

Donor Political Influences on Foreign Aid Composition

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Abstract

The foreign aid literature has often differentiated aid that is motivated by commercial, developmental, or strategic considerations. This paper asks whether changes in donor domestic government ideology lead to changes in support for aid projects that have a more direct commercial versus development purpose. While there is evidence that conservatives are more opposed to foreign aid than liberals, some evidence suggests a more nuanced view is appropriate. I break out effort to fund commercial and development oriented aid using commitment data at the project level. I find that changes in government ideology are correlated with changes in commitments to projects that have a more development purpose whereas no such relationship exists for aid that has a more commercial orientation.

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I. Introduction

Not all foreign aid is the same and not all donor governments give foreign aid for the same reason. The academic literature on foreign aid frequently differentiates commercially motivated aid, aid that is more developmental or humanitarian in orientation, and aid that serves geopolitical purposes.² In democratic systems, what donor governments want to use foreign aid for (if they want to use aid at all) can vary by what political coalitions are in power. Foreign aid is a tool of statecraft and while it may be more or less popular to partisans of whatever persuasion, it represents a valuable tool that no modern developed democracy has foresworn. This paper examines the connection between domestic political variables and different types of foreign aid. To do so I measure the liberal-conservative orientation of donor governments over time and link these changes to total commitments towards aid projects that are more or less commercially versus developmentally oriented. The analysis makes use of a unique new data set of project level aid commitment data from the Project Level AID (PLAID) database.

The literature relating politics and foreign aid ranges in emphasis from themes like aid effectiveness and allocation across countries (Alesina and Dollar, 2000; Boone, 1996; Burnside and Dollar, 2000; Clemens et al., 2004; Maizels and Nissanke, 1984; McKinlay and Little, 1977) to the influence of domestic politics in donors on aid policy (Fleck and Kilby, 2001; Fleck and Kilby, 2006; Irwin, 2000; Lancaster, 2007; Macdonald and Hoddinott, 2004; Milner and Tingley, 2007; Noel and Therien, 1995; O'Leary, 1967;

² Though more recent accounts provide a more nuanced perspective, such as Bermeo's concept of strategic development (Bermeo, 2008).

O’Keefe and Nielson, 2006; Rieselbach, 1966; Ruttan, 1996; Therien and Noel, 2000).

This latter literature suggests that political parties and domestic political institutions play an important part in shaping foreign aid policy, which is not surprising given a larger comparative political economy literature on the role of political parties and their ideological orientation in shaping foreign economic policies (Bearce, 2003; Boix, 1998; Broz, 2008; Garrett, 1998; Tavits and Letki, 2009).

Two recent contributions to the donor politics and aid literature present results that relate the influence of donor country liberal conservative ideology on the developmental versus commercial orientation of aid. Fleck and Kilby (2006) find that during periods of Republican control of the United States Congress, foreign aid programs were driven more by commercial interests. When Democrats control the presidency and Congress, development concerns govern aid allocation more than when the Congress and/or Presidency are controlled by Republicans. Also, geopolitical interests get more weight with a conservative president. Thus, the relationship between ideology and foreign aid policy may depend on the economic and strategic characteristics of recipients. Tingley (2010) finds in a time series cross-sectional analysis that donor country ideological changes had an influence on aid effort (the percentage of aid relative to GDP) in low income countries (LDC/OLIC) but not medium income countries (LMIC/UMIC). If aid to low income countries is more development oriented and aid to middle income countries more commercially oriented then conservative opposition to aid may be more muted insofar as it helps facilitate international trade.

The current paper subjects these findings to an additional test. I classify aid flows at the project level to either a development or commercial category using reporting codes

provided by the OECD/DAC Creditor Rating System (CRS). Doing so has several key advantages over the previous works. First, Fleck and Kilby proxy the influence of commercial interests not through the type of aid itself but by the economic relationship between the US and the recipient country in terms of trade flows. Second, Tingley breaks out aid into the income categories of recipient countries but this does not mean that the actual flows of aid were motivated by commercial or development interests, only that the aid flowed to countries more or less in need of basic development support. It is possible that these approaches to measurement mask or exacerbate statistical relationships.

The present study provides some corroborating evidence for both findings. Flows of aid towards development projects are correlated with the ideological orientation of donor governments. Liberal governments commit larger development project budgets than do conservative ones. However, changes in aid flows to projects with a more commercial orientation appear unaffected by changes in donor political orientation. These findings though must be caveated in several important respects. I aggregate across recipient countries whereas a key feature of Fleck and Kilby was the directed dyadic nature of the analysis. I also rely on CRS project codes and an educated (admittedly) guess about whether a project category fulfills a more development or commercial orientation.

The rest of the paper proceeds as follows. First, I review some of the literature on donor domestic politics and foreign aid. Next I discuss some findings and arguments that liberal and conservative governments approach foreign aid in different ways and how this might lead to changes in the types of projects that are funded. The empirical section

presents the data and estimates a set of time-series cross-section models. A final section concludes.

II. Literature Review

In this section I briefly review some of the existing work on the influence of domestic politics in donor countries on foreign aid. The foreign aid literature has often focused less directly on donor politics and hence this discussion helps setup the present study's focus. I show that much of the literature that does focus on donor level politics abstracts away from the fact that different domestic political groups might prefer, or be less hostile to, different types of foreign aid.

