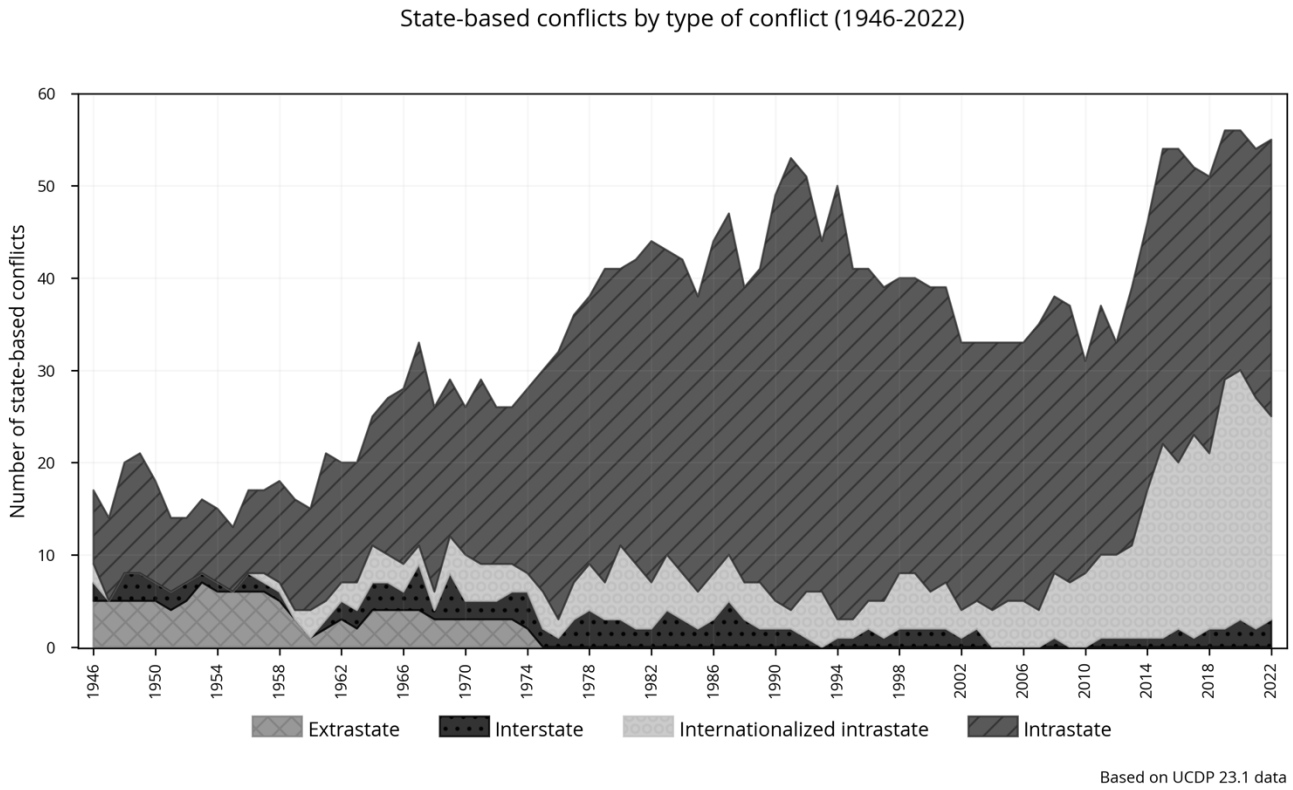
Economic Shocks and Conflict: What Better Data Let Us See

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University of Chicago

BREAD–IGC PhD Course on Political Economy
Lecture 8: Conflict and Fragility · 27 October 2026

Most conflict is internal, and in poor countries

- 65 active state-based conflicts in 2025, the most since 1946 (UCDP 2025)
- ~60% of the world's extreme poor will live in fragile or conflict-affected settings by 2030 (World Bank)



Source: UCDP/PRIO Armed Conflict Dataset

This lecture

- The role of economic shocks in civil conflict
- Focus: the commodity price shocks literature, as a case study in how new data opened new questions
- What the next generation of data and AI opens up

How could income affect conflict?

Higher income → less conflict

- Opportunity cost: higher wages, fewer recruits (Collier & Hoeffler, OEP 2004)
- State capacity: richer states can suppress, or buy off, rebels (Fearon & Laitin, APSR 2003)

Higher income → more conflict

- Rapacity: more to steal, so more predation (Grossman, OEP 1999; Dal Bó & Dal Bó, JEEA 2011; Dube and Vargas ReStud 2013)
  - State as prize: a richer state is worth capturing
- Financing: resources make rebellion feasible

Era 1: country-year data

- Higher GDP per capita (Collier & Hoeffler OEP 2004; Fearon & Laitin APSR 2003) and growth (Miguel Satyanath & Sergenti JPE 2004) lower risk of civil war
  - Same finding, two interpretations: state capacity (Fearon & Laitin); vs. opportunity cost (others)

- No direct evidence on mechanisms

Evidence of this

Higher income → less conflict

- Opportunity cost: higher wages, fewer recruits (Collier & Hoeffler, OEP 2004)
- State capacity: richer states can suppress, or buy off, rebels (Fearon & Laitin, APSR 2003)

What about this?

Higher income → more conflict

- Rapacity: more to steal, so more predation (Grossman, OEP 1999; Dal Bó & Dal Bó, JEEA 2011; Dube and Vargas ReStud 2013)
  - State as prize: a richer state is worth capturing
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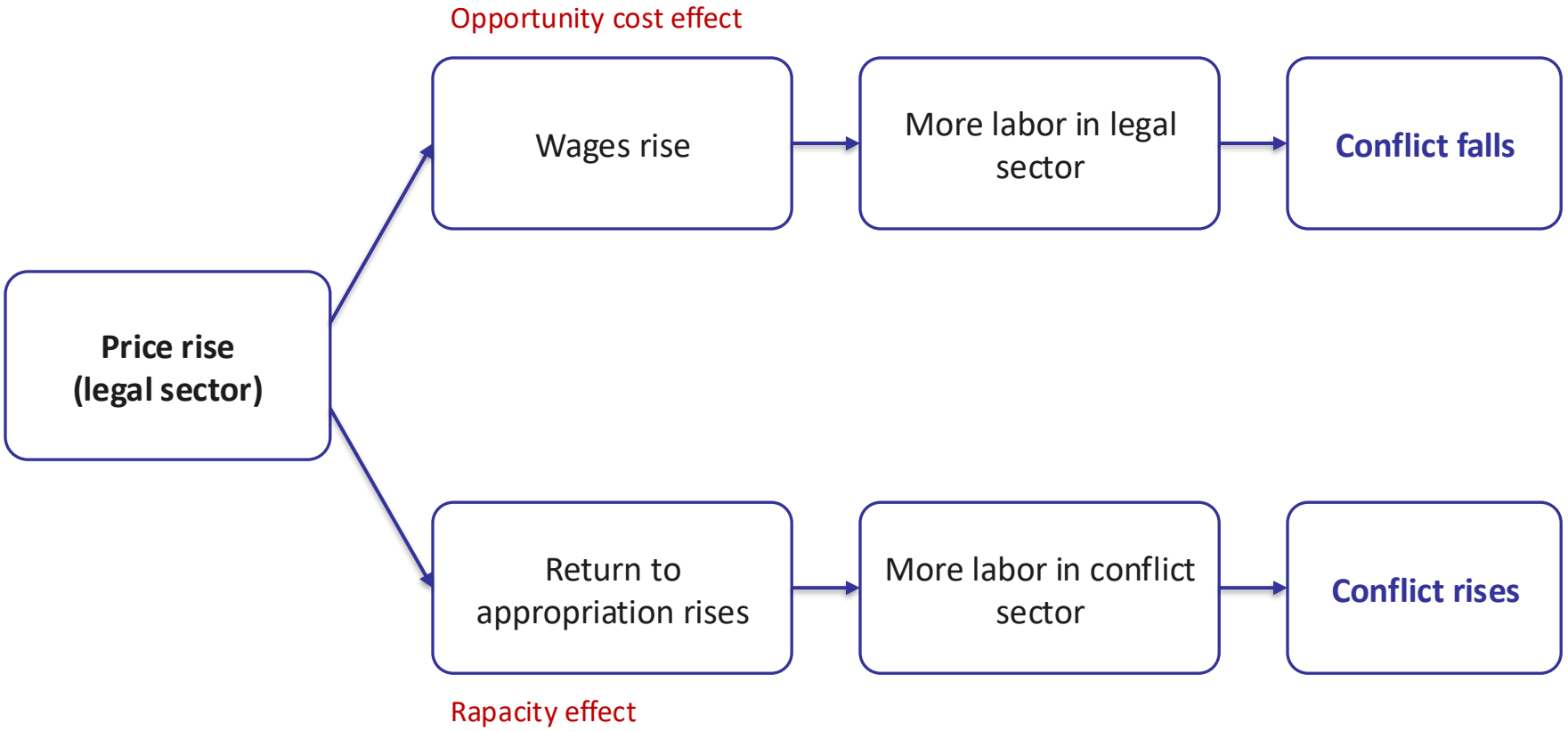
Aggregate income obscures who gets the income.

Labor or capital? The sign of the effect may depend on it.

Dube & Vargas (2013): use commodity price shocks to disaggregate these effects.

