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Public Opinion and Foreign Aid Cuts in Economic Crises

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Summary. — Economic crises generally lead to reductions in foreign aid. However, the widely held view that budgetary constraints caused by economic crises reduce aid is inaccurate because donor government outlays actually tend to increase. We develop an argument that aid cuts occur because voters place a lower priority on aid during economic downturns and politicians respond by cutting aid. Using data from Eurobarometer, we demonstrate that economic downturns lead to reduced public support for helping the poor abroad. These findings are robust across a large number of alternative specifications. Our findings have implications for how advocates may prevent aid reductions during economic recessions.

Key words — foreign aid, economic crises, public opinion, EU

1. INTRODUCTION

Economic crises in rich and developed countries, such as the 2007–08 financial crisis or the Eurozone crisis that began in 2009, are unequivocally disconcerting to citizens. However, such crises may cause even graver, compounded harm to people in countries that depend on richer countries' foreign aid. [1] Such concerns were particularly evident after the most recent financial crisis. Aid supporters, international organizations, and non-governmental organizations repeatedly implored donor governments not to cut back on their aid commitments. The United Nations Secretary-General, Ban Ki-moon, echoed these sentiments, stating "[T]o the traditional donors, I say: do not let this economic crisis, do not let short-term austerity deflect you from your long-term commitment to the world's poorest people [...] Cutting aid will not balance your budgets. But it will hurt the poor—the most vulnerable of the human family." The CEO of World Vision Australia, a large development NGO, echoed these calls after Australia's ruling coalition proposed cuts in foreign aid. Similarly, Oxfam America ridiculed proposals to cut aid in order to balance the budget in the United States. [2] However, most donors did not heed such calls to stay steady on foreign aid. [3] The broader scholarly evidence shows that such aid cuts by donors are hardly an aberration (Arellano, Bulíř, Lane, & Lipschitz, 2009; Dang, Knack, & Halsey Rogers, 2013; Frot, 2009; Roodman, 2008).

What explains such decisions by donor governments? While many studies explore the connection between economic crises and aid, few go beyond establishing the empirical relationship. One tempting answer may be that economic crises produce budgetary constraints, and therefore governments reduce aid commitments. While perhaps initially plausible, this answer cannot provide a full explanation. If true, we should expect that in times of economic duress, donor governments' budgets *in general* should be smaller than they were before the crises. A recent flurry of bailouts of financial institutions patently belies this. More systematically, an extensive literature in economics shows that governments tend to increase, not decrease, spending during the initial stages of an economic crisis (e.g., Gali, 1994; Lane, 2003; Perotti, 2005; Fatás & Mihov, 2009; Lee, Sung, & Policy, 2007; Auerbach, 2009; Égert, 2014). As its fundamental assumption does not exhibit much merit, this seemingly plausible answer to why foreign aid commitments drop during economic crises cannot hold much water.

We develop an argument that puts its explanatory locus on the domestic politics within donor countries. As the major aid donors are democracies, we expect politicians that make decisions on foreign aid in such countries to be responsive to their citizens' wishes in general (Canes-Wrone, 2015; Powell, 2000; Soroka & Wlezien, 2010). We argue that voters shift their attitudes toward aid during economic crises and that election-minded politicians help turn these attitudes into policy. However, why would public support for foreign aid change in response to economic crises? The answer to this is not immediately clear. We know that foreign aid accounts for only a tiny portion of donors' budgets, that it brings tangible benefits (e.g., export promotion), and that it helps achieve a variety of important foreign policy goals, including promoting national security. While politicians and scholars know this, voters tend to see foreign aid as a charity that is costly but without many tangible benefits. As we argue below, these biases and voters' personal beliefs on the state of the economy make foreign aid an easy target for budget cuts during economic crises.

Relying on a variety of variables from several years of the Eurobarometer, we first show that public support for foreign aid and development efforts strongly decreases when the respondent's personal economic fortunes worsen. This result holds across various measures and alternative specifications. Further, we look for additional evidence to bolster our argument. First, we find that our results hold if we consider economic crises as only the sources of personal economic misfortune. Second, we show that elite preferences do not appear to influence public opinion. We leverage the case of Britain, in which politicians quite uniformly argued adamantly against cutting aid and find that this unified stance does not lead to significantly weaker results in the United Kingdom.

This article makes several contributions to the literature on foreign aid. First, this study introduces a framework that builds

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on insights from separate bodies of literature on foreign aid allocations, public opinion, retrospective voting, and macroeconomics by showing how financial crises influence politicians' aid decisions through voters' beliefs. While some scholars and journalists have observed that aid cuts during economic recessions may have something to do with changes in public support (e.g., Dang *et al.*, 2013), the current article lays out a theoretical argument that links public opinion, decision-making, and foreign aid, allowing us to actually derive and test a precise hypothesis. Second, our findings complement the growing body of research that investigates the determinants of individual preferences for foreign aid. While previous studies tend to focus on socio-demographic, political, material, and attitudinal factors that change little over time (Bauhr, Charron, & Nasiritousi, 2013; Chong & Gradstein, 2008; Henson & Lindstrom, 2013; Milner & Tingley, 2013; Noël & Thérien, 2002; Paxton & Knack, 2012; Van Heerde & Hudson, 2010), our work points to an important source of over-time changes in aid support. The focus on changes in one's personal fortunes introduces a powerful over-time variation in support of foreign aid. Furthermore, although previous research has examined the relationship between individual income levels and support for foreign aid (e.g., Chong & Gradstein, 2008), this study more directly links changes in individuals' economic circumstances to their support for aid. Third, the results provide guidance for those who wish to uphold foreign aid outlays. Importantly, our argument implies that while giving warnings such as those made by the United Nations Secretary-General can be effective, they need to be well-targeted at voters within donors. We believe that the scant research on how governments might manipulate public opinion on foreign aid should received more attention (Van der Veen, 2011).