One prominent line of analysis in the study of donor domestic political influences on foreign aid considers how states externalize domestic norms about redistribution (Lumsdaine, 1993; Noel and Therien, 1995; Therien and Noel, 2000). This tradition has used between country analysis of aggregate foreign aid budgets or public opinion surveys and shows that countries with more established liberal regimes for redistribution engage in a higher degree of aid effort. For Noel and Therien especially, the role of partisanship is only indirect, and instead works through domestic regimes for redistribution. Round and Odedokun (2004) find a relationship between "pro-poor" policies in the donor and subsequent aid budgets, but no influence of a discretized ideology score [-2,2] taken by adding ideological classifications of the executive and legislative branches (Beck et al., 2000).

Other papers focus on the role of partisan politics more directly. Noel and Therien (1995) found little relationship in the between country analyses between liberal-

conservative governments and aid effort, Breuning (1995) and Imbeau (1989) find only mixed results on the relationship between ideology and foreign aid budgets, and Lundsgaarde et al. (2007) find no relationship (though they oddly estimate models with multiple ideology proxies in the same model). More recently Chong and Gradstein (2008) find mixed results using a dummy variable for whether the party in control of the executive is coded as “left-wing” while Tingley (2010) finds using a within country analysis that continuously measured liberal-conservative changes in governments correlate with changes in foreign aid effort.

Several studies point out that the motivation for giving aid may differ across the liberal-conservative spectrum. Kilby and Fleck (2006) find that Republican governments in the US are more strategic and commercially oriented while Democrats are more oriented towards development. Tingley (2010) found that the effect of changes in ideology were limited to aid to low income countries. MacDonald and Hoddinott (2004) provide anecdotal evidence that conservative governments in Canada favored using aid to bolster commercial relations whereas liberal governments were more development oriented. Conversely Moss and Goldstein use commitments to Africa from the United States to suggest that Republicans in fact may be more generous than Democrats (Goldstein and Moss, 2005; Moss, 2007).

Hence there is clearly debate on the exact influence of domestic politics in donor countries on foreign aid policy. In the next section I provide a preliminary discussion that focuses on why political cleavages might be more salient regarding some types of aid versus others.

III. Political Ideology and Preferences for Different Types of Aid

A number of papers find that conservatives are generally less supportive of foreign aid whereas liberals are more supportive (Chong and Gradstein, 2008; Lumsdaine, 1993, pgs. 144, 153; Milner and Tingley, 2008, 2010). However, these studies may miss a more nuanced relationship. Ideological differences may also translate into differences in preferences over the type of aid that is given. For example, it is well known that conservatives in the US are more supportive of military aid than are liberals. Are these differences evident when one distinguishes between aid that is commercially versus developmentally oriented?

There is some mixed evidence for this association in several English speaking OECD/DAC countries.³ In the aftermath of the Pergau Dam scandal in the United Kingdom⁴ the Labour party actively campaigned against the Conservative government's active support of commercial priorities (versus developmental ones) in foreign aid. An emphasis on the developmental use of aid was central in Labour's manifesto (Burnell, 1998) but the issue of foreign aid was absent from the Conservative manifesto. Capitalizing on their election victory, they released a November 1997 White Paper that called for the abolition of the Aid and Trade Provision, which facilitated the use of aid for commercial purposes (White_Paper, 1997). British commercial lobbies were vocally opposed to the reforms (ActionAID, 1998, pg. 25). According to Morrissey "the core business demand is that the aid budget should be guided by commercial considerations so that it has an export orientation... [and] should be directed to capital projects in the richer

³ I do not take normative position on whether commercial versus development aid is better nor do I argue that one is more efficient or otherwise better for achieving any end. The current paper only investigates correlates of preferences for particular types of aid.

⁴ This scandal involved funding a dam project in Malaysia with the expectation of Malaysian authorities also purchasing UK made military equipment and other commercial transactions.

developing countries." (Morrissey, 1996, pg. 6). Liberal opposition to Conservative policies against development assistance continued after the fall out of the Pergau Dam scandal (MacShane, Dec 10th 2003). In Canada the conservative Mulroney government saw aid as a way to open up export markets for Canada and facilitate world trade. But the following more liberal Chretien appears to have diverted aid away from poor regions like sub-Saharan Africa to Latin American countries where Canada had commercial interests and both liberal and conservative governments have emphasized commercial objectives in Canadian foreign aid policy (Pratt, 1996). Finally, a recent survey by the author and Helen Milner asked respondents to allocate economic aid between a poor country that the US trades very little with and a richer country that the US trades more with.

Conservatives on average preferred to give more aid to the richer country, controlling for a range of other individual covariates. It is possible that respondents may have imputed other characteristics about the countries, such as the strength of their political institutions, and choices were made with these differences in mind and not the poverty or current trading relationship. Nevertheless this is suggestive of differences in liberal and conservative preferences over the use of foreign aid.

Conservative opposition to aid in general has often been explained by an opposition to intervention in the domestic economy. In principle this might extend to opposition to intervention at the international level. However, as appeared to be the case in the UK, if commercial interests favor intervention to give them greater market access overseas then there may be political incentives for conservatives to support such aid insofar as they rely more on the support of domestic commercial groups. Furthermore,

the desirable features of developing commercial exchange (such as promotion of market principles) may lessen conservative opposition to aid if it takes a more commercial form.

Conservative support for more basic forms of development assistance may be lower for several reasons. Aid of this form might tend to be sent to countries with lower levels of development and hence have worse political and economic institutions. Aid on this account would simply be wasteful government spending. Furthermore, aid with more basic development purposes could be seen as analogous to types of redistribution that conservatives oppose domestically.