A price rise pulls in two directions

- Two sectors: earn a wage producing (coffee, oil), or fight and take a share of what is produced
- A price rise moves both the wage and the return to appropriation (Dal Bó & Dal Bó, JEEA 2011; Dube & Vargas, REStud 2013)



Which dominates? Depends on labor intensity

Labor-intensive: agriculture (coffee)

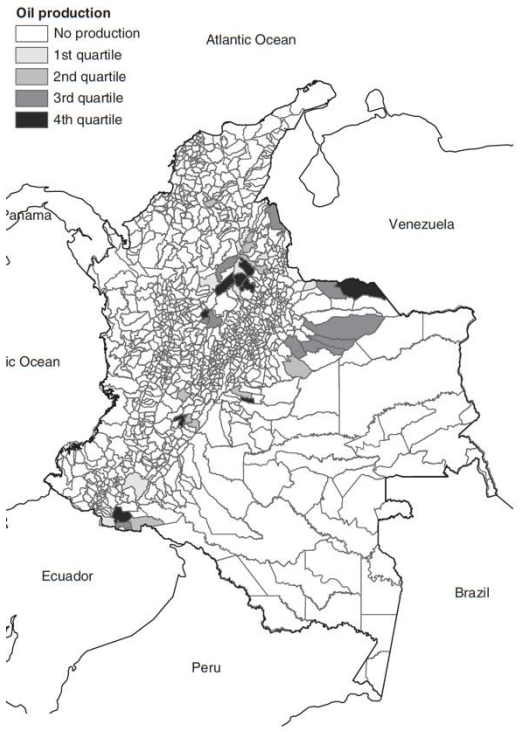
- A price rise moves wages more than the return to appropriation
- Opportunity cost effect dominates
- Prediction: coffee price ↑ → *less* conflict in coffee areas

Capital-intensive: natural resources (oil)

- A price rise moves the return to appropriation more than wages
- Rapacity effect dominates
- Prediction: oil price ↑ → *more* conflict in oil areas (Dube & Vargas, REStud 2013)

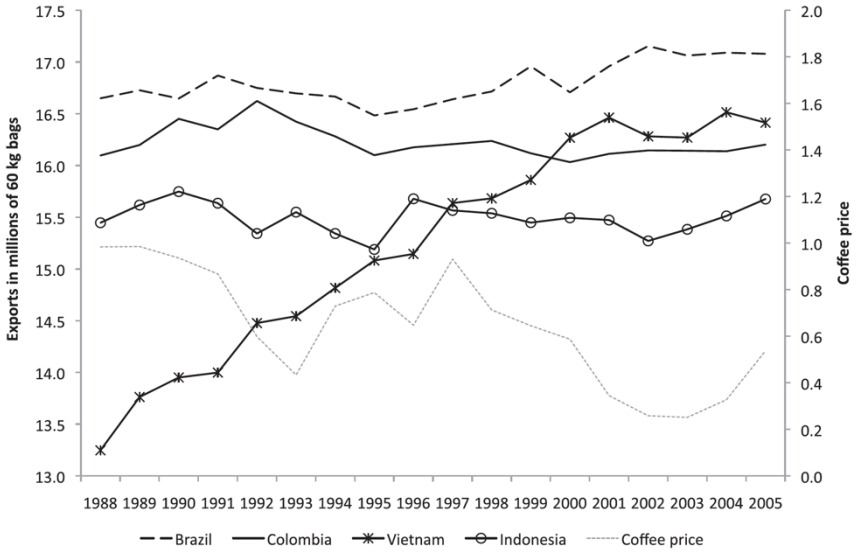
Colombia: data that makes this analysis feasible

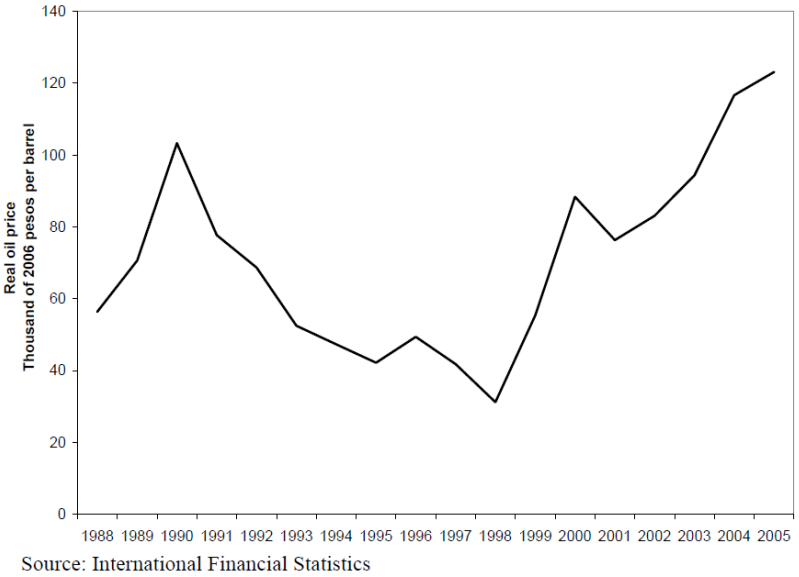
- Sub-national conflict data
  - Attacks by guerrillas and paramilitaries, 950+ municipalities, 1988–2005 (CERAC)
- Sub-national production data
  - Coffee area (1997) and oil production, by municipality



Oil production, 1988

Exogenous variation in prices





Coffee: Colombia major producer, so price instrumented with exports of other nations

Oil: Colombia is a price-taker, so price used directly

Difference-in-differences: baseline production x price, w/ municipality & year fixed effects (Dube & Vargas, REStud 2013)

Opposite signs, as predicted

TABLE 2
The effect of the coffee and oil shocks on violence

Dependent variables	(1) Guerrilla attacks	(2) Paramilitary attacks	(3) Clashes	(4) Casualties
Coffee int. x log coffee price	−0.611**	−0.160***	−0.712***	−1.828*
	(0.249)	(0.061)	(0.246)	(0.987)
Oil production x log oil price	0.700	0.726***	0.304	1.526
	(1.356)	(0.156)	(0.663)	(2.127)
Observations	17,604	17,604	17,604	17,604

- Coffee price rises → less conflict in coffee areas (both guerrillas and paramilitaries)
- Oil price rise → more paramilitary attacks in oil areas

Mechanisms: wages for coffee, revenue for oil

TABLE 3
The opportunity cost and rapacity mechanisms

	(1)	(2)	(3)	(4)	(5)
	Opportunity cost mechanism		Rapacity mechanism		
Dependent variables	Log wage	Log hours	Log capital revenue	Paramilitary political kidnappings	Guerrilla political kidnappings
Coffee int. x log coffee price	0.371*	0.286**	−0.787	0.022	−0.060
	(0.217)	(0.125)	(0.698)	(0.014)	(0.060)
Oil production x log oil price	1.230	0.079	0.419**	0.168***	−0.066
	(0.894)	(0.314)	(0.203)	(0.009)	(0.206)
Observations	26,050	57,743	11,559	16,626	16,626
Sample period	1998–2005	1998–2005	1988–2005	1988–2004	1988–2004

- Coffee price shocks move wages and hours: the opportunity cost channel
- Oil price shocks move resource revenue and political kidnappings: the rapacity channel

What Colombia results left open

- Predation only? Or could financing also play a role?
  - Both raise violence where resources are under the rapacity effect

- Does it generalize beyond one country?
  - Two routes: cross-national data, or pool the studies

Route 1: cross-national, at the country level

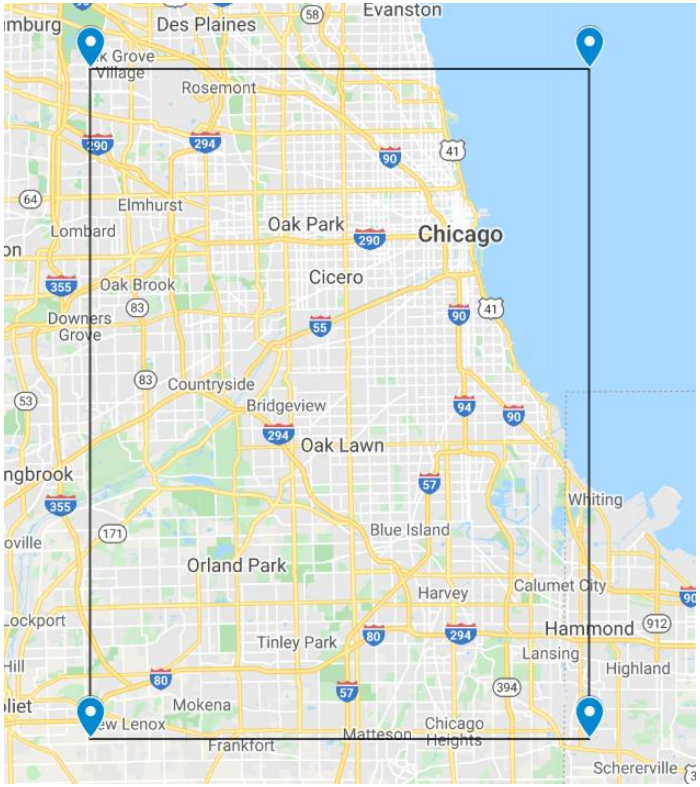
- Bazzi & Blattman: measure annual commodity shocks and conflict level at country level
  - Find: price shocks affect conflict intensity and duration, not onset (Bazzi & Blattman, AEJ Macro 2014)
  - Results mixed and weak
- Why: effects differ across regions within a country; country-year data too coarse to see them

Route 1: with subnational grids

- Berman & Couttenier: measure annual commodity shocks and conflict (ACLED) in 50 km × 50 km grid cells, Sub-Saharan Africa

- Find: agricultural price increases → less conflict (mirrors coffee) (Berman & Couttenier, REStat 2015)

- Favor opportunity cost by ruling out state capacity mechanism
  - No larger effect near capital cities
  - No effect on military spending
  - No larger effect where state collects revenue better



Cells are the size of greater Chicago

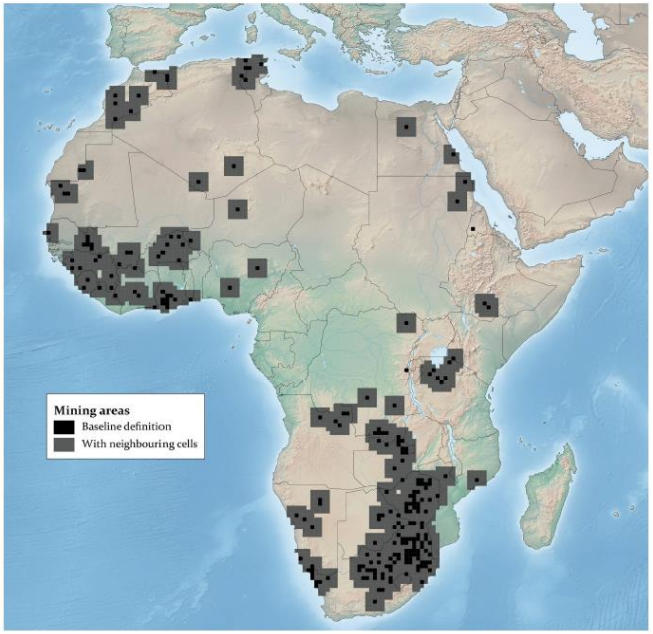
Minerals: This Mine is Mine

- Mineral price rises → more conflict in mining cells (mirrors oil) (Berman, Couttenier, Rohner & Thoenig, AER 2017)
  - Effects larger when mine is foreign-owned, consistent with firms paying armed groups.

