Perverse Incentives

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A decade after the 2001 terrorist attacks, policy makers in the United State continue to grapple with the issue of effective counter-terrorism measures. As part of this struggle, the US government has provided billions in military and economic aid to foreign governments deemed allies in this War on Terror. With American soldiers still deployed abroad and with politicians and taxpayers clamoring for reduced federal spending, such aid has come under increased scrutiny, most recently during a GOP presidential primary debate on national security. When pressed on US-Pakistan relations, Gov. Rick Perry responded that "to write a check to countries that are clearly not representing American interest is nonsensical." While it is tempting to dismiss this statement as political pandering preceding a heavily contested election, the Governor's words reveal a common and faulty assumption that drives much American foreign policy: that foreign aid forges a charitable relationship with other states.

Upon closer examination, such simple analysis can be worse than ineffective, it can actually be counter-productive, generating second- and third-order unintended consequences that undermine US interests abroad. In the context of the War on Terror, aid specifically designated for combating terrorist organizations within their borders may not provide sufficient incentive for host states to actively pursue US interests. To the contrary, if counter-terror aid is linked to the presence of terrorist organizations, then this creates the potential for *perverse incentives*, rewarding host states for pursuing goals contrary to the target state's interests. Additionally, such a scenario implies that, once the imminent threat to the target state has dissipated, the aid to the host state will dry up, depriving the host state of those previously unavailable funds.

A Case Study: US-Pakistani Relations

The United States' relationship with Pakistan provides one such case study where state sovereignty, domestic pressures, and regional politics intersect to create conflicting interests, and ultimately self-preservation dictates outcomes rather than aid dollars. Iran and Syria receive disproportionate attention as state sponsors of terrorism due to their governments' active roles in supporting terrorist organizations. Pakistan's relatively passive support for terrorist and insurgent groups, on the other hand, receive less attention. Although less consequential in terms of damage and lives, Islamabad's objectives are no less explicitly political than their Middle Eastern neighbors and may deserve more attention as US dollars may be funding such activity, the unintended consequence of a foreign policy that assumes loyalty can be bought.

It is important to treat the Taliban and al-Qa'ida as related, overlapping even, but separate entities. While both promote a fundamentalist brand of Islam and remain active along the Afghan-Pakistan border, the Taliban operate more inline with the definition of insurgency (although known to employ terrorist tactics in pursuit of their purist form of Islam). Al-Qa'ida, meanwhile, lacks these distinguishing characteristics, operating primarily as a terrorist organization. In all probability, Pakistani leaders make similar distinctions and treat the organizations accordingly. While the government has openly supported the Taliban in the past, ties to al-Qa'ida are much more tenuous. The evidence suggests that al-Qa'ida does, in fact, benefit from ISI support, although it remains unclear whether the intelligence agency does so under the auspices of the central government. Most recently, US operations located and killed al-Qa'ida's symbolic leader, Usama bin Ladin, in Abbottabad, in close proximity to a military college and Pakistan's capital. Several years earlier, Khalid Sheikh Muhammad was captured in the home of a Pakistani officer after narrowly evading capture months earlier, suggesting compromised intelligence within the Pakistani military apparatus.

In his discussion on the political economy of terrorism, Levitt (2002) highlights the moral hazard presented by charitable and humanitarian organizations whose well-intended funds finance terror organizations (knowingly and otherwise). Though he emphasizes the role of non-governmental organizations, the same logic applies to government funds. Levitt limits US complicity to the "organization inefficiencies" of bureaucracy (60) rather than acknowledge the more direct role that perverse incentives may play in propagating terrorism in the Middle East and abroad. Even the US press has joined in haranguing humanitarian organizations, particularly those of Muslim origin (Lichtblau 2003), for their role in funding al-Qa'ida and similarly high profile terrorist operations. Such sentiment could explain the Park51 controversy surrounding the Muslim community center to be based near the World Trade Center site in New York City.

Neglecting the role of state governments perpetuates the state-centric models of terrorism proposed by Stohl (2008), which contribute to an atmosphere of infallibility that alleviates states of any culpability in generating international grievances. Even in a post-2001 era of foreign policy, politicians acknowledge state complicity more as a matter of political expediency than sound policy making, attributing state sponsorship to moral depravity (i.e. the "Axis of Evil") or some combination of incompetence and instability (e.g., Yemen, Somalia). Stohl also discusses the significance of the primary target, or the audience of terrorist attacks, citing Slucka's "dramaturgical model of the terror process" (6). The proliferation of information technologies and the 24-hour media cycle further complicates the equation, introducing the possibility of tertiary, or mediating, audiences (such as the Afghan government pressuring the US to pressure Pakistan and Afghanistan to achieve Pakistan's goals).