Liberals preferences might differ. First, if foreign aid is an externalization of domestic redistributive norms then it should look more like support towards housing, education, and nutrition. Conversely, aid that is designed to build up commercial capacity might draw more opposition from liberal groups, insofar as they see this aid as drawing away from more basic social/health outcomes. However, liberals might be willing to accept some amount of commercial aid insofar as it leads to employment for domestic constituents.

Counter arguments

While the preceding discussion sets apart liberal and conservative priorities on the use of foreign aid there are of course reasons to suspect that these differences are overdrawn or are at least subject to dilution. In the US, Busby (Busby, 2007) argues that the developmental needs surrounding Africa and other countries especially ravaged by HIV/AIDS and other afflictions galvanized even Jesse Helms, long known to be a staunch opponent of foreign aid, during the late 1990s. Busby argues that religious beliefs played a strong role in this process. More recently the British Tory party (conservative)

released a major Green paper where they outlined the conservative approach to foreign aid. Many of the principles behind this approach parallel the US's Millennium Challenge Corporation, and there appears to be ample dedication to fundamental development projects like education and governance. Interestingly, though, some commentators wonder if this approach will resonate with conservative voters who are upset that funds towards defense are being diverted to development assistance (Economist, 2010). This suggests that, like with many issues, the priorities for giving aid can change over time. While the data I analyze below do not include these more recent developments in Britain, to the extent that conservatives have warmed up to development assistance I should expect less correlation in the observed data between government ideology and development spending.

Given the preceding discussion my hypotheses are two-fold. First, more conservative governments should engage in less effort towards development assistance than governments that are more liberal. Second, the hypothesized relationship in the first hypothesis should be substantially weaker for aid projects that have a more commercial orientation.

IV. Data Analysis

Dependent Variables

I use two different dependent variables. The first measures total commitments to developmental projects and the second measures total aid commitments to projects that receive a commercial designation. To construct these measures I first categorized aid projects by whether they fell into the development or commercial categories based upon

the assigned two digit Creditor Reporting System (CRS) measure. The particular categorization presented in the below table is necessarily ad hoc but largely fits intuitions of development versus commercial oriented aid.⁵ Both measures are extracted from the PLAID database which means that the underlying unit of analysis is at the project level. In each donor country each project's constant dollar commitment value is then aggregated within each category for each year. Following Tingley (2010) I scale this by the country's GDP to obtain the aid effort for both commercial and development aid. To ease presentation in the regression analyses I scale this variable by 100.⁶

| CRS code | Description |
|----------|---|
| | DEVELOPMENT CATEGORIES |
| 11 | Education |
| 12 | Health |
| 13 | Population Policies/ Programmes and Reproductive Health |
| 14 | Water Supply and Sanitation |
| 15 | Government and Civil Society |
| 16 | Other Social Infrastructure And Services |
| 41 | General Environmental Protection |
| 42 | Women |
| 52 | Development Aid/Food Security Assistance |
| 70 | Humanitarian Aid |
| 72 | Emergency Response |
| 73 | Reconstruction Relief |
| 74 | Disaster Prevention and Preparedness |
| 92 | Support to Non-Governmental Organizations and |

⁵ This procedure is, of course, rough, unscientific, and otherwise lacking. Conversations with a range of persons, including experts on the PLAID team, suggest that the categorization is reasonable. Suggestions for changes welcome. I exclude debt relief, administrative costs to donors, NGO support, and unallocated/unspecified projects.

⁶ Future work could explore alternative specifications, such as the ratio of the development and commercial variables. Debt relief, administrative costs for donors, and unallocated/unspecified projects are excluded. My broad categorization is similar to the categorization scheme used by Clemmens et al. (2004) in breaking down aid into short and long term categories. Those authors distinguished aid based largely on whether growth effects would plausibly occur before or after a four year window. There are a number of other differences between the current paper and this earlier work and so any direct comparisons should be made with caution. It is unclear at this point why liberal and conservative governments might have different preferences over long term aid but not short term aid. My thanks to Sarah Bermeo for calling these issues to my attention and future versions of the paper will address them more directly. I did use the PLAID data to calculate measures based upon Clemmens et al., however, using their classification scheme ultimately left many projects unclassified and hence I did not conduct further analysis until this is explained.

| | |
|----|--------------------------------------|
| | Government Organizations |
| 99 | Development Awareness Promotion |
| | COMMERCIAL CATEGORIES |
| 21 | Economic Infrastructure and Services |
| 22 | Communications |
| 23 | Energy Generation and Supply |
| 24 | Banking and Financial Services |
| 25 | Business and Other Services |
| 31 | Agriculture, Forestry, Fishing |
| 32 | Industry, Mining, Construction |
| 33 | Trade policy and regulations |
| 43 | Other (Multi-Sector/Cross-Cutting) |
| 51 | General Budget Support |
| 53 | Other Commodity Assistance |

Figure 1 plots the average commercial and development aid effort across all countries for each year. On average aid effort for commercial projects was higher during the 1970s and 1980s, but development projects appear to have increased in more recent years. This finding matches observations by some observers that aid has become increasingly development oriented since the end of the Cold War even though this development focus still has a strong strategic component (Bermeo, 2008).