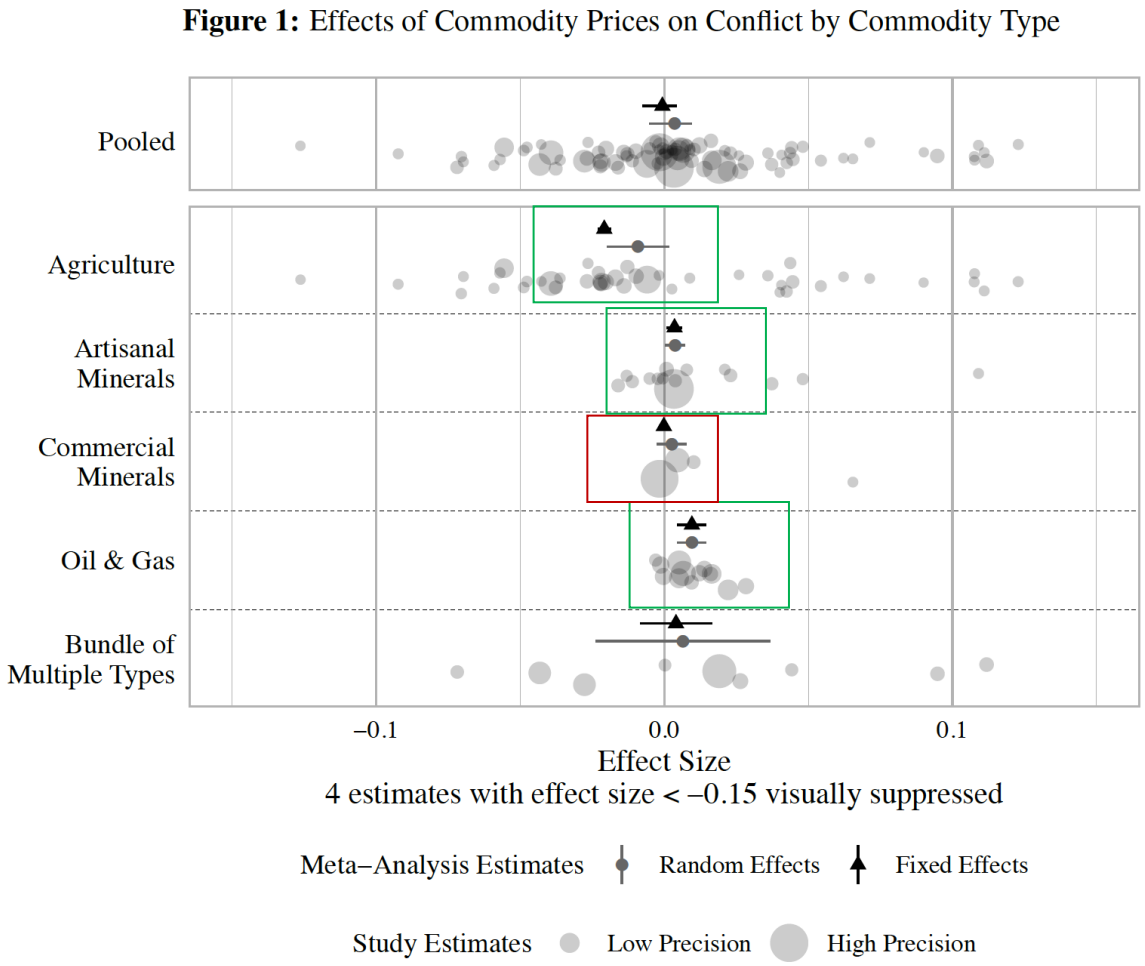
- Present evidence that financing also plays a role
  - Homeland mineral price ↑ → group fights more outside its ethnic homeland
  - Winning a mine → more violence elsewhere next year

    (winning other ground → none)

Figure A.3: Mining areas



Route 2: pool natural experiments in meta-analysis



Blair, Christensen & Rudkin (APSR 2021), Figure 1

Taking stock: each step was a measurement step



Does income matter?

Does the type of income shock matter?

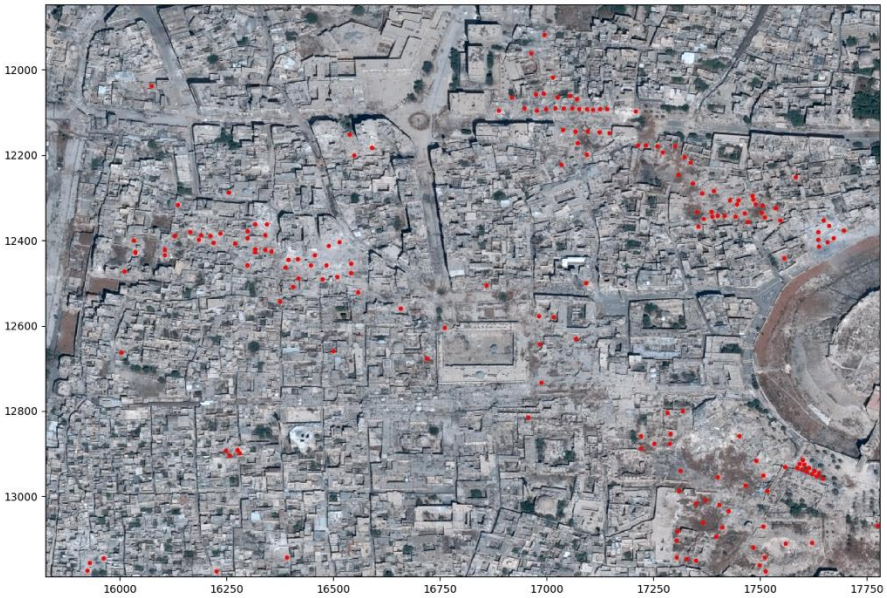
Do effects generalize, and through which channel do income shocks operate?

Finer units → new questions, more evidence

New big data, and AI tools to turn it into measures, change what we can observe and what we can ask.

Measuring outcomes where statistics collapse

- Syria: deep learning on satellite images → city-month panels of destruction (Mueller et al., PNAS 2021)
- Gaza: radar sees through cloud and smoke; destruction + nightlights → economic cost (Rinaldo et al., PNAS Nexus 2026)
- Sudan: nitrogen dioxide as measures of human economic activity after the statistical system stopped (Guo et al., DPE 2024)



Aleppo: detected building destruction (red)

Challenges to studying religion and conflict

- Much evidence on economic shocks and conflict; less on religion, limited by how it is measured
- Survey measures of religion are difficult to collect, especially in conflict; are coarse and may reflect social desirability bias

- We use anonymized cell phone data to create a religious adherence measure that is (Dube, Blumenstock & Callen, JPE forthcoming)
  - Granular in time & space
  - Based on observing behavior
  - Developed in Afghanistan but broadly applies to Islamic contexts

The idea:
inferring religious adherence from behavior

- A core tenet in Islam is prayer 5 times a day
  - Prayer is supposed to occur during specific prayer windows

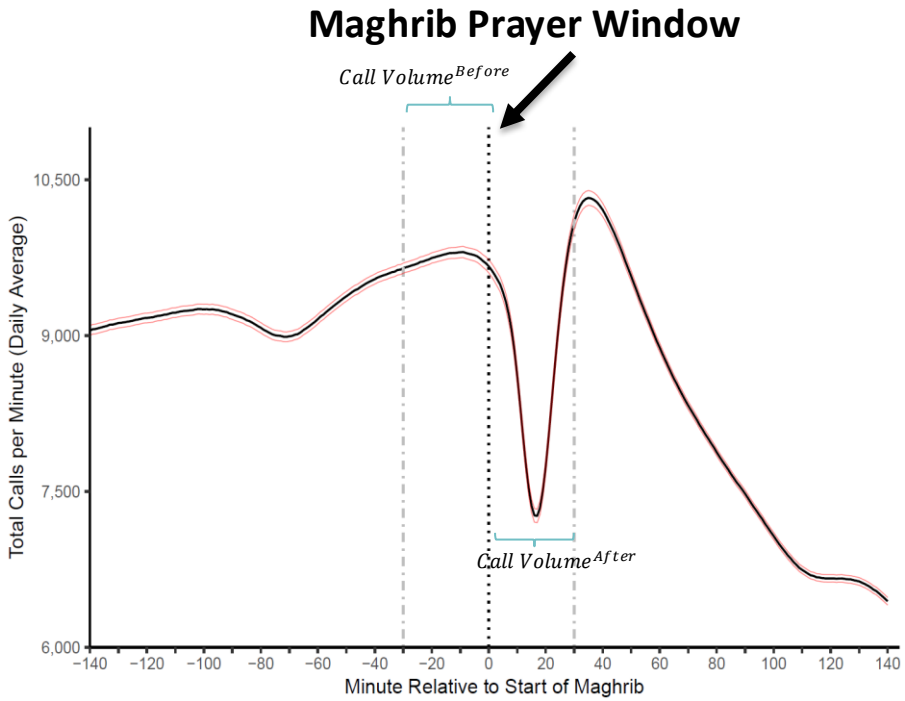
- How can we tell if people are not adhering during a prayer window?
  - Measure whether they are doing something else

