Moral Hazard or State Capacity? U.S. Military Aid and Political Violence in Pakistan

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Abstract (390 words):

An important objective of bilateral foreign aid is to strengthen staggering governments in the developing world. In particular, military aid is meant to bolster state militaries and their capacity to curb political violence when challenged by armed non-state actors. Increases in military aid may allow stronger militaries to establish peace but can also give rise to the moral hazard problem of seeking future aid based on increases in conflict (Bapat 2011). This moral hazard might manifest as higher violence initiated by state-funded paramilitaries and non-state actors, with state militaries reducing violence to advance a pacifist reputation. I use fine-grained political violence data for Pakistan to test whether U.S. Military Assistance increases state capacity or leads to moral hazard. How do increases in U.S. military assistance change political violence, and how is this change distributed across different actors? I utilize the discontinuity created by the sudden stoppage of US Military Assistance after announcement of Pakistan's nuclear program and then its resumption post 9/11 to question whether district-level violence responds differentially to changes in U.S. military assistance, based on each district's distance from the nearest military headquarters. I find that an increase in military aid decreases political violence in the aggregate and across all aggressors. These results are confirmed by a difference-in-differences analysis that draws on the historical operational structure of Pakistan's army; I find that this decrease in violence is differentially higher for districts that are located close (< 80km) to a military headquarter.

While moral hazard might explain the geographical containment of nevertheless ongoing conflict, foreign aid should also be bolstering of state capacity and making the military more powerful. By addressing the 'conditions that favor insurgency' (Fearon and Laitin 2003), military assistance reduces the likelihood of political violence overall. To test whether state capacity is at work, I use both geographical variation in military strength, as proxied by the location of permanent military headquarters, and the identity of actors perpetrating violence to assess whether the landscape of violence indicates the military gaining strength. I find that districts located within the average distance of 80 kilometers from a military headquarters have a differentially lower likelihood of political violence and also that violence by all actors – state and non-state alike - decreases.