Before carrying on to the key explanatory variables I briefly discuss patterns in aid from multilateral organizations instead of bilateral commitments. The focus of the paper is not on multilateral institutions, but it is important to keep in mind what these institutions were doing lest there is any sort of active substitution across the development and commercial categories as a function of bilateral preferring to pursue one type of aid and delegating the other type to multilateral institutions. Of course the CRS never coded projects for multilaterals and there is nothing analogous to a donor's level of GDP with which to calculate effort in each category. Figures 2 and 3 use new data from the PLAID to examine trends in development and commercial projects amongst several major

multilateral institutions.⁷ While these figures are not central to the current investigation at this point, they do show a similar pattern as in the aggregate bilateral data. Namely, the dedication towards development spending has increased over time. Figure 2 plots the ratio of annual development category commitments to total project level commitments for the Asian Development Bank (ASDB), the African Development Bank (AFDB), the World Bank's International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD), and the International Monetary Fund (IMF). Figure 3 plots total spending in the development and commercial categories by year for each of these institutions.

Independent Variables

Ideology

The liberal-conservative ideology of governments and others who influence aid spending is latent and not directly observed. To proxy this variable I rely on a common underlying data source: the Comparative Manifestos Project (CMP) (Budge et al., 2001; Klingemann et al., 2006). The CMP coded party manifestos during election years for every donor country election on a number of fields, each based on several components. Some of these fields relate to positions on freedom and democracy and others on policies towards external relations. I focus on the economic field because this most directly captures the economic concept of ideology, i.e., the role of the government in the economy, which seems fundamental to many comparative analyses and interpretations of liberal-conservative ideology. This field scored the importance of free enterprise system,

⁷ The PLAID team coded projects using a system that subsumes the CRS system I employed previously to differentiate aid projects.

market regulation, government facilitation of productivity, demand management, and other ways governments could be involved with the economy.

To create ideology scores I use two different procedures that both work by generating ideology scores for each party and then translating these into some country level measure. The two methods differ simply by the way parties are scored. The first procedure draws on the procedure advocated by Gabel and Huber (2000) which extracts the first dimension of a factor analysis of all components of the economic field of the CMP data set. Then regression scores are calculated that place each party along the factor which are then rescaled to place governments onto a 0-10 scale, with higher values representing more conservative governments. This index of ideology is continuous, focuses on the role of government in the economy, uses stated policy positions of the parties, and can vary over time. I also provide estimates that use all manifesto fields.

The second procedure follows a slightly different procedure for scoring parties. In a recent analysis Tavits and Letki (2009) calculate party ideology scores by taking the difference between a set of “right wing” economic policy fields and “left wing” economic policy fields. This entails adding up scores on two sets of CMP fields and taking their difference. Unlike their analysis I do not use a set of additional CMP fields that were created for post-Communist countries because the main release of the CMP data does not include these fields and my analysis does not concern these countries. The results show that both measures produce similar results.

Given the individual party scores from both scaling procedures, how should we aggregate these to the country level? I use two techniques. The first is a single partisanship score for each group of parties responsible for executive control of the

government. After I identify each party that was part of the government and I weight their ideology score by the percentage of votes received relative to the total votes received by all parties in government. The government's ideology score is then the weighted sum of the ideology scores of parties in government.⁸ A second variable is the vote weighted average of all party ideological scores in an election. This differs from the government level measure in that while the government might be composed of a subset of parties, aid budgets could still be influenced by the ideological positions of parties outside of the government. Using both scaling procedures I calculate ideology scores for both governments and countries as a whole, with the expectation that the government level scores will have the largest effect.

Control Variables

International Economic Position

Donor country trade positions may influence aid patterns due to the use of aid to impact the economic policies of recipients, especially the openness of the recipient economy to international trade (Alesina and Dollar, 2000; Heron, 2008; McKinlay and Little, 1978). Donors that rely more on trade—irrespective of their ideological orientation—may see foreign aid as a useful tool to promote trade and hence this could effect funding for commercially oriented projects. It is less clear why a country's trade position would influence changes in development project spending. I use a measure of how exposed a country is to trade, *Openness*, which is measured as $(\text{Exports} + \text{Imports}) / \text{GDP}$.

⁸ I determined parties in government using Woldendorp et al. (2000) and various issues of the Political Data Yearbook, published by the European Journal of Political Research. In cases where there were multiple governments in one year I use the configuration of parties that was in power for the most time, though Tavits and Letki suggest a procedure to incorporate duration of party control within the entire year.

Economic Health

Development spending may increase if a country's domestic economic circumstances improve. Such assistance may be seen as more acceptable if there are less redistributive demands at home. Commercial project might receive more support with economic improvements, though the existing evidence is that aid is not pro-cyclical from the donor's perspective (Pallage and Robe, 2001). I measure the economic health with the real GDP growth rate, *GDPGrowth*. The predicted coefficient for this variable is positive.

Cold War

Geo-political circumstances might influence the type of projects being funded. Some have argued that aid practices were more strategically oriented during the Cold War. The commercial and development projects described above may differ in how well they serve strategic interests. Commercial aid might, for example, be better suited to supporting particular governments as opposed to development aid that would be more public goods oriented. If this is true we might expect higher (lower) expenditure on commercial projects during (after) the Cold War and the opposite for development aid. To control for differences in aid effort patterns during the two eras I include a dummy variable equal to 1 if the year is less than 1991 and 0 otherwise.