In the next section, we review the literature on how foreign aid fares during economic crises. Subsequently, we draw on findings from several strands of literature and construct our argument connecting public opinion, politicians, and foreign aid. Using data from several waves of Eurobarometer surveys, we then test our argument about perceived economic downturns and individual support for aid. Next, we carry out two additional ways to check our results. We then conclude with a discussion of the implications of our study for how to prevent donor countries from cutting aid commitments.

2. DO FINANCIAL CRISES REDUCE AID?

An extant literature on foreign aid identifies a number of economic and political determinants of aid (see summarily Alesina & Dollar, 2000; Neumayer, 2003). Among these, economic crises in donor countries are found to be a powerful predictor of foreign aid.[4] For example, Frot (2009) compares the aid budgets of donors who did and did not experience a financial crisis and reports that foreign aid budgets fell following financial crises in six donor countries since 1970. The magnitudes of these drops are quite drastic: Finland cut its aid by more than 50% immediately after its 1991 financial crisis. Using a vector autoregression model, Frot (2009) also examines the effect of changes in GDP, government budget deficits, and unemployment on aid budgets for donor countries. He finds that a negative shock to GDP growth significantly reduces aid disbursements, and that the effects of such a shock are both long-lasting and take time to fully occur.

Others consider bilateral aid flows and find smaller aid flows when the donor is in an economic recession. Controlling for time-varying variables such as income, Dang *et al.* (2013) find that banking crises are a strong predictor of decreased aid disbursements. Compared to non-crisis countries, aid from crisis-affected countries falls by at least 28%. Furthermore, while the negative effects of the crisis begin almost immediately, aid flows decrease for at least ten years after the crisis's onset. Moreover, Mendoza *et al.* (2009) show that when stock market uncertainty (which they argue is a good proxy for financial volatility and economic uncertainty) increases, the United States reduces its aid. They also find that worsening economic conditions, represented by an increase in the misery index, decrease U.S. bilateral aid. Similarly, Dabla-Norris *et al.* (2015) find that donors significantly reduce their aid disbursements during periods of severe economic stress, defined as years when deviations from the GDP growth trend fall into the bottom quartile of the donor-specific distribution. These empirical findings justify the concerns of aid practitioners discussed earlier.

Despite these strong empirical findings, scholars have devoted little effort to studying the responsible underlying mechanism. Perhaps this is because there is a seemingly obvious explanation: economic downturns tighten government budgets, and thus lead to cutting outlays across the board, including those for foreign aid. This economic explanation seems to lie at the heart of many statements made by policy makers and diplomats. For example, in response to two successive falls in total aid provided by major donor countries, OECD Secretary-General Angel Gurría said, "It is worrying that budgetary duress in our member countries has led to a second successive fall in total aid."[5]

Not only is this thinking intuitive, but it also naturally follows from existing theories of foreign aid. For example, Dudley and Montmarquette (1976) treat foreign aid as one consumable good among others and model donors' aid decisions as a budget allocation problem. It follows that if the overall budget goes down, the budget for foreign aid as well as other goods will decline. A recent model of foreign aid allocations proposed by Bueno de Mesquita and Smith (2009), which has attracted attention in political science, predicts the same pattern. In it, the level of the donor's available budget is one of the key determinants of foreign aid: as the budget contracts, so do aid outlays.

While initially plausible, this explanation is not satisfying as its primary assumption is at odds with empirical observations. If a budget contraction were to explain budget cuts, we should expect that in times of economic crisis or slowdown, donor governments' budgets *in general* should be smaller than they were before the crisis. This implication is, in fact, inconsistent with prevailing empirical macroeconomic evidence. The consensus finding is that government spending tends to either run counter to or be unresponsive to business cycles in developed countries (e.g., Égert, 2014; Fatás & Mihov, 2009; Gali, 1994; Lane, 2003; Lee *et al.*, 2007; Perotti, 2005).[6] This counter-cyclical policy reflects automatic stabilizers like health spending, unemployment safety net expansion, and the realization of contingency funds, which are ostensibly meant to stimulate economic recovery. Moreover, the discretionary part of spending also tends to be a-cyclical or counter-cyclical, i.e., it increases or is unresponsive during recessions (e.g., Auerbach, 2009; Fatás & Mihov, 2009). These findings render a major premise of the implicit economic explanation for the nexus between crises and aid cuts off the mark.

Given that the existing theories of foreign aid and its economic explanatory roots cannot fully address this well-established empirical pattern, we turn to domestic politics within donors to develop an argument that can account for these patterns. In particular, we focus on voters and their attitudes toward foreign aid and helping the poor in developing countries.