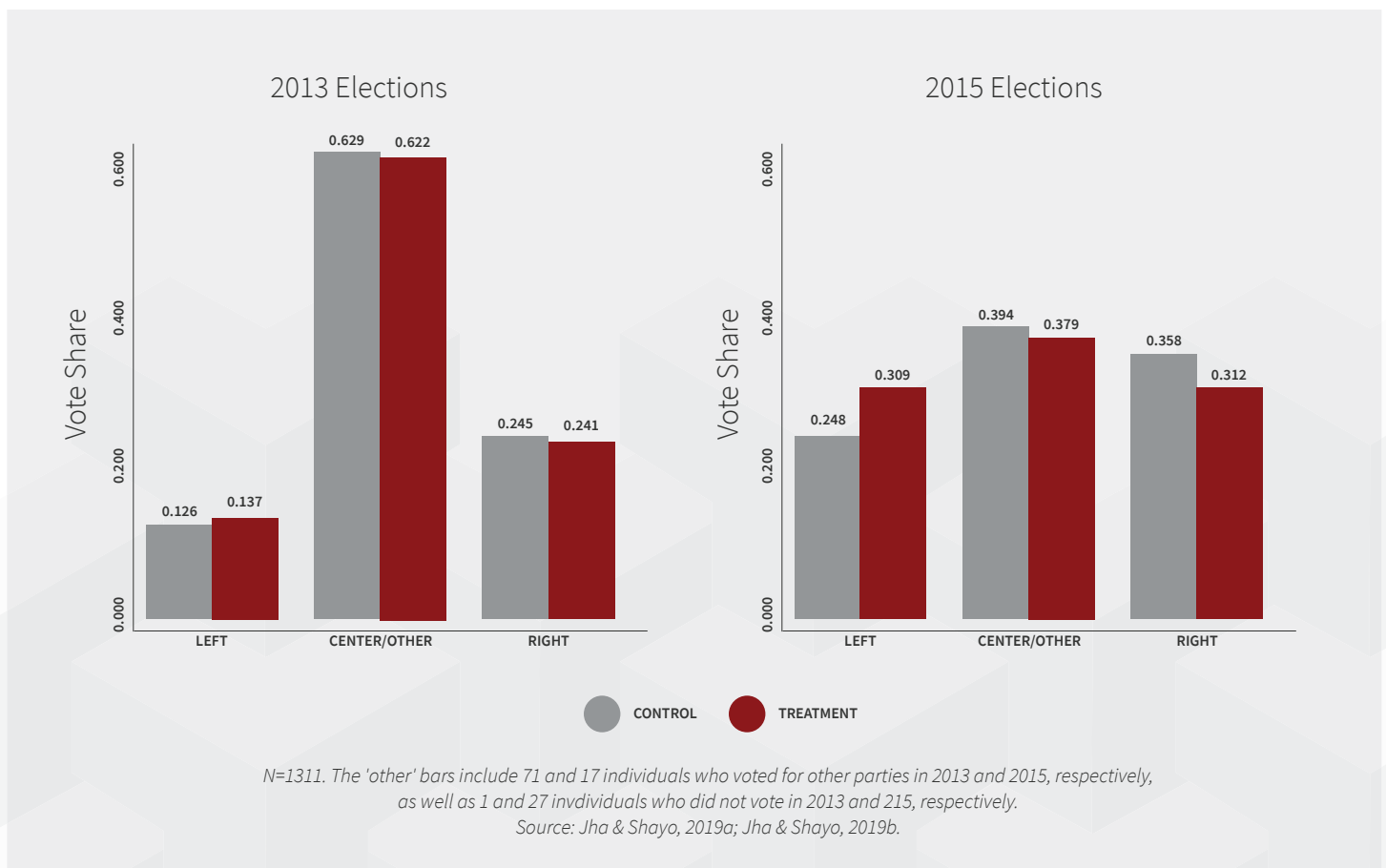
Researchers are actively exploring diverse ways of mitigating political polarization and conflict. In particular, scholars are investigating how to design programs that give people in both rich and poor countries tools to understand how an economy functions. And they are studying whether helping people see the stake they have in the economy can reduce polarization and violence.

One promising avenue of research involves financial market interventions, including field experiments in Israel around the Israel-Palestine conflict and in the United Kingdom on the Brexit referendum, as well as historical examples of policy initiatives from Japan, South Africa, and Malaysia. Another avenue considers how to create complementary interests among groups to foster

cooperation instead of confrontation, such as a microfinance project that defused ethnic violence in Northeast India.

*Israel/Palestine.* The Rand Corp. estimates that a peace agreement would yield a dividend of \$150 billion for Israel and \$50 billion for Palestine over 10 years. Yet, though the conflict is costly, making concessions for peace can seem risky. In addition, individuals tend to personalize risk and not think about the larger economic gains from peace.

A study in Israel carried out before the 2015 parliamentary elections examined whether participation in financial markets might lead people to change the way they voted (Jha & Shayo, 2019b). More than 1,300 likely Jewish voters were randomly assigned Israeli or Palestinian stocks or similar financial assets, and given incentives to trade for up to seven weeks. Active stock market participation raised



the probability of voting for parties supporting a peace agreement four-to-six percentage points compared with a control group. The active traders were also more likely to support making concessions to reach a settlement. The traders scored higher in financial literacy and increased their consumption of financial news, suggesting that stock market participation made people more aware of the potential economic gains from peace. These shifts in political views persisted a year after the election (Jha & Shayo, 2019a).