Statistical models and analysis

The available data for most countries range from 1973 to 2004. I use a time-series cross-sectional data set with observations at the country-year level for OECD/DAC with

time series over several decades.⁹ I analyze within country changes by estimating models in first differences. Donors can decide whether to change commercial or development aid effort levels and these levels can either be increased, decreased, or kept the same.

Changes in government ideology can bring in decision-makers with different preferences over the type of foreign aid to be used. These changes in the ideological composition of governments can lead to changes in aid budgets, which others show can happen quite quickly (Fleck and Kilby, 2006, pg. 213). First differencing is a straightforward estimation strategy and also eliminates any unobserved unit-specific effects that are fixed over time,¹⁰ leading to a regression equation of the form:¹¹

$$\Delta y_{it} = \beta_{ideo} \Delta Ideo_{it} + \Delta \mathbf{x}_{it} \boldsymbol{\beta} + \Delta u_{it}$$

This estimating equation differences all explanatory variables though in the models I present I include an interaction between the Cold War and time. In a first differenced model this amounts to a dummy variable indicating whether the time period was during the Cold War or not and hence allows for different time trends pre and post-Cold War in terms of effort levels. The *GDPGrowth* variable is already differenced and hence I enter this directly into the model.

I also present estimates from a fixed-effects model to account for limitations of a first differenced model. Changes in government ideology may not lead immediately to changes in foreign aid effort and the project level aid commitment data are aggregated at the annual level, obscuring finer level temporal variation. A fixed-effects model

⁹The sample includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, and the United States

¹⁰ Alternatively more complicated lag-structures or an error-correction model might also be used.

¹¹ Consistent estimation requires that time period by time period changes in explanatory variables are independent of normally distributed error terms with mean 0 and variance σ^2 , the standard strict exogeneity assumption $E(u_{i,t} | \mathbf{x}_i) = 0$, and no time constant explanatory variables.

considers deviations from within-country means and relaxes the assumption of independence between changes in independent variables and changes in residuals. This is equivalent to a model where the variables have been time demeaned, and hence we have:¹²

$$y_{i,t} - \bar{y}_i = \beta_{ideo}(Ideo_{it} - \overline{Ideo}_i) + (x_{it} - \bar{x}_i)\beta + u_{it} - \bar{u}_i$$

An advantage of a fixed effect model is that it might pickup the influence of variables that are not immediate. To the extent that the two methods generate different substantive results then we should be concerned about the strict exogeneity assumption whereas if the results are similar we can be more confident in the estimates (Wooldridge, 2002, pg. 284). As with most observational data analyses without tools for exogenous identification trends in the data may be correlational and not causal. Both models estimated using OLS and robust standard errors clustered at the country level. The key ideological variables are predicted to be negative $\beta_{ideo} < 0$ but that this effect should be stronger for development aid than for commercial aid.

Results

I present results for a series of models in tables Tables 1-4. Tables 1 and 2 present results for commercial aid effort whereas table 3 and 4 present results for development effort. While the ideology variables have little to no influence on commercial aid effort several of the ideology variables are correctly signed and significant for the development effort models.

¹² I use a lagged dependent variable though allowing the residual to follow an AR1 process yields similar results.

In particular, the variables measuring liberal-conservative economic ideology of parties in control of the government had the strongest negative impact on development effort. The broader measure of ideological orientation of either the government or all elected parties generally had an insignificant negative effect. Hence a more focused notion of liberal-conservative ideology, like that discussed in (Tavits and Letki, 2009) and (Tingley, 2010), has the most precisely measured effect, but only when the measure is restricted to those parties with the strongest hold on political power in a country (i.e., those who comprise the government). The alternative measures of ideology, based on the recent work by Tavits and Letki (2009), also suggest a similar pattern. These results generally hold up in both the first differenced and fixed-effects models, giving more confidence in the results.

These findings support the earlier findings by Fleck and Kilby (2006) who found that conservative US governments were more supportive of aid with countries where the US had more active commercial relationships whereas liberal governments appeared to be more development oriented. The results are also consistent with Tingley (2010) who found that changes in liberal-conservative ideology had little effect on commitments to LMIC and UMIC countries but a large effect on aid effort to poorer countries. The present evidence is the first to consider the actual content of the aid project as opposed to the characteristics of the recipient country.¹³

Control Variables

¹³ The development category also includes what some might consider to be more humanitarian in nature. Breaking out the Development Aid/Food security assistance, humanitarian aid, emergency response, and reconstruction relief categories generally showed a similar pattern to the aggregated development category, but the results were not quite as strong or as precisely estimated.

Consistent with the pattern displayed in Figure 1, the fixed-effect models reveal higher levels of spending on commercial projects and lower levels of spending on development projects during the Cold War.¹⁴ This is consistent with other research (Bermeo, 2008), though it is interesting that the first-differenced models do not show this relationship.¹⁵ One surprising finding is that the Openness variable is negative and highly significant in the fixed-effect model with commercial projects. This potentially suggests that when economies are more sealed off from world trade there is greater effort to use aid for commercial projects. These efforts are perhaps substituting for opportunities that otherwise would be available through more established trading relations.

Additional Models

The key dependent variable in the above analyses deals with aid effort in the development and commercial categories. An alternative approach would be to look at the ratio of development or commercial project commitments to total aid spending. Tables 5 and 6 estimate models where the dependent variable is the ratio of development or commercial project spending as a percentage of total aid spending using two of the government level economic ideology variables and the same set of controls as explanatory variables. While several ideology coefficients are less significant the same pattern emerges as was seen in models using aid effort. Furthermore the control variables also take on a similar pattern of correlations.