A behavioral measure: calls during Maghrib window

Talking, including on the phone, invalidates prayer

So we measure how call volume changes over the Maghrib window

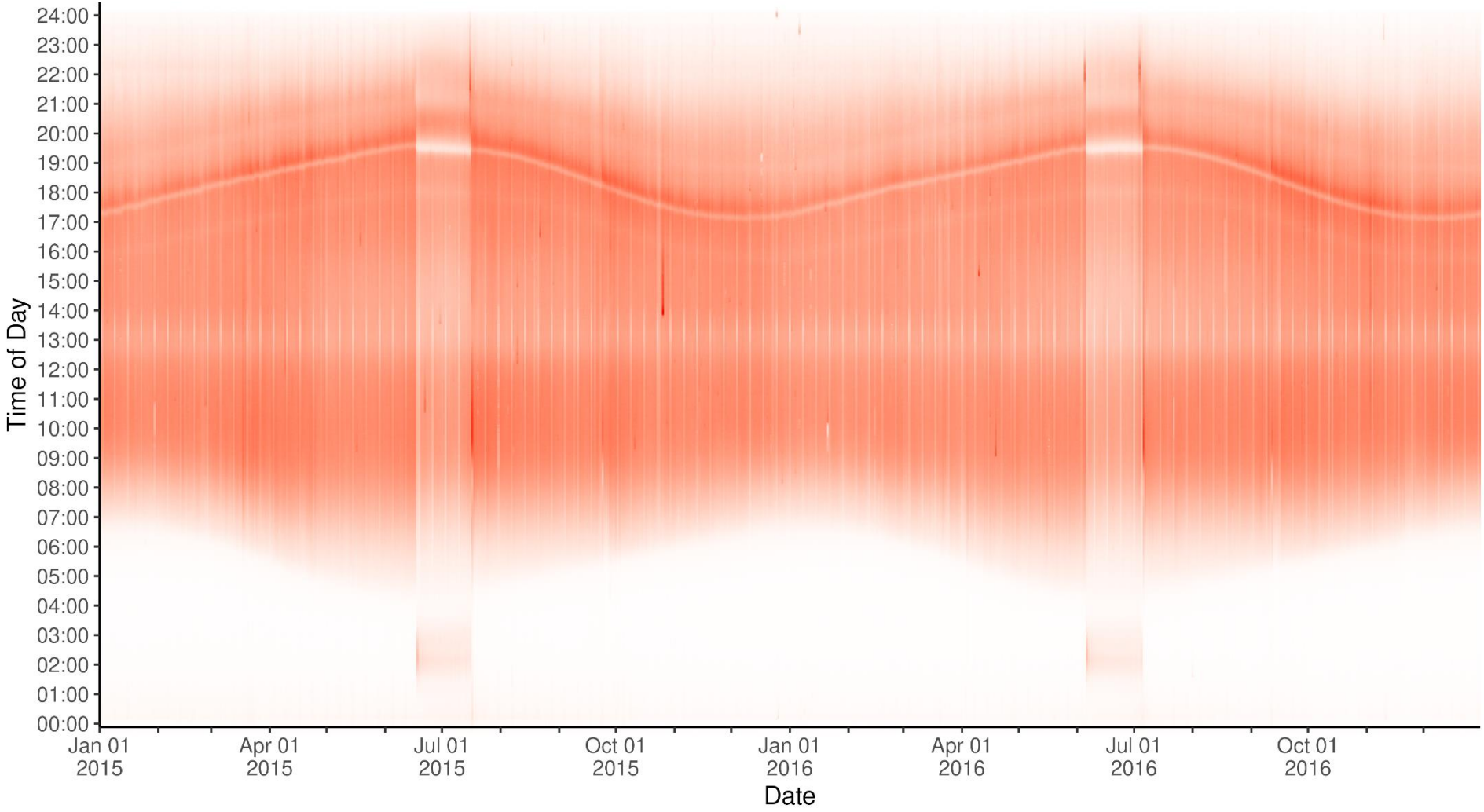
(Dube, Blumenstock & Callen, JPE forthcoming)



Notes. Red lines show 99% Confidence Intervals.

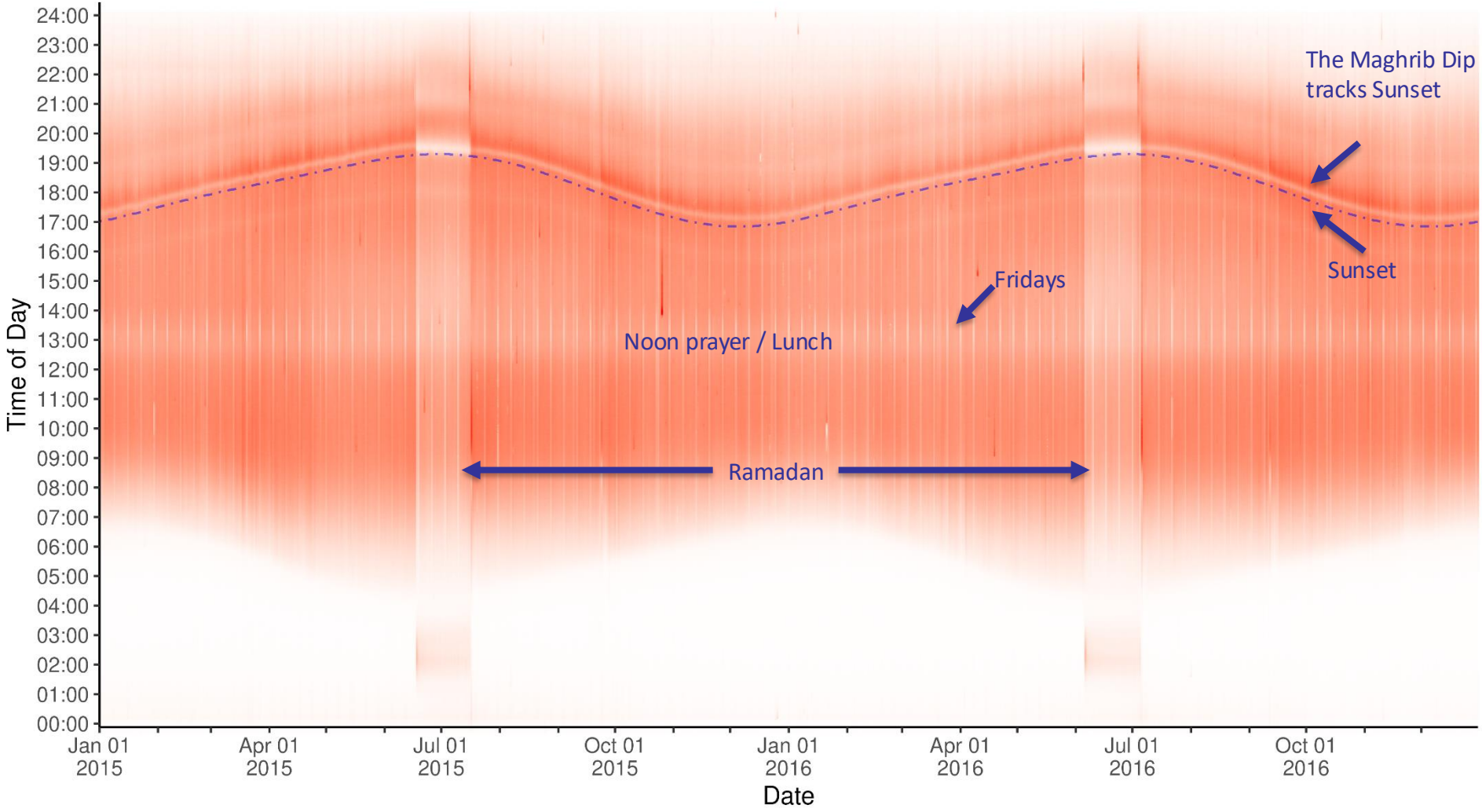
$$\frac{Call\ Volume^{\ Before} - Call\ Volume^{After}}{Call\ Volume^{\ Avg\ Before\ After}}$$

Two Years of Mobile Phone Activity



Calls every minute, every day for two years

Two Years of Mobile Phone Activity



Calls per minute, every day for two years. With this measure: does violence change religious adherence?

What new measurement does not change

- Measurement is not identification: new data still need a credible design
- And a researcher still has to decide which question is worth answering with that measure and design
- Cheap measurement raises the return to both; it automates neither
- What it does raise: the need to validate machine-made measures, not just argue they are plausible (Dell & Rambachan 2026)

The constraint used to be what we could measure. Now it is what we think to ask.

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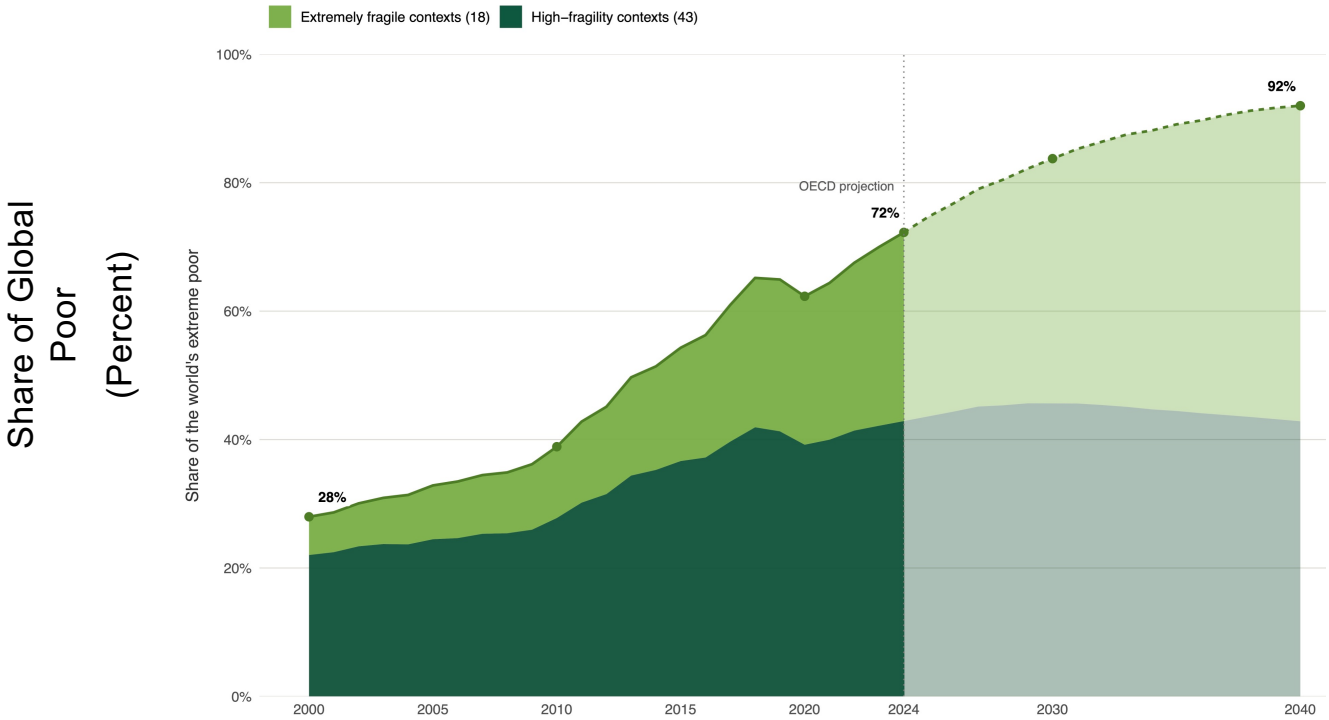
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Fragility, Conflict, and State Building

Michael Callen (London School of Economics and IGC)