*Brexit.* Research in the U.K. conducted before the 2016 Brexit referendum gave participants shares of either British companies, non-British European Union companies, or U.S. companies, or alternatively short positions or several kinds of fantasy assets. The British companies were selected because they complemented the E.U. economy. For example, Rolls Royce makes engines for the European aircraft manufacturer Airbus. Similarly, the non-British E.U. companies were complementary to the British economy. Among participants who lived outside London and held

E.U. stock, support for the Remain position increased six percentage points. Among those with British stock, support for Remain rose four percentage points (Jha, Margalit, & Shayo, 2019).

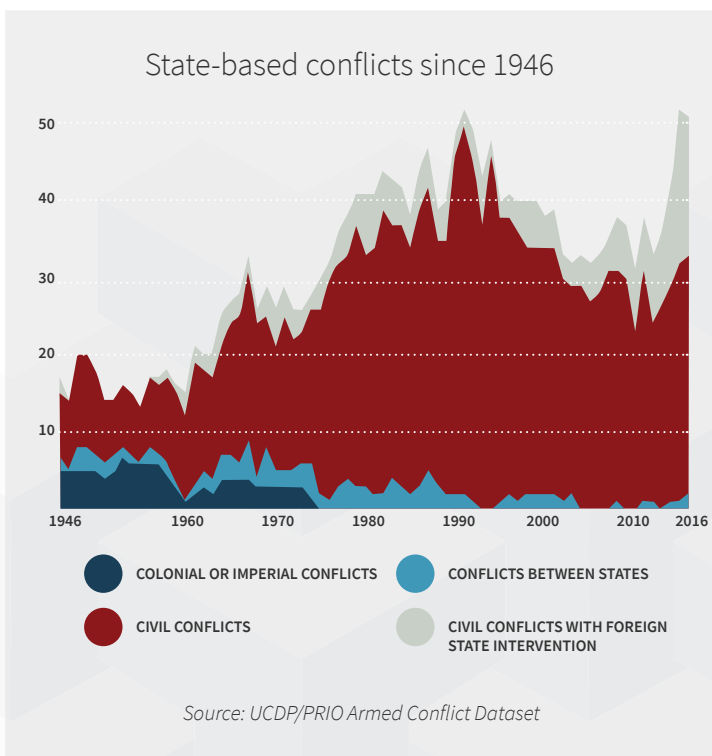
Asked what drove their Brexit vote, those who shifted their position were mostly people who said they voted based on the economy. Stock ownership prompted people to focus on the Brexit's economic effects, even though much of the debate was otherwise about national sovereignty and immigration.

*Natural Experiments: Japan, Malaysia, South Africa.*

Nineteenth Century Japan offers a lesson in how financial innovations that promote sharing of opportunities and risks create incentives for peaceful reform. Japanese political and social reforms took away the privileges of the powerful samurai class, threatening social stability. To get the samurai to accept reform, their traditional rice stipends were converted into grants of government bonds that then could be used to capitalize banks. As a result, the samurai gained a credible stake in financial modernization and actively participated in the expansion of the banking sector.

In contrast, Malaysia in the 1960s and South Africa in the early 2000s implemented policies to transfer wealth from privileged minorities to economically disadvantaged racial or ethnic groups. In Malaysia, companies owned by ethnic Chinese were taxed at a high rate and the proceeds were used to fund a trust that benefited ethnic Malays. In South Africa, the government awarded companies with 20 percent or more black ownership preferential procurement and other privileges. Although these initiatives had some justification, unlike the Japanese approach, they tended to reinforce social divisions (Jha, 2014; Jha, 2015).

*Northeast India.* Business Alternatives for Peace and Reconciliation (BAPAR), an organization founded to promote microfinance projects, wanted to finance sale of shawls and other handicrafts by women from the Meitei and Naga



peoples in the Indian state of Manipur. Naga insurgent groups would periodically blockade roads and extort money from travelers, which in 2010 caused many of the Meitei women to default on their loans (Jha, 2018).

To get around the blockade, BAPAR devised a strategy described as induced complementarity. It gave Naga women a large order designed to make them cooperate with Meitei artisans. The order was too big for the Naga women to complete on their own and it required all

handicraft deliveries to include both Meitei and Naga shawls. BAPAR insisted that artisans from both communities work together to arrange shipments of raw materials and final products. To take advantage of this opportunity, the Naga women persuaded the insurgents to exempt their Meitei partners from extortion. Ongoing cooperation between Naga and Meitei women has undermined the blockade and moderated intergroup tension.

## Implications

Research suggests two intervention strategies for reducing polarization and conflict:

1. Carefully designed financial market exposure can make clear to participants the economic costs of conflict and the potential gains from peace and development. Exposure to financial markets can help individuals learn basic economic principles, share a common non-partisan metric on the effects of policies on the economy and potentially focus more on the shared benefits of peace. In more advanced economies with well-developed financial markets, distribution of assets such as stocks and bonds holds promise. Research is needed on what kinds of assets would be appropriate in less developed economies.
2. Create complementarities of interest among groups in conflict. Antagonistic groups can be induced to cooperate if there is a shared benefit from working together. When rival groups regularly interact with each other in constructive ways, people may focus on common interests and tensions may dissipate.

These strategies are by no means the only ways to foster cooperation in place of confrontation. But they do hold promise for getting people to change the way they think about other people once seen as hostile.

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*The content in this brief was derived from Associate Professor Saumitra Jha's presentation at What Works in Addressing Global Poverty: A Philanthropy and Global Development Workshop on May 16 and 17, 2019, at Stanford University.*

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