¹⁴ Of course the fixed-effects models are estimated on the within country deviations from time means.

¹⁵ An alternative interpretation is that there have been trends over time in what bilateral donors focus on and these trends correspond to structural breaks like the end of the Cold War but are not caused by this difference at the system level in the international system. Furthermore, the present analysis ignores the fact that bilateral donors might also be pushing multilateral agencies to engage in some forms of aid versus others. Future work should consider the relationship between multilateral and bilateral funding as well as how different priorities get pursued in through each channel of aid.

Substantive Effects

I now consider the substantive impact of the economic ideology variables for each aid category. To calculate substantive effects I first estimate the first differences model 1 in tables 1 and 3. Next, I calculate the mean and standard deviation by country for each variable. This gives us average changes for the differenced variables. Predicted changes in aid effort for each country were then calculated by using the estimated coefficients, the country specific means, fixing *ColdWar* to 1,¹⁶ and then taking the predicted differences of varying the ideology measure. In this case the change in *GovtIDeo* is measured at the mean rate of change and one standard deviations lower in a more liberal direction. These country specific changes in aid effort are then multiplied by the country's mean GDP and scaled by 100 to return us to the total project spending in 2000 constant US dollars. Figures 2 and 3 present the results for commercial and development project spending. The effect of changes in ideology on commercial effort remains lower than the effect of development effort.

V. Conclusion

Recent research emphasizes the role of domestic politics in donor countries in determining foreign aid policy. Studies of public opinion and legislative voting show that conservatives are generally more opposed to foreign aid than are liberals. However, this support may depend on the type of foreign aid under consideration. Foreign aid can be thought of as a foreign policy tool and hence a priori governments of any ideological orientation may want to use it. This paper shows that changes in donor governments are

¹⁶ Results are similar if *ColdWar* is set to 0.

more likely to impact aid projects that are more development oriented whereas projects that have a more direct commercial bearing are less likely to change. These results are somewhat consistent with some previous findings in the literature (Fleck and Kilby, 2006; Tingley, 2010).

Future work should proceed on several fronts. First, studies of donor domestic politics should continue to disaggregate aid (Bermeo, 2008; Clemens et al., 2004; Milner and Tingley, 2010) and understand that support can depend on the exact nature of the aid itself. Future work could examine preferences across political and economic cleavages by asking about multiple different types of aid. Data from the PLAID project might even be used to have individuals evaluate what types of projects they would like to see funded. Second, there should be further theoretical elaboration of why liberals and conservatives might prefer different types of aid. Finally, the present analysis could be extended to a dyadic format to take into account the characteristics of the recipient characteristics instead of just the project level differences.

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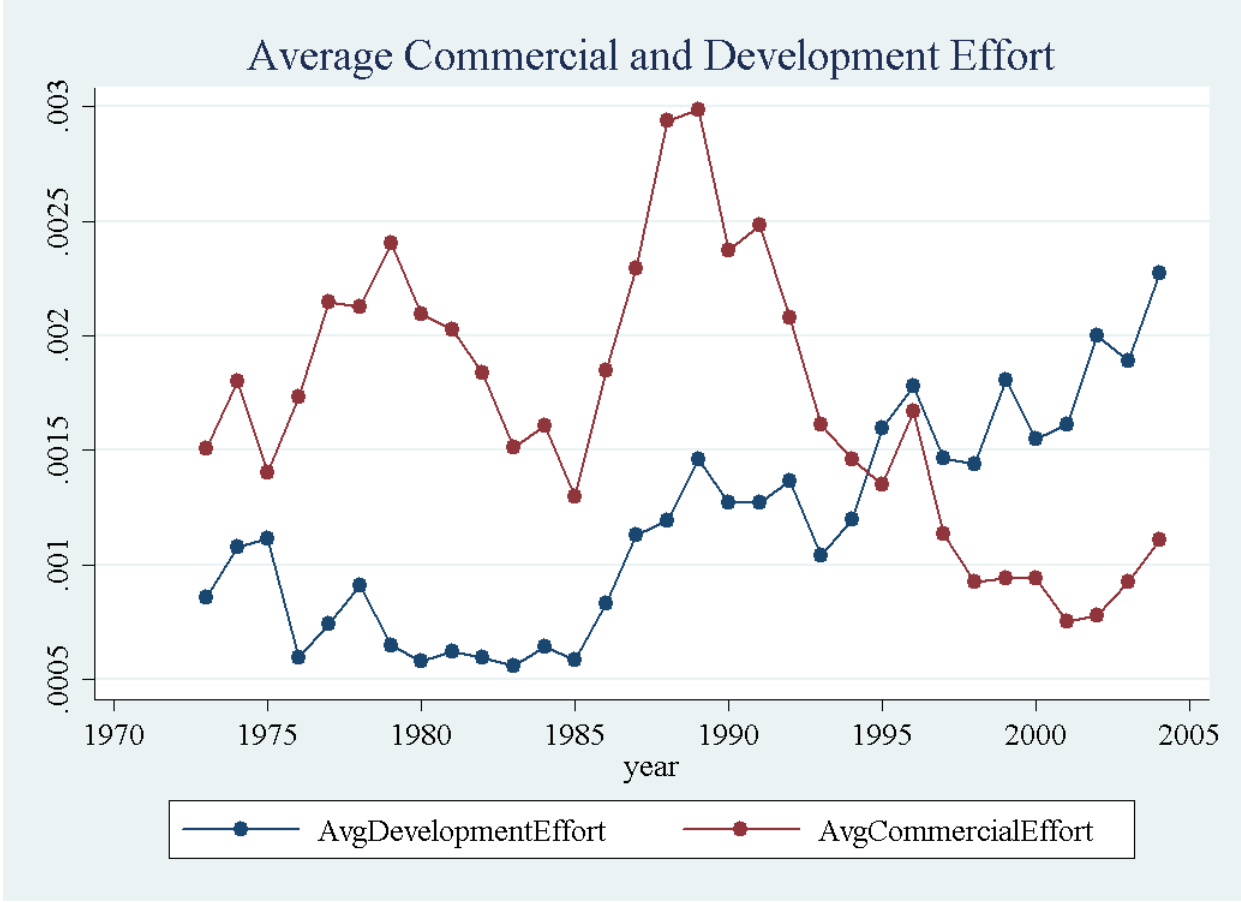