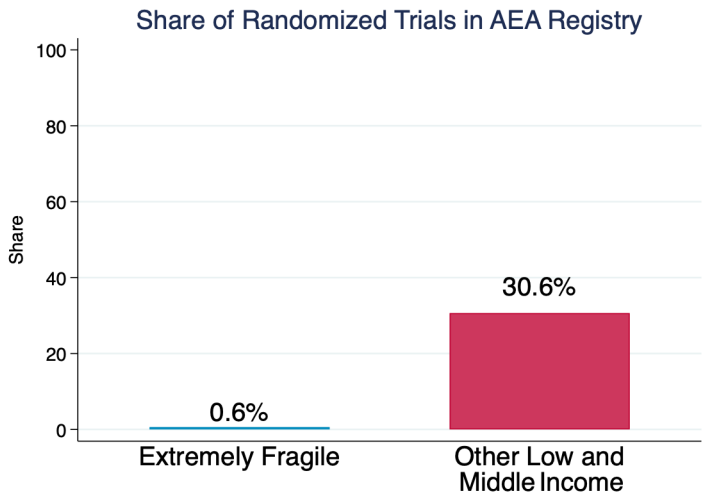
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The world's poor are concentrating in fragile states



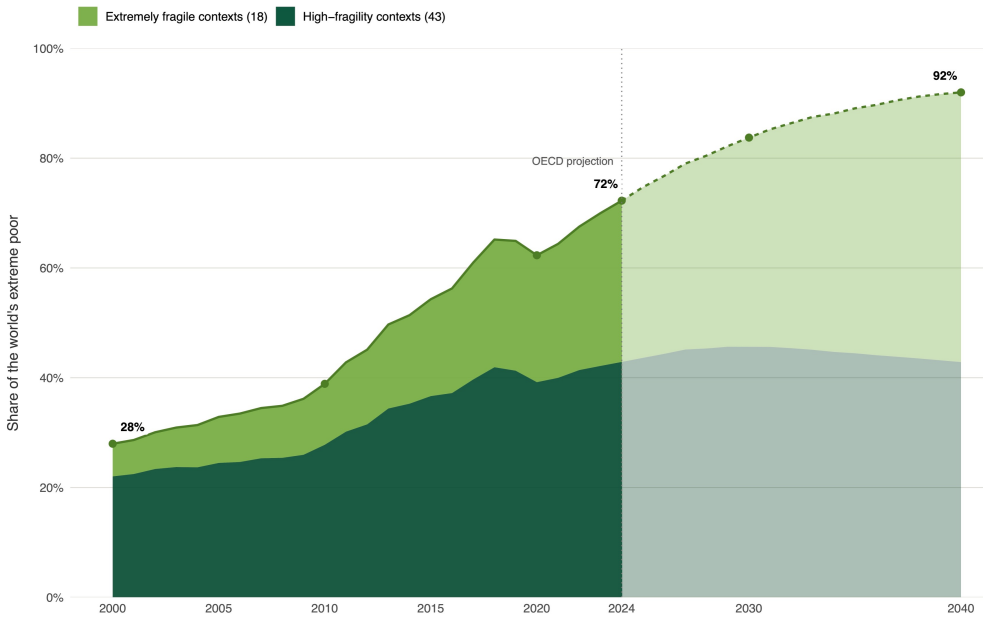
OECD States of Fragility 2026

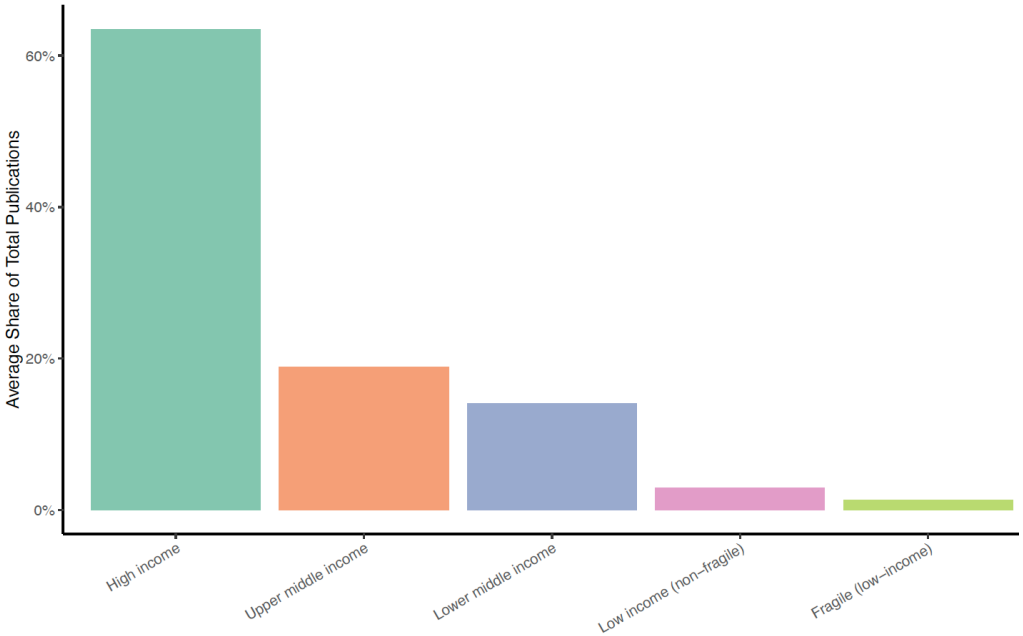
Fragility: "exposure to risk and insufficient coping capacities of the state to mitigate those risks."



Only 0.2% of top 5 articles from 2000 regard extremely fragile states.

The world's poor are concentrating in fragile states





Implications for research:

1. Why does fragility impede economic development?
2. What can be done to address deprivation here?
3. What are pathways out of fragility?

Share of Countries Studied by Income Group in the Top 10 Economics and Top 3 Political Science Journals

Outline

1. **Motivation**
2. **Explaining Conflict – Rohner (2026) and Fearon (1995)**
3. **Strengthening Fragile States: Evidence from Mobile Salary Payments in Afghanistan – Blumenstock et al., (2026)**
4. **From People's War to People's Rule: Rebel Governance and the Foundations of Inclusive Democracy – Bhusal et al., (2026)**

Theorizing About Conflict. Essential Concept: Ex Post Inefficiency

- Any rational explanation for war must explain why the Pareto improvement created by not fighting cannot be obtained

- Stated differently: “As long as both sides suffer some costs of fighting, then war is always inefficient *ex post*—both sides would have been better off if they could have achieved the same final resolution without suffering the costs (or by paying lower costs)…unless states enjoy the activity of fighting for its own sake, as a consumption good, then war is inefficient *ex post*."

- “From a rationalist perspective, the central puzzle is precisely this *ex post* inefficiency.

Why does conflict occur – Fearon (1995)

General Arguments: The central puzzle about war is that is extremely costly, but nevertheless recurs frequently:

- National leaders and the state are irrational
- Leaders who enjoy war enjoy its benefits but do not pay the costs, which are suffered by soldiers and citizensHaving a draft-age son reduces legislator support for pro-conscription bills by 10-17% (McGuirk, Hilger, Miller, 2019)
- Rationalist explanations

Rationalist explanations for war Fearon (1995)

1. **Private Information** -

   Leaders have *private information* about their military capabilities and incentives to misrepresent those capabilities. Misrepresentation may lead to a better deal, but might also cause negotiation to break down.

2. **Commitment problems -**

   Cannot attain an outcome that both would prefer because, at some stage, one side has incentives to renege on the deal

   Think of de-escalation/disarmament. This means making yourself vulnerable

3. **Issue indivisibilities -**

   Some issues, by their very nature, do not admit compromise. If an issue allows only a finite number of resolutions, it may be that none falls within the range that both parties prefer to fighting.

Strengthening Fragile States: Evidence from Mobile Salary Payments in Afghanistan

Joshua Blumenstock Michael Callen Anastasiia Faikina
Stefano Fiorin Tarek Ghani*

April 21, 2026

Abstract

We conduct a randomized evaluation of a flagship government initiative to build administrative capacity in Afghanistan during a period of extreme fragility and uncertainty. The program aimed to improve employee management systems in the Ministry of Education by introducing biometric registration and digital payments for public-sector employees. The reform enhanced the state's ability to identify employees, improved student learning outcomes, expanded financial inclusion, and strengthened employee support for scaling the initiative. Participation was higher in districts where citizens expressed greater confidence in — and consensus about — the government's prospects of defeating the Taliban. Together, the results demonstrate that digital technologies can improve state performance in fragile contexts, but also suggest that uncertainty about the state's survival may limit employees' willingness to engage in reforms.

Keywords: state capacity, fragile states, beliefs, institutions

Does Uncertainty Dull Incentives to Build Capacity?

- **State capacity as investment problem** (Besley & Persson 2009):
  - High capacity an outcome of cumulative costly investments
  - Uncertainty over future political institutions -> weakens incentives to invest in state capacity

- **Fragile states:**
  - Both low state capacity and high uncertainty about future political institutions
    - Potential for low-capacity trap

Besley and Persson (2009); Callen et al. (2026)

Background: Significant administrative challenges

Ghost Students, Ghost Teachers, Ghost Schools

The United States trumpets education as one of its shining successes of the war in Afghanistan. But a BuzzFeed News investigation reveals U.S. claims were often outright lies, as the government peddled numbers it knew to be false and touted schools that have never seen a single student.



Azmat Khan
BuzzFeed News Reporter

Posted on July 9, 2015 at 2:03 am

- MoE employs 80% of non-defense public sector. Identification systems highly incomplete.
  - National tazkira cards - paper form, new id number issued when lost leading to multiple IDs.
  - Ministries separately maintain employee rosters and payroll records, frequently change latter.
  - 2017: MoE unable to provide figure for how many people it has paid in last three months.
- Public salary disbursements often delayed by either "first mile" issues with central approvals and processing or "last mile" issues with withdrawals from banks and trusted agents.

Blumenstock et al. (2026)

MSP Reform: Stage 1 — Biometric Registration

- Goal: Identify real workers.
- Employees visit a "registration zone" center, usually the biggest school in area, on a pre-announced date.
- Mobile Network Operator (MNO) – a private firm – collects data on:
  - Name, gender, date of birth
  - National ID
  - Government ID
  - Biometric identification: fingerprints
- MNO issues a mobile-money-enabled SIM card.



Blumenstock et al. (2026)

MSP Reform: Stage 2 – Adjudication



- Goal: Remove ghost workers.
- Registration data are matched to the existing payroll data.
- The matched data are sent to a newly formed MoE "adjudication committee" at the province level.
- Committee is tasked to clean the payroll of ghost employees:
  - Confirm if unregistered employees belong on the payroll.
  - Remove ghost employees from the payroll.