Passive vs. Active Support: A Rational Interpretation

Byman (2001) suggests that state support, while still an important factor, is on the decline in the post-Cold War era, but still notes that states offer a unique advantage and vital brand of support through safe havens. While alternate sources of support can provide funds and personnel, states remain unparalleled as sponsors. According to Byman, this trend can be attributed to the decline in superpower support engendered by the Cold War rivalry, arguing, "state support is primarily a local phenomenon rather than a global one" (17). Despite this shift in influence, Pakistani ambitions remain global, manipulating US interests to achieve regional and local aims.

Assuming a rational framework, the utility of hosting insurgent or terrorist groups is only good so long as the returns (e.g., economic aid) outweigh the costs (e.g., international sanctions, military action). This logic increases the appeal of low-cost, high-benefit support, such as passive support, compared to more material assistance, such as financing and direct military support.

US officials have long voiced suspicions over misallocated funds in Pakistan's military endeavor, but then-President Pervez Musharraf all but confirmed such thoughts in a 2009 television interview on Pakistani news: "Wherever there is a threat to Pakistan, we will use it [US aid] there. If the threat comes from al-Qa'ida or Taliban, it will be used there. If the threat comes from India, we will most surely use it there." Musharraf continues to justify his decisions, emphasizing Pakistan's interests: "We did right. What we did, we did right. We have to ensure Pakistan's security. From whichever side the threat comes, we will use the entire force there" (BBC, 2009). While these admissions hardly surprised analysts, the relatively public forum and blatant disregard for American interests in the region disturbed some.

According to the Congressional Research Service, the United States allocated $20.7 billion (USD) to Pakistan between FY2002 and FY2012, largely for "security-related" purposes. A relatively minor $65 billion (USD) were dedicated

to "economic-related" causes, mostly food aid, reflecting the disproportionate emphasis on the United States' interest in Afghanistan. In 2008 a report from *The Guardian* suggested as much as 70% of America's military aid had been misallocated by Pakistani forces, speculating expenses ranging from illicit fighter jets to elaborate homes for high-ranking officials (Walsh 2008). At the same time, public opinion of the United States in Pakistan has plummeted to all-time lows. The Center for American Progress reports that fewer than 20% of Pakistanis hold a favorable view of the US; more telling, perhaps, 60% view the US as an enemy to Pakistan (Korb 2009).

In light of the costs of such behavior, Musharraf's dismissal of US demands may strike many commentators as counter-productive to Pakistan's national interest. This assumption reveals a major fault in much analysis governing foreign policy in the region, namely that Pakistan shares the United States' goal for security, failing to acknowledge that serving American interests may, in fact, destabilize Pakistan's own security. In a region of the world where allegiance to the United States can doom politicians on the local level, Pakistan balances on a precipice, entertaining America as an ally while playing gadfly to US policy. Early in the partnership, "[Ambassador] Chamberlain cabled Washington that 'to counterbalance' acceptance of the U.S. demands, Musharraf 'needed to show that Pakistan was benefiting from his decision' – a strong hint that Pakistan needed immediate economic relief and an end to sanctions" (Rashid 51). Unfortunately, since much of that aid was distributed along military channels in support of US goals, Pakistanis never witnessed much relief.

Further, Pakistan has long pursued a policy of strategic depth in Afghanistan, which included a pro-Pakistan (and anti-Indian) Taliban-run Kabul throughout the 1990s. Since 2001, the central government in Islamabad has officially disavowed support of lingering Taliban elements. The Taliban's persistent presence in Pakistan's Federally Administered Tribal Areas (FATA), as well as connections with Pakistani military officials, suggests that the government, or at least influential members within the government, maintains

contact to this day. Daniel Byman's extensive research on state sponsorship (Byman 2001, 2005, 2008) argues that, "with the possible exception of Iran, Pakistan is probably today's most active sponsor of terrorism" (2005, 155).

Garner (2010) elaborates that "strategic depth can best be understood as a defensive posture in which a country seeks to expand its presence across geographic boundaries." Given India's superior size and overwhelming numbers, a friendly Muslim neighbor to the west fosters this strategic depth, a phrase credited to then-Pakistani Army Chief General Mirza Aslam Beg, providing Pakistan with additional territory and the potential for second strike capabilities in the event of a conventional Indian invasion. "It was a way of securing 'Islamic Depth' in the west counterbalancing the conventionally superior 'Hindu India'," Garner continues, "this could be done by strengthening diplomatic and military relations with Afghanistan and the Arab world." American intervention in Afghanistan and the removal of the Taliban reversed this dynamic, providing an opportunity for India to assert its influence within the nascent Karzai government.