Figure 1: Across country average of commercial and development aid effort. Effort is total spending in either category divided by country GDP.

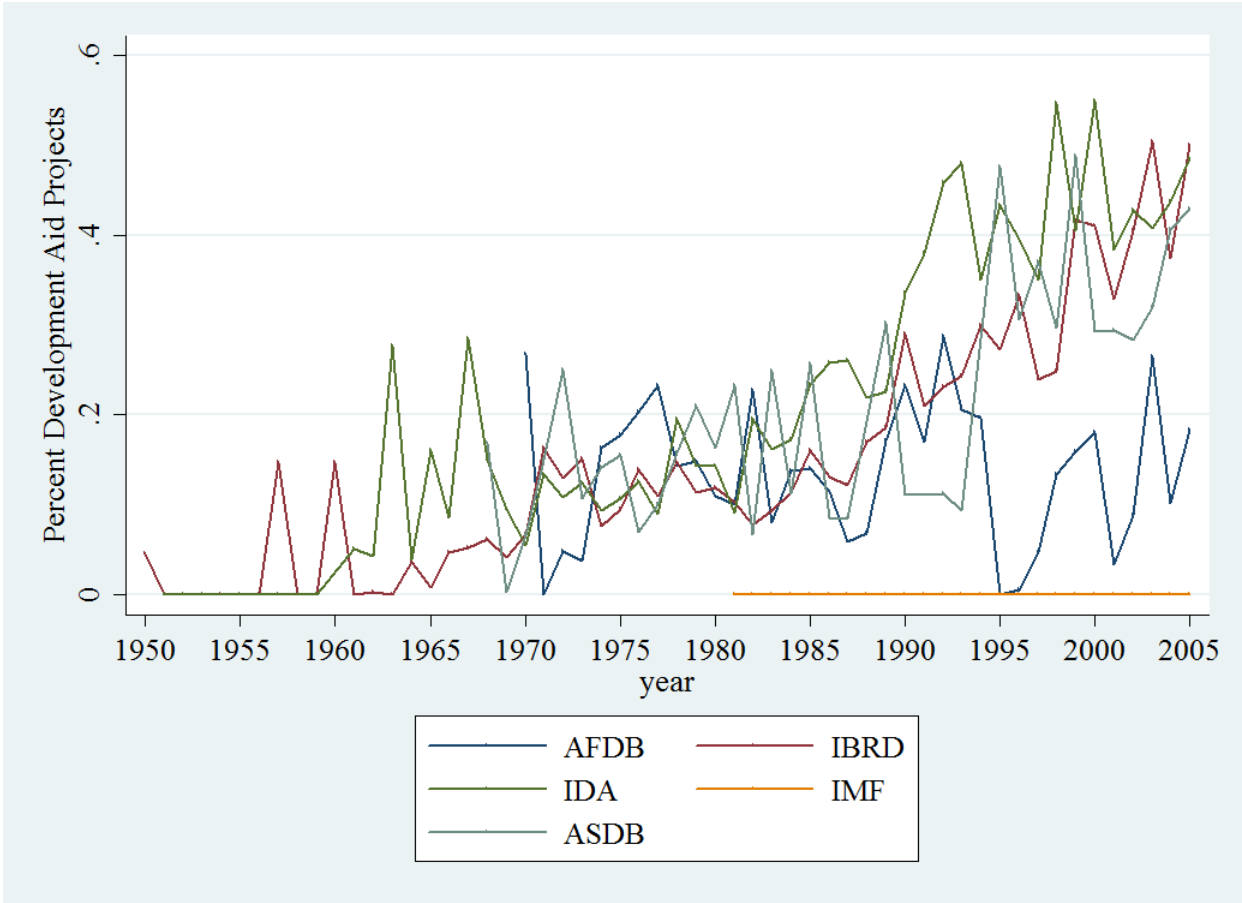


Figure 2: Total project value in development category as a function of total aid spending by major multilateral bank.

