

# Financial Intervention in Conflict

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# Summary

- **Question:** Why do states offer loans to military belligerents (not aid or grants or direct military intervention)?
- **Argument:** Offers lending country a means of influencing the terms of a peace settlement and shape the post-war order
- **Why it matters:**
  - Sovereign to Sovereign War loans understudied aspect of intervention.
  - Sovereign to Sovereign War loans shaped global economy (British during Napoleonic; US during World Wars; US during Cold War)

# Outline

- Motivation
- Argument
  - The Argument
  - The Model
  - Empirical Implications
- Empirical Analysis: Case of US Loans During WWI
- Conclusion

# Motivation

Extensive literatures on:

- Military Intervention in inter and intra state wars
- Military Aid
- Debt and default

Why not *Financial Military Intervention* (Sovereign-to-Sovereign War Loans)?

Big omission: Major changes in global economy are direct product of *FMI*:

- Britain after Napoleonic Wars
- US after World War I and II
- Major Cause of 'Third World' Debt during Cold War

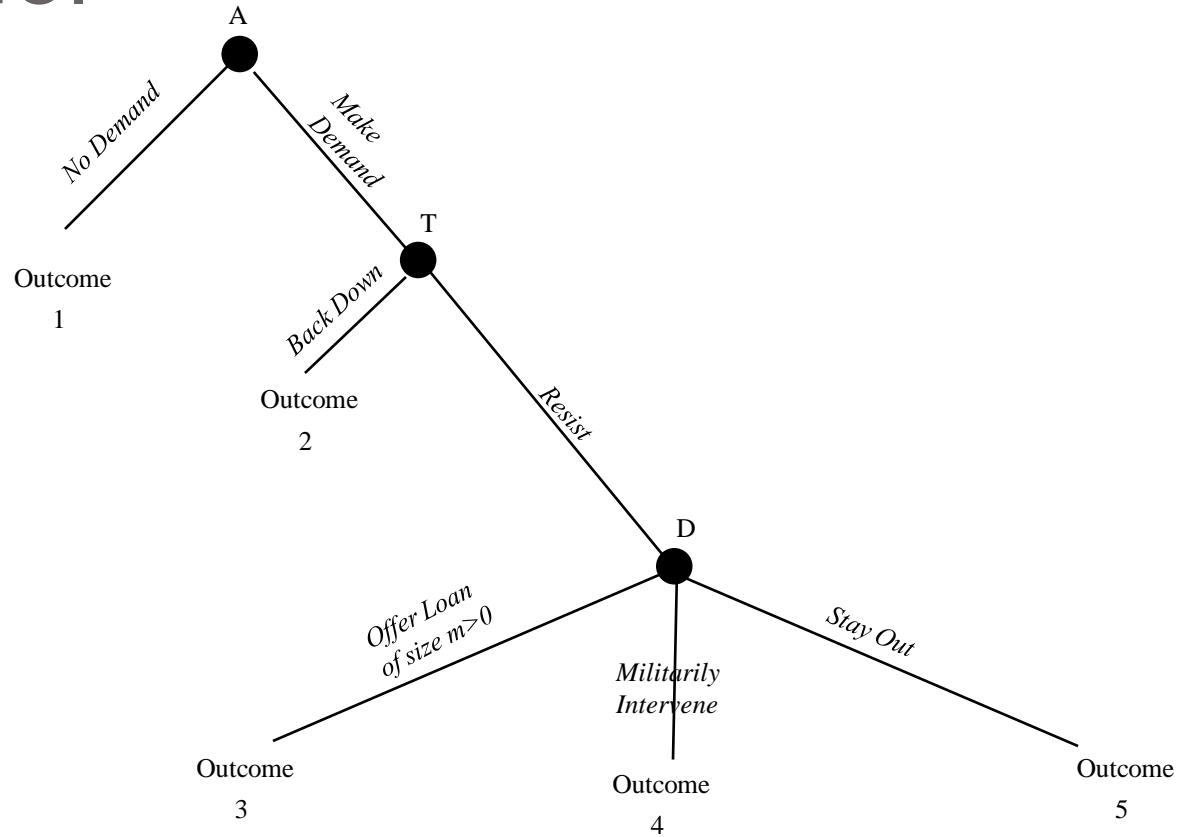
# Research Question

**Question:** Why lend during war?

# The Argument

- Aid and loans both offer means to:
  1. Assist when direct military intervention not possible.
  2. Give belligerent a means to purchase military goods.
  3. Secure commercial interests abroad.
  4. Balance a threat without direct military intervention.
- Aid is a sunk cost
- Loans provide future leverage (if repaid).
- Loans provide future leverage at lower cost than maintaining troop presence after war.

# The Model



# Solving the Model

- Initial Assumptions:
  - Country T will have to repay loan (amount  $d$ )
  - $\text{Pr}(\text{victory}) \text{ with loan} = \text{Pr}(\text{victory}) \text{ with intervention}$
- Result:
  - If given a loan, T is more likely to reach agreement short of war.
  - In other words, loan gives D leverage over the peace.

# Empirical Implication

**Main Hypothesis:** Governments offer loans to belligerents in order to influence the terms of settlement and shape the post-war order.

# Research Design:

## Case Selection Criteria

- All principal belligerents fighting a long war that received a war loan from the United States

War	Year	Belligerent	Purchase of American Military Material
Franco-Mexican War	1862-1867	Mexico*	Yes
Russo-Japanese War	1904-1905	Japan*	No
WWI**	1914-1918	<b>United Kingdom - May 1916</b>	
		France	
		Russia	Yes
Latvian War of Independence	1918-1919	Latvia	Yes – direct material assistance as well
Estonian War of Independence	1918-1920	Estonia	Yes
Russo-Polish War	1919-1920	Poland	Yes
WWII**	1939-1945	United Kingdom	
		Russia	Yes
Korean War**	1950-1953	South Korea	Yes – direct material assistance as well
Offshore Islands War	1954-1955	Taiwan	Yes – direct material assistance as well
Vietnam War**	1965-1975	Government of South Vietnam	Yes – direct material assistance as well
Israeli-Egyptian War of Attrition	1969-1970	Israel	Yes – direct material assistance as well
Iran-Iraq War	1980-1988	Iraq	Yes
War over the Aouzou Strip	1986-1987	Chad	Yes – direct material assistance as well
*Mexico and Japan are antecedent cases. In both cases American financiers underwrote the respective sovereign loans			
** US participated as a war belligerent as well as creditor			

# Exploratory / Extreme Case: US FMI to UK during WWI

- US extended \$9,102 million in loans to allies (Seligman 1919, 757)
- September 1915 – “If European Countries cannot find means to pay for the excess of goods sold to them over those purchased from them, they will have to stop buying and our present export trade will shrink proportionately” Robert Lansing, Sec of State., to President Wilson
- 1918 – American goods represented 39.2% of all British imports, compared with the prewar figure of 18.2% (Horn, 2002: 87).
- July 2, 1917 – “England and France have not the same views with regard to peace that we have by any means. When the war is over we can force them to our way of thinking because by that time they will among other things, be financially in our hands.” President Wilson to Col. House, Chief European Advisor

# Conclusion

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