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Theocracy and resilience against economic sanctions[☆]



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ABSTRACT

This paper provides a simple theory to explain the impact of sanctions on a regime's policies and behavior. Sanctions are generally put to strip the target country from its available rents and weaken the government's stance against growing discontent in the population. We show however that sanctions may give legitimacy to an incumbent government by influencing the optimal level of religious ideology provided by the state and further stabilizing its grip to power and rents. While in a good state of nature sanctions build resilience as long as religious ideology among the population is strong, at bad times they compel the target country to move towards ideological moderation. In a world of asymmetric information, the target country always finds it optimal to send a signal that truly represents the prevailing state of nature in order to induce learning and reach a win–win outcome.

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1. Introduction

Economic sanctions are becoming a routine policy instrument in international politics these days and tend to show up on the news on daily basis in an international scale. Sanctions often take place against extremist policies by target states. This could for example involve the violation of human rights, development of nuclear weapons, invasion of a recognized state, the use of expropriation and violence to retain power, or ideological extremism. As some examples of the latter [Wintrobe \(2006\)](#) mentions communism (control over the means of production), nationalism (control over territory) and religious fundamentalism (ridding the nation of foreign and secular influences). Extremist behavior can generally be associated with authoritarian regimes, against which sanctions have not have an impressive record in achieving their outcome. Empirical studies have linked this to the lack of prospects of reelection and therefore motivation by autocrats to please domestic constituencies ([Nooruddin, 2002](#)), lower destabilizing force of sanctions due to the low risk of removal faced by autocrats ([Marinov, 2005](#)), and less likelihood of political violence and protests occurring as a cause of sanctions in autocracies ([Allen,](#)

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2008). But can ideology be used by the ruling regime in the target country to defy sanctions? When is the appropriate moment to impose a sanction or to remove an existing one?

This research provides a theory to explain the impact of sanctions on a regime's policies and behavior. It introduces a simple model to explain how an ideology such as religious beliefs can be employed in the target country as a tool of resilience to adapt to the new realities. Our model is inspired by a recent line of literature, namely [Carvalho \(2013\)](#), [Coşgel and Miceli \(2013\)](#) and [Johnson and Koyama \(2013\)](#), who study different aspects of enforcement of religious laws by the state. We show that inflicting religious laws or bestowing religious goods and services allows a theocracy to adjust to the economic hardship caused by sanctions and provides the option of ignoring sanctions. This is only possible when a sufficiently large fraction of the population derives utility from religion or if religious beliefs in that segment of the society are sufficiently strong. The state finds an optimal level of religious ideology to provide to the society in order to establish a new equilibrium. In principle, sanctions are put to strip the country from its available resource rents giving more weight to taxes as a secondary government source of income. As in [Coşgel and Miceli \(2009\)](#), the state obtains more legitimacy to tax the population by incorporating religion into the constitution, i.e. theocracy. Here, providing religion to the religious fraction of the society allows the state to make up for losses brought about by decreased exports or devaluation of their natural resources.

In the spirit of [Acemoglu et al. \(2001\)](#), we highlight the division between groups in the society with different preferences through an episode of conflict that determines the optimal tax regime. The government uses tax revenues to provide religious goods and services. The population is divided into two groups: the materialists and the religious. The materialists are averse to taxes as they do not benefit from religious beliefs, whereas the religious defend taxes as they also enjoy ideological non-pecuniary gains fulfilled through a religious state. The capacity of imposing the preferred policy is determined by their *de facto* power, where the more powerful group implements its preferred policy. One novel feature of the confrontation is that unlike a rebellion against the state, one group loyal to the government principles defends the tax policy, whereas an opposition materialistic group disputes to have the taxes abolished. The intended side-effect of sanctions is to reduce national welfare. This could cause a rise in popular discontent and push the outcome of contest between the two sides of the population against the interests of the regime. We show however that ideological beliefs such as religion in a country can empower the leader by conveying legitimacy to the state. It allows them to raise tax collection as response to sanctions by carving religious ideology into their constitution more firmly. The incumbent must keep the loyal group content to serve as a shield to protect the government's political position.

The degree to which religion can be used as an instrument of resilience against sanctions depends on an exogenous economic state observed at the beginning of each period. When the state of nature is such that the rents and income are more vulnerable to sanctions, the incumbent may find it optimal to moderate its stance on the policy under question. Alternatively, in better economic conditions religious conservatism can be used to defy sanctions. Although the sender does not have perfect information regarding the state of nature and therefore the magnitude of the economic impact of sanctions, it can use the behavior of the government as a signal. Namely, a move towards religious moderation is perceived as a toning down of the target's stance, whereas a more zealous bond between religion and the state instead sends a signal of resilience.¹ The quality of the received signal plays a crucial role in the decision whether to impose or lift sanctions.² In the presence of a highly accurate signal of compliance, lifting sanctions results in a win-win solution. Likewise, an accurate signal of resilience through the use of ideological conservatism as a remedy justifies the appropriateness of sanctions. Instead, when the political message conveyed through the signal is weak, the willingness to cooperate is not sufficient to persuade the sender as past information about the economy rules its decision.

Our theory can be put in the context of existing theories that explain the phenomenon of international sanctions. The public choice literature suggests that sanctions work through their impact on the relative political effectiveness of interest groups within the target country ([Kaempfer and Lowenberg, 1988](#)). By either diminishing or enhancing the political resources of key groups in the target country, sanctions can alter the alignment of domestic interests and thereby generate a change in policy. In our framework, it is religious beliefs that define the identity of different interest groups and the political cleavage through which sanctions alter the socio-political equilibrium. Moving to the paradoxical conclusions of [Drezner \(1999\)](#)'s conflict expectation model, sanctions are more likely to be imposed against targets with a high expectation for future conflict, which are precisely the states that are less likely to concede. In our framework sanctions are imposed on countries that signal non-cooperative behavior, which are precisely the states resilient against sanctions. Finally, in a world of perfect information, a sanction would never be implemented. If it is deemed effective the threat translates into immediate compliance by the target, and if ineffective then sanctions would never be threatened in the first place ([Eaton and Engers, 1999](#)). Our theory contributes to the three branches by bringing together the reaction of an ideologue regime to international sanctions in an environment of conflicting interests within the society and the implications for negotiation efforts by both sides in a world of imperfect information with learning.

In the next section we first introduce the case of Iran as a current example that motivates the study of a possible link between religion and sanctions. Section 3 presents the basics of our model. In Section 4, we solve the internal equilibrium to study the optimal reaction of the target country upon sanctions. The government takes into account the composition of the population with respect to their religious beliefs and loyalty to the system. An analysis of the problem of the sender follows

¹ [Levy and Razin \(2012\)](#) investigate the role of theology and the influence of religious organizations on beliefs in society.

² See [Levy and Razin \(2014\)](#).

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