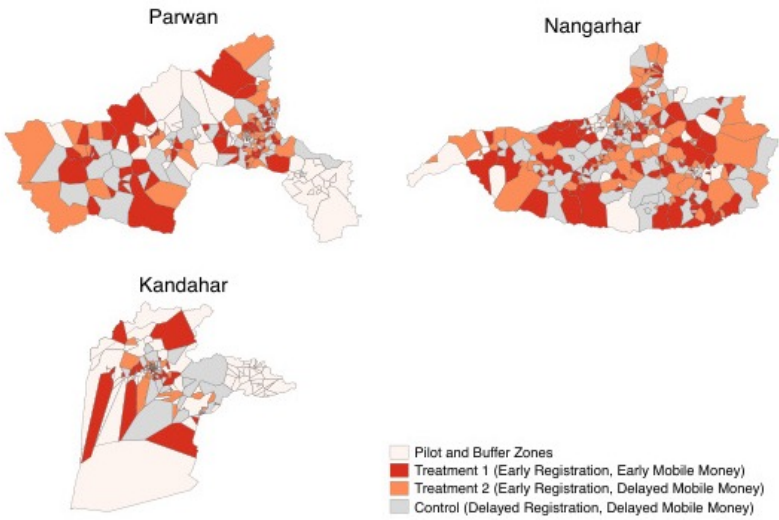
MSP Reform: Stage 3 – Payments via Mobile Money

- Goal: Improve payments & increase financial inclusion.
- Payments are directly transferred to employees' mobile money accounts.
- Mobile money agents visit the school or the registration/district center monthly to disburse salaries.
- Employees can also visit mobile money agents on their own or make transfers and transactions using their accounts.



Overview: MSP Reform

- Three provinces: Kandahar, Nangarhar, and Parwan totalling nearly 30,000 employees from more than 1,000 schools in 37 districts.
  - Mobile Network Operator awarded contract for biometric registration and mobile payments
  - 3 phases: registration, adjudication, payments
    link
- 345 algorithmically formed registration zones, randomly divided across three treatment arms:
  1. Early Registration, Early Mobile Money
  2. Early Registration, Delayed Mobile Money
  3. Control (Delayed Registration, Delayed Mobile Money)



Blumenstock et al. (2026)

Strengthening Fragile States: Evidence from Afghanistan

- **Mobile Salary Payments (MSP)** reform in Ministry of Education from 2018-2021.
  - Baseline: only 41% of teachers present, 60% experiencing salary delays of ~3.5 months.
  - Intervention: biometrically register employees and pay them digitally using mobile money.
  - RCT involving ~30,000 employees, 1,000+ schools, 1/3 in areas contested by the Taliban.

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  - make employees legible to the state through biometric registration? Yes, though imperfectly.
  - improve the payment process? Yes, though mainly after 1st year and concentrated in cities.

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- **Downstream Impacts:** Does the MSP reform...
  - improve teacher retention? Yes, particularly for new teachers.
  - increase student learning? Yes.
  - deepen employees' financial inclusion? Yes, more P2P transfers and higher balances.

Strengthening Fragile States: Evidence from Afghanistan

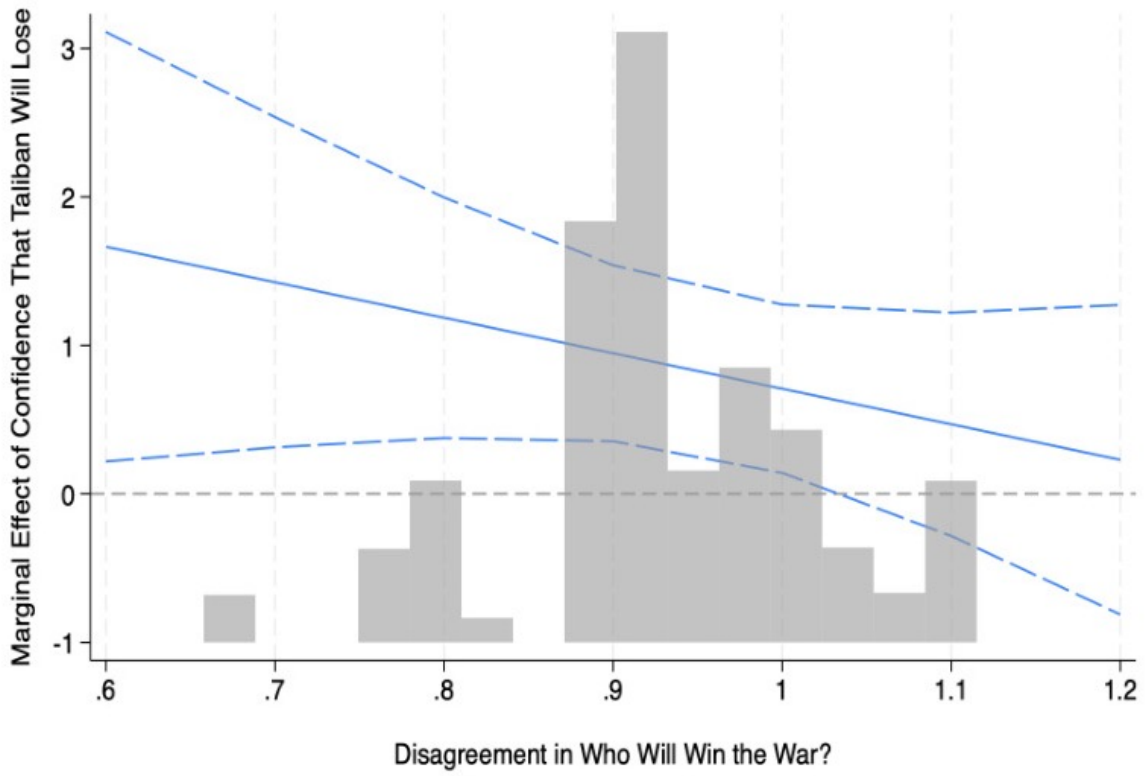
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  - make employees legible to the state through biometric registration? Yes, though imperfectly.
  - improve the payment process? Yes, though mainly after 1st year and concentrated in cities.
- **Downstream Impacts:** Does the MSP reform...
  - improve teacher retention? Yes, particularly for new teachers.
  - increase student learning? Yes
  - deepen employees' financial inclusion? Yes, more P2P transfers and higher balances.
- **Do beliefs regarding institutional durability shape investments in state capacity?**
  - Employees more likely to register in districts where citizens were more confident – and agreed more with each other – that the Afghan Army would prevail against the Taliban.

Impacts of MSPs on Downstream Outcomes

- MSP reform improved state performance and increased employee usage of mobile money.
  - Treated schools show higher teacher employee retention, critical for state performance.
  - Students in treated schools increased combined learning scores by 0.147σ after one year.
    - No changes in teacher attendance, suggesting retention and enthusiasm as channels.
  - Experimental evidence of increased peer-to-peer transfers and higher mobile money balances.

Blumenstock et al. (2026)

Confidence and Registration by Degree of Disagreement



Blumenstock et al. (2026)

From People's War to People's Rule: Rebel Governance and the Foundations of Inclusive Democracy*

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May 23, 2026

Abstract

How does wartime rebel governance shape post-conflict institutions? We study this in Nepal, where the Maoist People's War (1996–2006) dismantled a 240-year caste-based monarchy and ended with Maoists entering democratic politics. During the conflict, Maoists established sub-national "People's Governments" that administered justice, collected taxes, and delivered local services. Using a spatial regression-discontinuity design, we show that exposure to People's Governments increased political knowledge and participation especially among historically marginalized indigenous groups (Janajatis). Exposure also reshaped party institutions and inter-party competition: candidate-selection committees in more exposed areas have 26 percent more Janajati members who, drawing on novel implicit-attitude data, exhibit less pro-upper caste bias. Non-Maoist parties' Janajati nomination rates nearly double in fully exposed areas, consistent with competition for newly mobilized voters. Nearly two decades on, local governments in exposed areas score 0.2–0.3 standard deviations higher on state capacity indices and receive 13% more in conditional federal grants. These findings show that when rebel groups enter competitive democratic politics, wartime governance institutions can — through citizen mobilization, party gatekeeping, and cross-party competition — enable a more inclusive and capable post-war state.

How does civil war shape institutions?

- Civil war represents a type of critical juncture that can transform the rules that constrain and allocate political power.

- Rebel governments often administer justice, collect taxes, deliver services, and cultivate leaders.

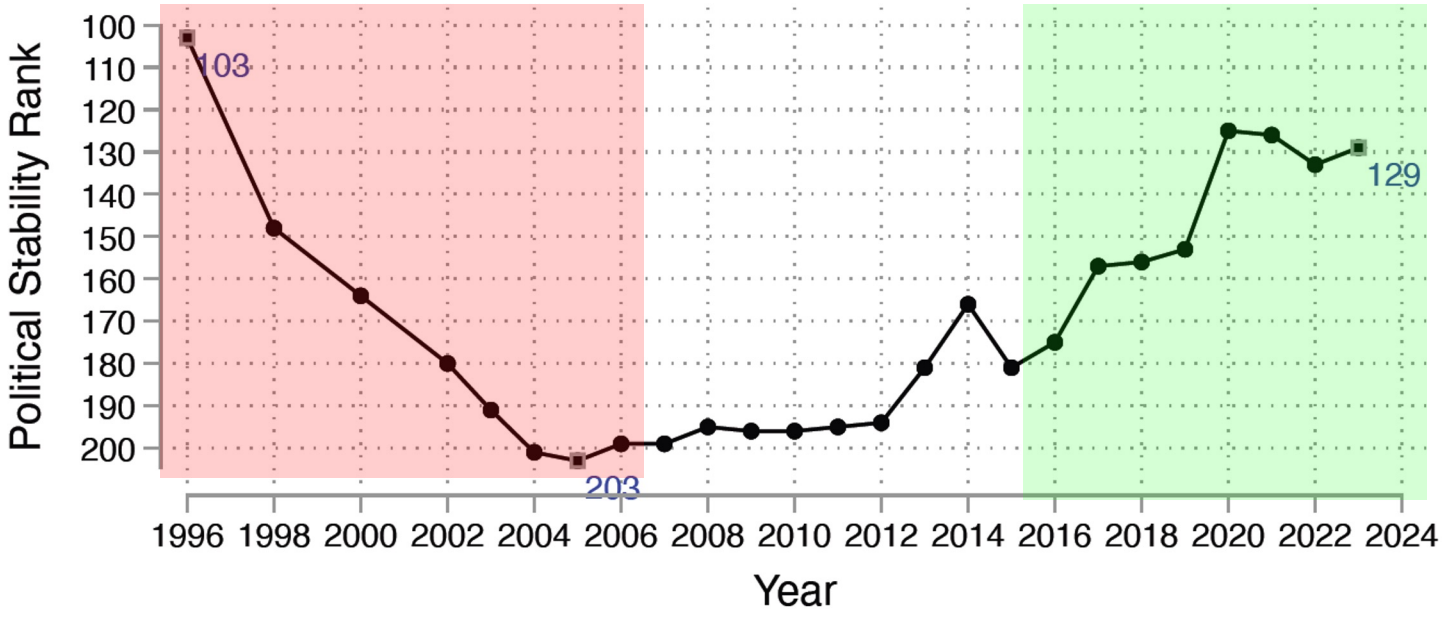
- A postwar political settlement can incorporate—or exclude—these wartime institutions and constituencies.

