



Your development or mine? Effects of donor–recipient cultural differences on the aid-growth nexus



Anna Minasyan^{1,*}

Georg-August University of Goettingen, Platz der Goettinger Sieben 5, MZG Room 8.147, 37073 Goettingen, Germany

ARTICLE INFO

Article history:

Received 13 December 2014

Revised 30 May 2015

Available online 26 July 2015

JEL classification:

O11

O19

Keywords:

Aid effectiveness

Cultural differences

Genetic distance

Western education

ABSTRACT

Minasyan, Anna—Your development or mine? Effects of donor–recipient cultural differences on the aid-growth nexus

Development aid from the West may lead to adverse growth effects in the global South due to the neglected cultural differences between development aid (paradigm) providers and recipients. I test this hypothesis empirically by augmenting an aid-growth model with proxy variables for cultural differences between donors and recipients. First, I use donor–recipient genetic distance, i.e., blood types, to capture the traditional way of cultural transmission. Second, I use western education of recipient country leaders to capture resource-based transmission of culture. Results of the OLS panel estimation in first differences show that a one unit increase in donor–recipient genetic distance reduces the main effect of aid on growth by 0.2 percentage points when aid is increased by one percentage point. In turn, a one percentage point increase in aid yields on average a 0.3 percentage point increase in growth after a decade for countries with western educated leaders. *Journal of Comparative Economics* 44 (2) (2016) 309–325. Georg-August University of Goettingen, Platz der Goettinger Sieben 5, MZG Room 8.147, 37073 Goettingen, Germany.

© 2015 Association for Comparative Economic Studies. Published by Elsevier Inc. All rights reserved.

1. Introduction

It is a well-known fact that the raw data on development aid and economic growth are uncorrelated. For the last 50 years many authors have tried to overcome this fact by putting structure on the data. They have reached all results possible; see [Doucouliagos and Paldam \(2011, 2009\)](#) for a comprehensive bibliography.² In particular, [Doucouliagos and Paldam \(2009\)](#) perform three meta-analyses for the unconditional, conditional and null strands of the aid effectiveness literature (AEL) and fail to find a statistically significant effect of aid on growth.³ They also note: “If there is an effect, it must be small” (2009, p. 457). This paper, therefore, explores one of the possible reasons for this negligible effect of aid on growth.

Aid is an intervention of a developed country into the society of the recipient country. When the two countries have very different belief systems and cultures this gives different preferences. This will easily lead to a mismatch between supply and demand

* Tel.: +49 551 39 20466; fax: +49 551 39 7302.

E-mail address: minasyan.anna@gmail.com, aminasy@uni-goettingen.de

¹ Doctoral Candidate, Chair of Development Economics, University of Goettingen. Member of Research Training Group 1723: “Globalisation and Development”.

² [Doucouliagos and Paldam \(2011\)](#) update the meta-analysis from their 2009 study and find that some types of aid, such as program or project aid can be more effective than others.

³ See [Burnside and Dollar \(2000\)](#) and [Dalgaard et al. \(2004\)](#) for conditional, [Hansen and Tarp \(2001\)](#) for unconditional and [Rajan and Subramanian \(2008\)](#) for null effect of aid on growth.

in development transactions (Easterly, 2006) and diminish aid's effect on growth.⁴ This fact has been extensively documented through anecdotes (Bauer, 1976; Escobar, 1995; Easterly, 2002, 2006; Moyo, 2009; Altaf, 2011; Coyne, 2013), yet donor–recipient cultural differences have not been sufficiently addressed in the AEL. The literature rather focuses on recipient characteristics only when studying the aid-growth nexus. One exception is a study by Dreher et al. (2013b) that augments an aid-growth model with the donor–recipient differences in government ideology and its interaction with aid. They show that larger differences in donor–recipient political ideology reduce aid's effect on growth. This paper is closely related to that of Dreher et al. (2013b).

While Dreher et al. (2013b) explore the effect of donor–recipient differences in formal institutions (government ideology) on the aid-growth nexus, I examine that of the informal institutions (culture, beliefs and values). Hence, I argue that the theoretically expected positive effect of development aid on growth can be reduced or diminished due to the neglect of donor–recipient cultural differences in the development paradigms. Consequently, the contribution of this paper is the empirical test for the effect of the donor–recipient cultural differences on the aid-growth nexus.

