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Why there Should be No Political Foreign Aid Curse

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Summary. — This paper considers the causality underlying the so-called political aid curse, which proposes that foreign aid, like oil, should hinder democracy. Using a theoretical model which identifies repression and appeasement as the primary alternatives to democratization, it argues that aid revenue should not produce a political curse because it is less fungible, more conditional, and less constant than state oil revenue, making it difficult for recipient governments to use their aid to fund either repression or appeasement. Using several different measures associated with repression and appeasement, the statistical results show that aid cannot be associated with any of these dependent variables.

Key words — aid curse, foreign aid, democratization, resource curse, rentier state theory

1. INTRODUCTION

The proposition that foreign aid, much like oil, tends to hinder democracy (the so-called "political resource curse") appears to be a conventional wisdom in certain policy circles. Easterly (2006, chap. 4), Moyo (2009, pp. 52–60) and Deaton (2013, pp. 294–307) all advance a political aid curse argument in their widely cited books. Reflecting this conventional wisdom, Vidar Helgesen, the Secretary-General of the International Institute for Democracy and Electoral Assistance (IDEA), wrote that "it should now be very clear that decades of development aid to corrupt regimes, which bypassed democratic processes in these countries, did nothing more than serve to prop up autocrats and stifle national political debate." [1]

Yet when scholars have tested for the effect of foreign aid on democracy, no clear and robust result has emerged. Djankov, Montalvo, and Reynal-Querol (2008) do find evidence consistent with a political aid curse, as does Ahmed (2012) when he combines aid with remittances. But this latter paper finds no such result for foreign aid alone (Table 3, model 3), consistent with the non-results provided by Knack (2004). Contrary to the aid curse proposition, Wright (2009) finds that aid increases the probability of democratization in larger coalition regimes, following the pro-democracy effect for foreign aid in Africa reported by Goldsmith (2001). But Dunning (2004) shows how the latter result in Africa is limited to the post-1986 period with aid having no impact on democracy from 1975 to 1986. Finally, Morrison (2009) along with Dutta, Leeson, and Williamson (2013) report results in both directions: aid enhances political institutions in already democratic countries, while it has a negative effect on the same in non-democracies.

As this literature review suggests, there are at least two potential versions of a political aid curse. The first argues that aid is bad for political development in all political regimes, both non-democratic and democratic (e.g., Djankov *et al.*, 2008). The first version of the argument largely assumes that all governments use their aid in somewhat similar ways. The second version is that aid is only bad for political development in non-democracies. This second argument effectively assumes that democratic and non-democratic governments use their aid differently; indeed, it includes the possibility that democracies may even use their aid in ways that facilitate political development (e.g., Dutta *et al.*, 2013; Morrison, 2009). It thus becomes important to distinguish more clearly between these two versions, especially given contrary evidence suggesting no political aid curse (e.g., Knack, 2004) and potentially even a political aid blessing (e.g., Goldsmith, 2001).

The wide variation in these results also suggests the need to think more seriously about the causal processes at play. If one is going to argue that foreign aid has any democratization effect (either positive or negative), then it is important to begin with a model of the democratization process and not simply test for a democracy/aid relationship. More specifically, if one wants to argue that aid is like oil in being bad for democracy, then one must show *how* oil has its non-democratic effects and then demonstrate that foreign aid has similar properties. In this regard, it is not enough to claim that aid comes as "unearned income" to recipient governments. This may well be true, but oil revenue is thought to be bad for democracy not simply because it is unearned, or comes without citizen taxation, but because it also has other key properties, namely fungibility, non-conditionality, and constancy (or reliability) over time, potentially allowing petro-governments to use it for citizen appeasement and/or repression (Ross, 2001).

The theoretical gap about how foreign aid is or is not like state oil revenue represents the point of departure for our paper. With a model of democratization and theory about how foreign aid is unlike state oil revenue, we argue that there should not be a political aid curse. On the empirical side, this paper will not present yet another set of democracy/aid regressions in an effort to determine whether or not foreign aid can be associated with a political curse. Instead, our empirical analysis will be focused on intermediate variables with particular focus on repression and appeasement, which models identify as primary strategies allowing autocratic governments to avoid democratization (e.g., Acemoglu & Robinson, 2006; Bueno de Mesquita & Smith, 2010).

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With regard to repression, there has been little research directly examining how aid can be associated with actual repression or if aid has been used to fund the infrastructure that autocratic governments use for repression. With regard to appeasement, there has been some research showing how aid can be associated with increased government spending. For example, Boone (1996) reports a positive relationship between aid and government consumption. But since the latter variable includes spending in a multitude of sectors, this result does not demonstrate that aid has actually funded the public goods that would be necessary to appease citizens who might otherwise mobilize for political change. Indeed, Boone's result has often been cited as evidence showing how recipient governments waste their foreign aid, spending it on pet projects and other private goods, which would be an ineffective way to pacify a large disaffected population looking for greater public goods and other forms of economic redistribution.