Nepal: Nascent constitutional republic

Within 25 years, Nepal went from

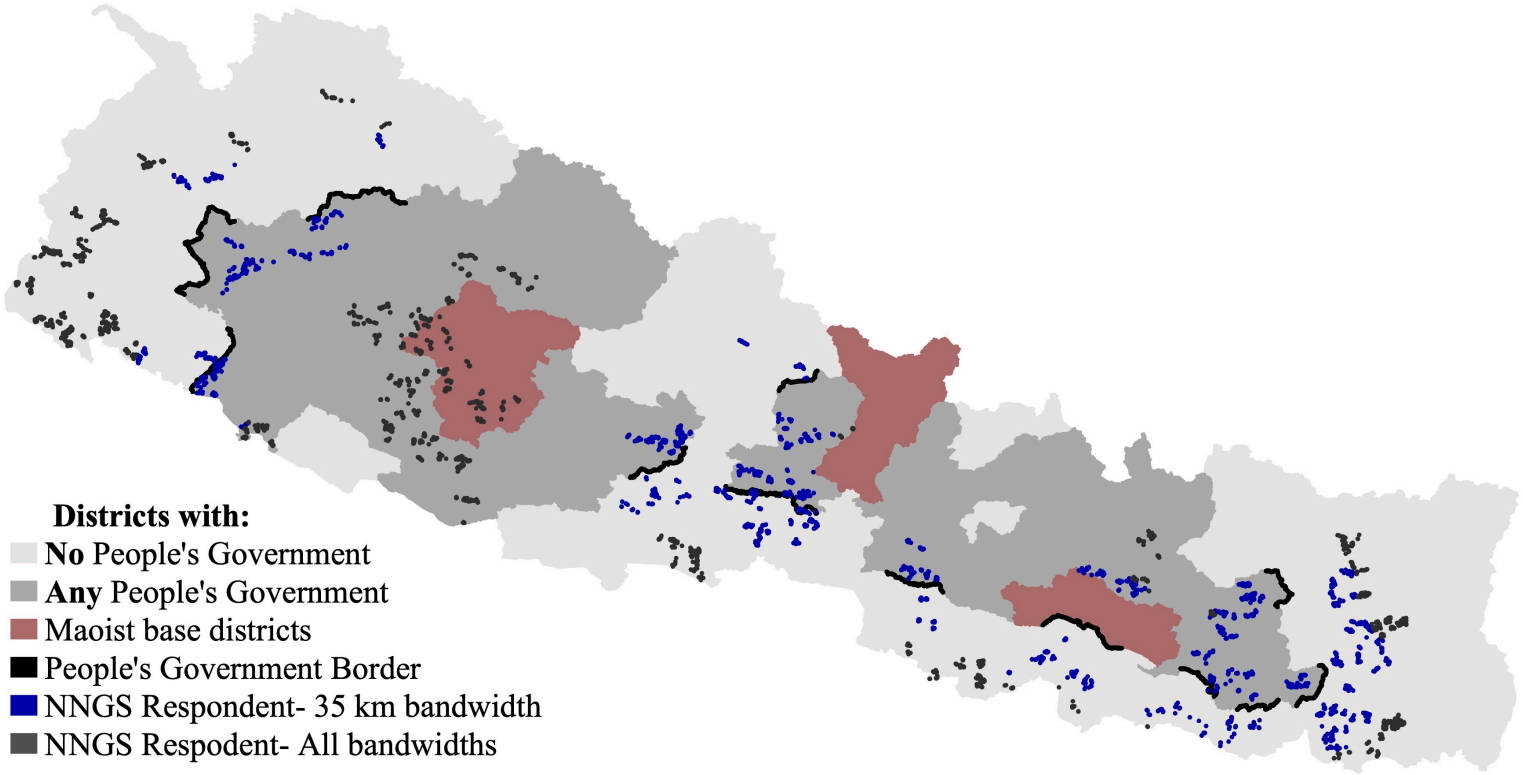
Long-lived feudal caste-based monarchy → **Intense civil conflict** → **Transition period** → **Federal democracy**

1. Civil war fought to gain rights for excluded caste groups
2. Rapid rebound in stability
3. Corresponding increase in GDP PC. Dramatic reduction in poverty.