I conceptualize my hypothesis by analyzing relevant literature on the cultural underpinnings in development paradigms in Section 2. Anecdotal evidence in Section 3 shows how cultural differences can affect the aid-growth nexus. As described in Section 4, I use two proxy variables for cultural differences – genetic distance and western education of recipient country leaders – to measure their effect on the aid-growth nexus. Thereafter, following the technique of Dreher et al. (2013b), I construct an aid-adjusted measure for the genetic distance between donors and recipients. I adopt the estimation method of Clemens et al. (2012) and augment an aid-growth model with proxy measures of donor–recipient cultural differences and their interactions with aid (Section 5), following Dreher et al. (2013b). The estimation results reported in Section 6 show that the effectiveness of aid is significantly reduced when a greater genetic distance exists between a recipient and western donors. In addition, results show that recipients with western educated leaders benefit from aid in the long run. The robustness tests presented in Section 7 reveal that donor–recipient differences in language and ethnicity do not have a statistically significant effect on the aid-growth nexus, and the main findings of this paper do not suffer from the inclusion of additional (omitted) variables. Section 8 concludes and provides policy implications.

2. Cultural underpinnings in development paradigms

Early development strategies evolved from modernization theories and practices in the West during the 20th century (Bauer, 1976; Escobar, 1995; Gilman, 2003; Radcliffe and Laurie, 2006). Modernization, per se, is the transition from a traditional society into a modern one. It is characterized, on one hand, by cultural change (Inglehart and Baker, 2000) and, on the other, by democracy, the development of a welfare state, egalitarianism, universal public education, income taxation and land reform (Gilman, 2003). Modernity is premised upon rational technology and scientific knowledge: “It is the model of the West detached in some way from its geographical origins and locus” (Gilman, 2003, p. 1).

Moreover, development discourses in the past century have been influenced by Talcott Parsons' functional sociology theory (1951), according to which certain types of thinking and behavior can benefit the modernization process (Gilman, 2003; Turner, 1999). A distinct characteristic of modernization is the change in beliefs and values that took place during the 20th century in the West (Inglehart and Baker, 2000). While changes in certain cultural beliefs and values accompanying modernization were *internal* to Western economies, in particular, to the United States (Rostow, 1990) these were imposed *externally* on the diverse populations in the global South via the development processes (Escobar, 1995). As Turner (1999) notes, in the 1950s and 1960s, policymakers in donor countries were encouraged to advocate modern cultural traits in aid recipient countries following Parsonian theory. Changing the beliefs, attitudes and behaviors of local people was seen as a way of “dragging them away from ‘traditional’ practices and introducing them to the modern Western culture” (Schech and Haggis (2000) cited in Radcliffe and Laurie, (2006, p. 233). Many academics and practitioners provide extensive anecdotal evidence, showing that the differences in preferences between donor and recipient countries can be part of the reason why development aid fails to generate long-term economic growth in recipient countries (Bauer, 1976; Escobar, 1995; Easterly, 2002, 2006; Moyo, 2009; Altaf, 2011; Coyne, 2013).

To illustrate, Moyo (2009) argues that foreign aid itself is largely responsible for Africa's underdevelopment. After examining how several aid projects have hindered the grassroots development, she concludes that foreign aid is destructive for African economies as it distorts incentives, perpetuates corruption and supports dysfunctional political elites. In relation to the aid paradigm for promoting democracy in African countries, Moyo writes: “In the early stages of development it matters little to a starving African family whether they can vote or not. Later they may care, but first of all they need food for today, and tomorrows to come, and that requires an economy that is growing” (Moyo, 2009, p. 44).

Thus, applications of the conventional economic models of the West in the rest of the world can be largely responsible for development paradigm failures: in these models individual preferences are fixed in the assumptions of objective rationality. However, ‘objective’ rationality should not, and does not, always prevail when humans take actions in different times, places and contexts. Individuals may rather follow a subjective (bounded) rationality based on the existing options and alternatives available to them at a specific place and time (Kahneman, 2003). Many prominent economic models for development arise from the rationality decisions available in Western societies but not necessarily in the rest. Therefore, development models that are taken to the aid recipient societies are rarely adjusted for such differences in culture. On that matter, Sen (2004) stresses the

⁴ See Gibson et al. (2005) for a discussion of information asymmetry problems in aid transactions due to cultural differences.

Download English Version:

<https://daneshyari.com/en/article/5092286>

Download Persian Version:

<https://daneshyari.com/article/5092286>

[Daneshyari.com](https://daneshyari.com)