Rather than risk the ire of western governments and the United Nations, however, Pakistan has other options at its disposal. Byman (2008) proposes a framework including three distinct brands of passive support, yet these types are not mutually exclusive. Pakistan's involvement with the Taliban and al-Qa'ida exemplifies, at least, three of the two, operating simultaneously and to Pakistan's benefit. Within this framework, *knowing tolerance* and *incapacity* function to bolster one another… Pakistan may not be making a full endeavor to combat al-Qa'ida or the Taliban, but given the remote and semi-autonomous nature of regions such as the Federally Administered Tribal Areas (FATA), it remains a legitimate concern that the central government would not be fully capable of containing insurgent forces. When Taliban forces advanced and captured towns in the Swat Valley region of Pakistan, in close proximity to the capital, insurgents demonstrated the limited capacity of the government to fully restrict non-state movements. Additionally, the central government risks a backlash if local tribes

feel their autonomy is infringed, so the best strategy may be to officially deny involvement while providing covert and passive support. Such incidents demonstrate that radicalism can be a threat to Pakistan's own internal stability; the Taliban's usefulness, after all, is directly correlated with establishing a friendly government in Kabul.

"Traditionally, the cost of sponsorship was viewed in strategic terms," Byman writes, "the risk of political isolation, economic sanctions, and military strikes, and the damages such countermeasures might inflict" (29, 2008). In the case of Pakistan, however, the government has enjoyed increased political relevance, which has translated into billions of dollars of economic and military aid (much of it likely used to support operations against India). Military strikes have been limited to non-state targets, and such operations have likely been more damaging to the US, consolidating citizen support for the very organizations meant to be eliminated. At the same time, the United States has suffered a diminished standing in the world, both in the wake of the global financial crisis and in the face of a rising China, weakening its position for unilateral action, particularly following invasions in Afghanistan and Iraq, as well as a campaign in Libya.

Unintended Consequences and *Perverse Incentives*

While the US and its allies attempt to generate incentives to hunt terrorists, alternative policies lack a legitimate incentive to *not* pursue these organizations. Speaking in the United States' list of state sponsors of terrorism, Byman (2008) observes that "removal from the list is difficult and there are few rewards for improving behavior short of a complete turnaround. As a result, regimes have little incentive to meet the United States part-way" (34).

US involvement in Afghanistan in the 1980s, which heavily relied on ISI and Pakistani military assistance, provide a salient example for Pakistan's leadership—upon the conflict's resolution, Soviet forces withdrew and US

contributions vanished nearly as quickly. Adding insult to injury, a decade of economic sanctions followed, establishing a poor precedent with repercussions to this day. The CIA provided the Afghan mujahideen with approximately 200 million (USD) each year of the conflict, channeled through Pakistan's directorate for Inter-Services Intelligence (4) augmented with funds from additional sources. While much of the money did ultimately support the Afghan cause and serve US interests, it granted the Pakistani government greater influence in the region. Gregory writes, "this is the moment at which Pakistan began to promote the idea of pan-Islamic jihad for its own geostrategic interests" (5), one largely funded by American and Saudi dollars followed immediately by US disinterest in the region.

The secretive nature of the ISI, as well as the related possibility that the organization may be acting independently of the central civilian government, provides further impetus to divert US aid from military objectives to economic ones. In other words, policy makers should put the money the hands of civilian leaders accountable to their constituents. While corruption and scandal will remain a concern, such an investment would mitigate the influence of the ISI and their secretive agenda while potentially repairing the damaged reputation with Pakistani citizens.

Implications

As this paper demonstrates, the convergence of a number of factors at local, state, and international levels creates a nuanced and complex environment where competing and divergent interests set the stage for manipulation on every side. The complexity of the United States' relationship with Pakistan, as well as Islamabad's own complicated history with its neighbors, might limit the applicability of this case study to other instances, but several instructive themes emerge and challenge unspoken assumptions underlying US for US foreign policy, providing valuable insight for future endeavors. Primarily, when

divergent national interests create asymmetry, foreign aid may provide a perverse incentive for host states to maintain ties to terrorist and insurgent organizations. By acknowledging the faulty assumptions that guide current foreign policy, counter-terrorism in particular, America's leaders could make the appropriate adjustments to create a more secure international environment.

In short, the United States must quit treating foreign aid as a zero sum game where non-compliance and complete acquiescence are the only options available to foreign governments. A recent history of US interference paints a conspiratorial picture. Residents of the FATA region, for example, do not see the results of US aid dollars, but outright sanctions create a scenario where economic woes and depravity are blamed on the interference of foreign powers, namely the United States. Such sentiment fosters a hostile environment conducive to insurgent and terrorist ends.

To reverse this trend, US policy makers might divorce aid from US objectives in the region, military goals in particular. In recent years, the US ambassador to Pakistan has become the unmanned aerial drone dropping laser-guided bombs in Pakistani territory. In exchange for repeated violations of air space, including strikes claiming the lives of border guards and citizens, the US government trades money, military hardware and limited intelligence in an attempt to buy loyalty. Plummeting poll figures testify to the short-sightedness of this strategy. Greater contributions to economic goals, separate from US military objectives, provide an alternative to current strategies. While the solution remains uncertain, the protracted engagement in the Middle East and Southwest Asia demand a reevaluation of current strategies in the region.