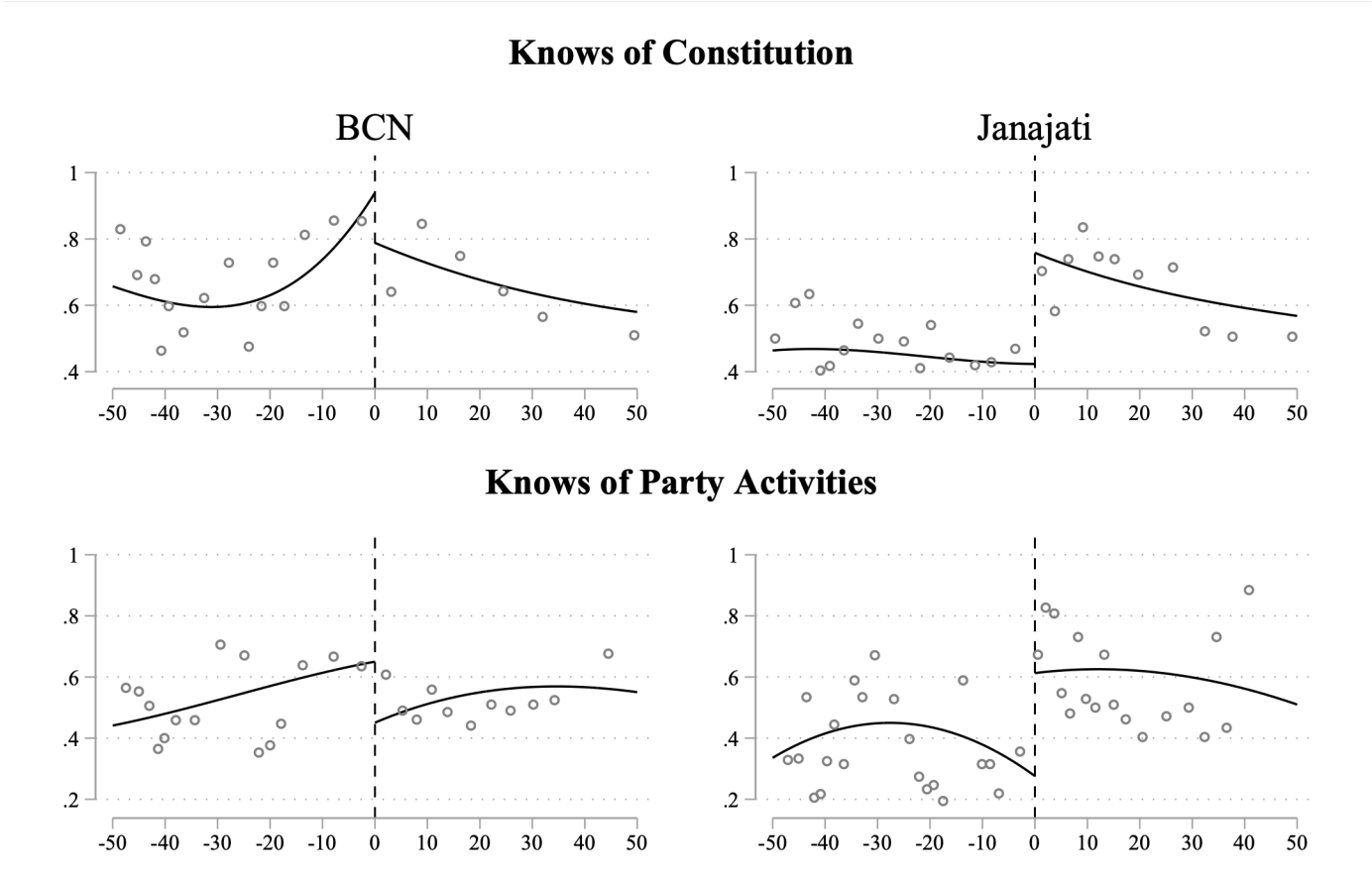


Nepal: People's Governments and RD samples

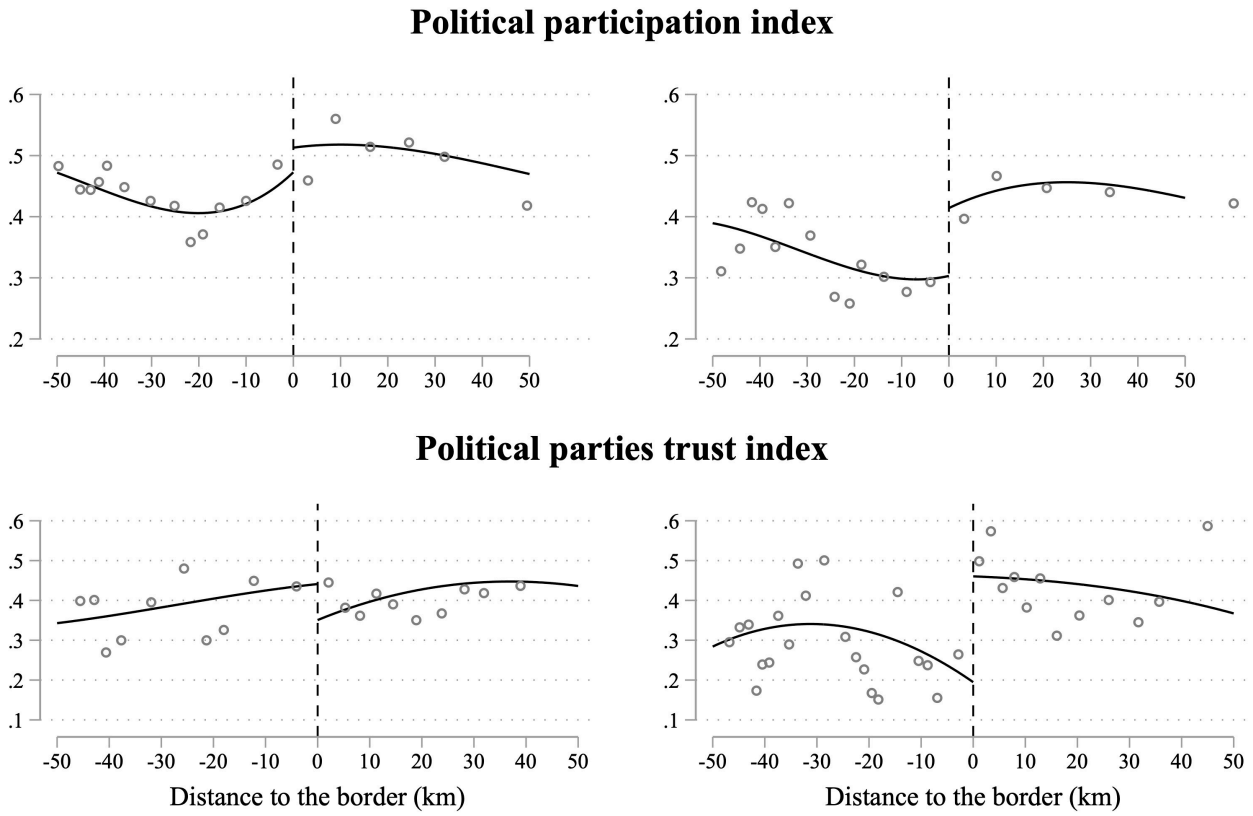
(a) NNGS survey respondents and People's Government Borders



Rebel governance and political mobilization

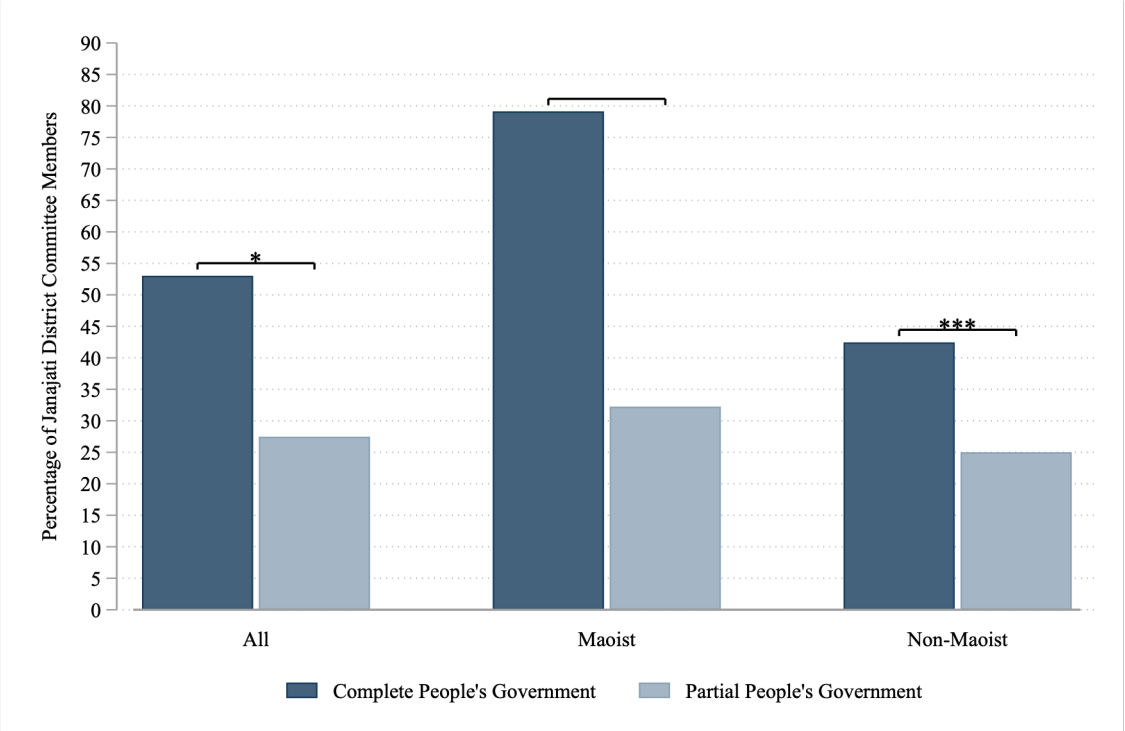


Rebel governance and political mobilization

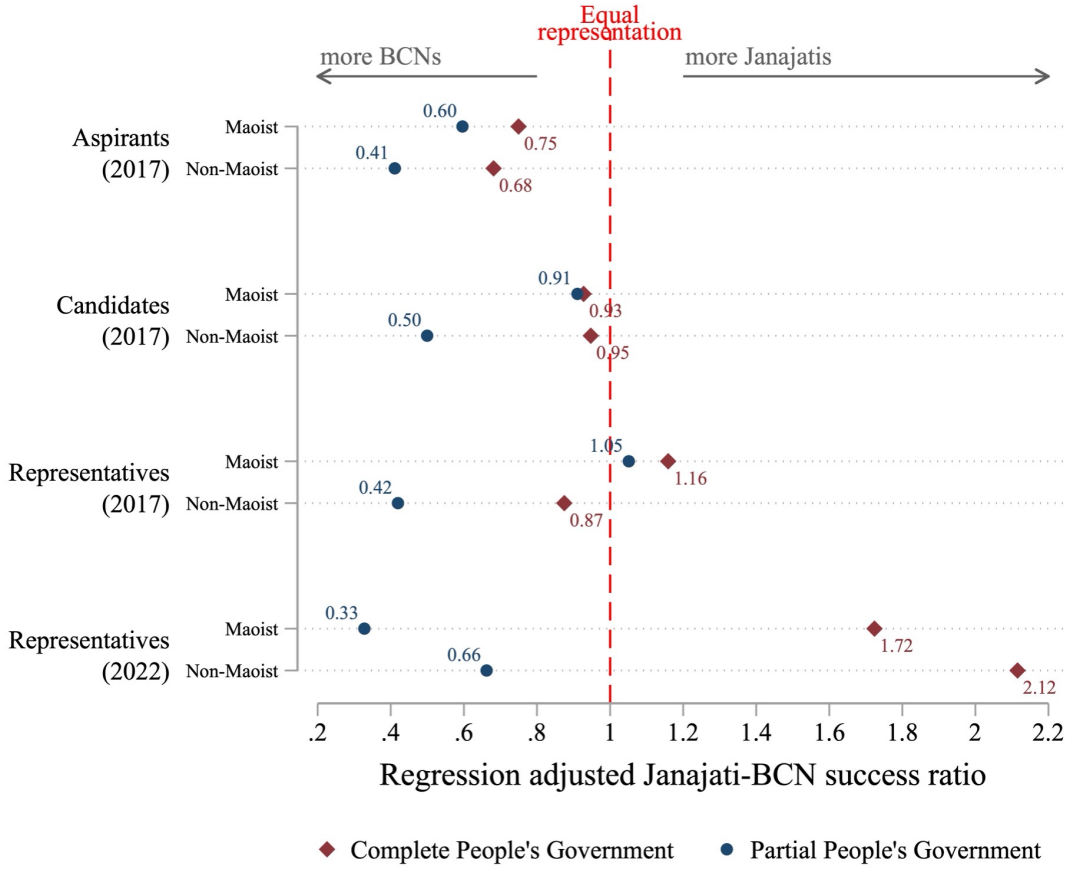


Rebel governance and party gatekeeping

Figure 4: People's Government and regression-adjusted shares of Janajatis in District Selection Committees



Revolutionary governance and political selection



Bhusal et al. (2026), Figure 5

Institutional legacy: Municipal state capacity

Table 5: The Impact of Maoist People's Governments on Municipal Capacity and Fiscal Accountability

	LGS Survey	LISA Scores					Fiscal Transfers and Audit		
	Infrastructure Management Procedures	Physical Infrastructure	Service Delivery	Disaster Management	Judicial Execution	Coordination With Government	Conditional Grants	Total Expenditure	Unaccountec Percentage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Border municipalities									
Any People's Government	0.04*	0.23**	0.17*	0.25**	0.19*	0.11	203.13**	332.29	-0.22
	(0.02)	(0.10)	(0.09)	(0.10)	(0.11)	(0.13)	(80.57)	(245.65)	(0.27)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$\hat{\mu}_{\text{No People's Government}}$	.66	0	0	0	0	0	1,592	5,171	3.2
# Observations	390	1,028	1,028	1,028	1,028	1,028	1,717	1,702	1,718
# Districts	55	55	55	55	55	55	55	55	55
# Years	2	5	5	5	5	5	8	8	8
R-squared	.075	.096	.045	.12	.073	.07	.61	.65	.11
Panel B: All municipalities									
Any People's Government	0.04***	0.33***	0.29***	0.36***	0.33***	0.36***	267.70***	561.86***	-0.98***
	(0.01)	(0.07)	(0.07)	(0.07)	(0.08)	(0.10)	(42.11)	(138.59)	(0.29)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
$\hat{\mu}_{\text{No People's Government}}$	.65	0	0	0	0	0	1,396	4,407	4.3
# Observations	1,383	3,438	3,438	3,438	3,438	3,438	5,870	5,800	5,840
# Districts	77	77	77	77	77	77	77	77	77
# Years	2	5	5	5	5	5	8	8	8
R-squared	.06	.12	.075	.11	.13	.096	.67	.7	.16

Notes: $* < 0.1$, $** < 0.05$, $*** < 0.01$. The table presents the results of estimating specification 4 on the sample of all municipalities along the borde between *No People's Government* and *Any People's Government* districts (panel A) and all municipalities across Nepal (panel B). Data are from two round

Conclusions: Fragility, conflict, and state building

1. **Understanding how to end extreme poverty increasingly requires studying fragile states.** A growing share of the world's poorest people live in these settings, yet they remain severely underrepresented in development economics research.

2. **Fragility undermines a fundamental function of institutions: creating predictability.** Political uncertainty discourages long-term investment, including investment in state capacity.

3. **Building effective states is possible, even in fragile environments.** But political instability and contested authority create substantial obstacles to otherwise promising reforms.

4. **Revolutions and the political settlements that follow can fundamentally reshape institutions.** Their effects on political inclusion and state capacity can persist for decades.