The most serious effort toward testing the appeasement strategy to avoid democratization comes from Morrison (2009), whose results show a positive relationship between grants per capita and *social* spending in a sample of dictatorships. While such a relationship is consistent with a story of autocratic governments successfully appeasing their populations, it is also consistent with other propositions. For example, it could be the case that aid is associated with more social spending due to enforced aid conditionality: donors demand that their aid be spent on particular public goods and recipients comply with this demand. It is also consistent with the proposition that foreign aid is relatively *in*fungible. If aid targeted toward social spending simply displaced domestic funds already earmarked for social spending, then one should not be able to observe a positive relationship between aid and social spending. To the extent that aid is both more conditional and less fungible than other forms of "unearned revenue" such as state oil, it becomes more difficult to link aid with a political curse since it lacks some of the key properties necessary to produce this effect.

Starting with an argument about why aid is poorly suited to paying for either appeasement or repression due to aid revenue being less fungible, more conditional, and less constant over time than state oil revenues, this paper further explores intermediate variables related to the political aid curse. Using a variety of dependent variables related to appeasement and repression, we present evidence showing that foreign aid (measured different ways) has no robust effect on any of these indicators within different country/year statistical samples. Our results are inconsistent with either version of the political aid curse: we find no systematic aid curse in a full sample that combines both democracies and non-democracies (the first version), but we also find no robust aid curse in a non-democratic sub-sample (the second version). We thus cautiously conclude that aid does not systematically hurt democracy. Our large-N results do not deny that aid may have hindered democracy in certain special cases (e.g., the Mobutu regime in Zaire), but they strongly suggest that such examples would not be typical of the broader pattern. Based on this understanding, we argue against a *general* political aid curse, but we cannot assert that aid has never produced this effect anywhere.

2. THE ARGUMENT

(a) *A model of democratization*

As mentioned above, if one is going to advance an argument about aid's effect on democratization (including aid having no such effect), then it should begin with a model of political liberalization. Since the literature is already rich with such models, it would not be helpful to create yet another democratization framework specifically for this purpose. Instead, we make use of Acemoglu and Robinson's (2006) model given its prominence within the political-economy literature and because it includes what political scientists have called "rentier state theory," although Acemoglu and Robinson (henceforth A&R) never actually use this term. This latter consideration is especially important because the rentier effect has become the standard explanation for why state oil and other natural resources might hinder democratization (Ross, 2001).

The A&R model begins in an autocratic state where a small group of rich elites hold de jure political power. Since the elites benefit from such a system, they prefer to maintain their autocratic regime. The elite are opposed in this preference by a larger group of poor citizens, who stand to gain a greater slice of the economic pie in a more democratic regime following the logic of the median voter theorem. In this regard, democratization is a means to achieve greater economic redistribution (away from the rich and toward the poor). While the poor population lacks de jure political power, it nonetheless has some de facto political power (as a collective actor) based on its size advantage over the smaller group of rich elites.

Given favorable circumstances helping to overcome the collective action problem (e.g., a political and/or economic crisis), the population could revolt to obtain de jure political power. A revolution would be somewhat costly for the population because it destroys a portion of the economic assets within the national economy, thus reducing the size of the pie that could be redistributed in a post-revolutionary regime. But a revolution would be extremely costly for the rich elite because they stand to lose all of their economic assets via expropriation. Thus, to avoid a revolution (their worst possible outcome), the elite (as a collective actor) have three basic strategies:

(1) acquiesce to the population's demand for a more democratic regime (i.e., democratization),
(2) increase their repression of the population to prevent them from organizing to revolt, and
(3) provide more redistributive concessions to appease the population so that they become more satisfied with the autocratic status quo.

Given these options, democratization (the first strategy) becomes less likely as the elites are better able either to pay the costs associated with repressing the population (the second strategy) or to provide the redistributive concessions necessary to appease the population (the third strategy). In this regard, it is important to note that these two alternatives to democratization—repression and appeasement—are not unique to the A&R framework. For example, selectorate theory (Bueno de Mesquita, Smith, Siverson, & Morrow, 2003) has recently been expanded to take account of how political elites might respond to revolutionary threats from below. As summarized by Bueno de Mesquita and Smith (2010, p. 936), the autocratic state "can increase the provision of public goods [appeasement], thereby improving the welfare of the citizens and diminishing their desire for revolutionary change. Alternatively, leaders can suppress the provision of public goods [repression], particularly such goods as a free press, transparency, and easy communication that help people coordinate and organize."

It is also important to understand that the appeasement strategy, contained within both the A&R model and the expanded version of selectorate theory, represents a more formal version of basic rentier state theory. From its original