



Donor ideology and types of foreign aid



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ABSTRACT

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We examine how donor government ideology influences the composition of foreign aid flows. We use data for 23 OECD countries over the period 1960–2009 and distinguish between multilateral and bilateral aid, grants and loans, recipient characteristics such as income and political institutions, tied and untied aid, and aid by sector. The results show that leftist governments increased the growth of bilateral grant aid, and more specifically grant aid to least developed and lower middle-income countries. Our findings confirm partisan politics hypotheses because grants are closely analogous to domestic social welfare transfer payments, and poverty and inequality are of greatest concern for less developed recipient countries. *Journal of Comparative Economics* 42 (1) (2014) 61–75. ICES, George Mason University, 4400 University Drive, Fairfax, VA 22030, USA; University of Munich, Center for Economic Studies, Schackstr. 4/I, 80539 Munich, Germany; Ifo Institute, Poschingerstr. 5, 81679 Munich, Germany.

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1. Introduction

Foreign aid provides a powerful test case for partisan hypotheses. Survey data and political rhetoric suggest that foreign aid policies are highly divisive ideologically. Total aid accounts for a small fraction of government budgets in donor countries, so that changes in overall budget constraints are less important for explaining the variation in aid flows, as compared to other policy areas. In addition, the welfare implications of foreign aid policy for voters are likely to be limited. Donor country governments may thus indulge their ideological preferences regarding foreign aid.¹

Compared to its share of donor government budgets, foreign aid frequently accounts for a substantial fraction of government revenue in recipient countries. The ultimate impact of aid on welfare in recipient economies has nevertheless proven to be elusive. This disconnect has inspired many empirical studies on foreign aid, investigating the (dubious) effects of aid on economic growth (Doucouliagos and Paldam, 2008, 2011; Collier and Hoeffler, 2004; McGillivray et al., 2005; Ouattara and Strobl, 2008) and on various development indicators (Chong et al., 2009; Dreher et al., 2008a; Bjørnskov, 2010; Gupta et al., 2003), as well as the effects of political institutions on aid outcomes (Kilby and Dreher, 2010; Boone, 1996; Knack and

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¹ And more broadly, it pertains to the debate as to whether “parties matter”. See, for example, Osterloh (2012) and Potrafke (2012).

Rahman, 2007; Epstein and Gang, 2009; Rioux and Van Belle, 2005), and the implications of aid volatility on recipient economies (Buffie et al., 2009; Arellano et al., 2009).

Scholars examine the determinants of foreign aid. Early studies distinguished between “need”-driven foreign aid that is based on objective deprivation on the part of a recipient country and “interest”-based aid that is driven by donors’ concerns with trade, security, or other matters of national interest (Maizels and Nissanke, 1984; McKinlay and Little, 1977, 1978). Other studies scrutinize the effect of particular recipient characteristics on aid flows (Alesina and Dollar, 2000), or focus on donor characteristics that explain the variation in aid policies along various dimensions (Younas, 2008; Fleck and Kilby, 2001, 2010; Tsoutsoplides, 1991; Wang and Jin, 2013). Some empirical studies investigate aid determinants at the level of donor–recipient pairs, taking recipient, donor, and their pair-specific characteristics into account (Berthélemy and Tichit, 2004; Berthélemy, 2006).

Related work by political scientists includes comparative case studies (Schraeder et al., 1998; Thérien and Noël, 2000 summarize this literature) and empirical studies (Noël and Thérien, 1995; Thérien and Noël, 2000). Government ideology is one possible explanation of donor behavior (Imbeau, 1988; Meernik et al., 1998).² Tingley’s (2010a,b) is the first panel data study to examine the effect of donor ideology using the full range of available administrative data. He finds that leftwing governments increased aid to lower income countries, but not to middle income countries. Round and Odedokun (2004) and Lundsgaarde et al. (2007) find no such effects. By using Extreme Bounds Analysis (EBA), Fuchs et al. (2012) show that government ideology in donor countries did not influence overall, multilateral and bilateral aid. In Germany, leftwing governments committed even less aid than rightwing governments (Dreher et al., 2013).³

We investigate whether donor government ideology influences the composition of foreign aid flows. We distinguish between concessionary loans and pure grant aid; between aid to subsets of recipients by income group and political institutions; between unconditional aid and aid that has been “tied” to the purchase of export goods from the donor; and aid allocations to specific sectors.

2. Hypotheses and related literature

Our basic prediction is that leftwing governments commit and disburse more foreign aid than rightwing governments. This hypothesis is based on the analogy between foreign aid and domestic social welfare spending. Committing public resources to alleviate poverty and to reduce socioeconomic inequality is a central tenet of what is associated with “left” politics. Foreign aid should be more strongly favored by leftwing governments to the extent that it serves these purposes. In terms of the conventional dichotomy of “donor interests vs. recipient needs”, we would expect a partisan effect on aid if the needs of recipient populations are at least partly determining aid policies.

At the level of rhetoric and general ideological beliefs, the link between foreign aid and the political left is well established. Noël and Thérien (2008) summarize the support for foreign aid on the political left: “Motivated by an ethics that looked upon the inequitable sharing of wealth as a barrier to human dignity, progressives considered that the values of solidarity and democracy upheld in the developed world had to be projected on a world scale ... [T]he welfare state had to be extended across borders in order to bring about a ‘welfare world’” (Noël and Thérien, 2008, p. 132). Noël and Thérien (1995) also cite Blair (1969), who writes that “[the] rationale for attacking poverty is much the same at home and abroad though better recognized domestically” (p. 683), and Lumsdaine (1993), who concludes that welfare state policies and foreign aid ultimately express the same set of values (p. 121).

Empirical studies using survey data show that supporters of opposing political parties in donor countries are often sharply divided in their preferences over policy options towards developing countries. Chong and Gradstein (2008) and Paxton and Knack (2012) use data from the World Values Survey and find that individuals’ self-reported location on the ideological (left–right) spectrum correlates with their answer to the questions “Do you think that this country should provide more or less economic aid to poorer countries?” (“Do you think that the wealthier nations should give more financial help to the poorer nations or are they giving enough now?”).⁴ Potrafke and Ursprung (2013) find a similar ideological divide among the population of university students in Germany. By using new US public opinion survey data, Milner and Tingley (forthcoming) find that conservative voters oppose and liberal voters support aid through multilateral institutions.

The voting behavior of political representatives provides another source of evidence. While individual attitudes and political rhetoric are suggestive, changes in governing coalitions need not result in policy changes that directly reflect either stated preferences of particular constituencies, or even of politicians. Talk is cheap, and may simply serve self-signaling purposes (e.g. Potrafke and Ursprung, 2013). It is therefore significant that data on the voting patterns of parliamentarians on matters of foreign aid document the plausibility of the partisan hypothesis (i.e. the notion that party ideology affects foreign aid giving). Milner and Tingley (2010, 2011) show that members of the US Congress are more likely to vote in favor of foreign aid if they are located on the political left, whereas those on the political right will be more likely to vote against it,

² Noël and Thérien suggest that more fundamental differences in the kind of welfare state that developed in different donor countries account for major differences in aid policies across countries. Thérien and Noël (2000) also suggest that the year-on-year variation in the composition of governing coalitions does not fully capture the long-term institutional differences that determine aid policies.

³ Scholars also investigate political determinants other than ideological orientation of donor governments (Dreher et al., 2008b; Kuziemko and Werker, 2006; Boschini and Olofgard, 2002; Mascarenhas and Sandler, 2006).

⁴ Other good predictors are self-reported confidence in the government and satisfaction with people in office.

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