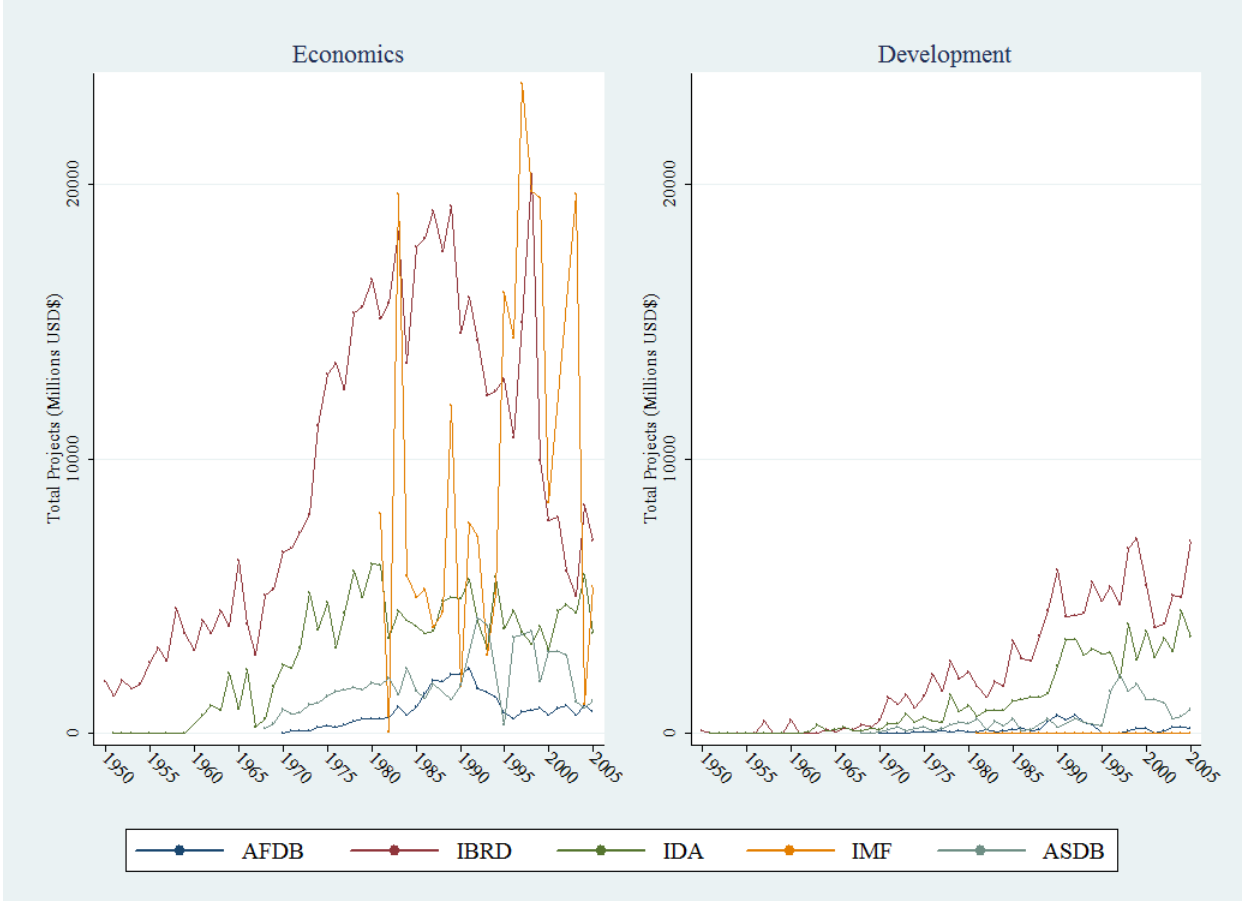


Figure 3: Total commitments for commercial and development projects by multilateral institutions.

Table 1: Commercial Projects, First Differences, OLS with SE Clustered By Country

| | 1 | 2 | 3 | 4 | 5 | 6 |
|-----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| D.IdeoGovt-Econ | -0.015 [0.010] | | | | | |
| D.IdeoGovt | | 0.005 [0.005] | | | | |
| D.IdeoAll-Econ | | | -0.024 [0.018] | | | |
| D.IdeoAll | | | | 0.007 [0.008] | | |
| D.TavitsGovt | | | | | -0.001+ [0.001] | |
| D.TavitsAll | | | | | | -0.003+ [0.001] |
| D.Openness | 0.000 [0.002] | 0.000 [0.002] | 0.000 [0.002] | 0.000 [0.002] | 0.000 [0.002] | 0.000 [0.002] |
| GDPGrowth | 0.335 [0.193] | 0.328 [0.193] | 0.331 [0.202] | 0.328 [0.193] | 0.285 [0.183] | 0.256 [0.186] |
| ColdWar | 0.023* [0.010] | 0.022* [0.010] | 0.023* [0.010] | 0.022* [0.010] | 0.023* [0.010] | 0.025* [0.011] |
| Constant | -0.020* [0.009] | -0.020* [0.009] | -0.020* [0.009] | -0.021* [0.009] | -0.020* [0.009] | -0.020* [0.009] |
| Observations | 482 | 482 | 482 | 482 | 482 | 482 |
| R2 | 0.020 | 0.017 | 0.019 | 0.017 | 0.026 | 0.030 |

Standard errors in brackets

+ p_i0.10, * p_i0.05, ** p_i0.01

Table 2: Commercial Projects, xtreg w/ country FE's

| | 1 | 2 | 3 | 4 | 5 | 6 |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| L.CommercialEffort | 0.509** [0.044] | 0.509** [0.044] | 0.509** [0.044] | 0.507** [0.044] | 0.508** [0.045] | 0.512** [0.044] |
| IdeoGovt-Econ | -0.006 [0.004] | | | | | |
| IdeoGovt | | 0.006 [0.004] | | | | |
| IdeoAll-Econ | | | -0.009 [0.010] | | | |
| IdeoAll | | | | 0.015+ [0.008] | | |
| TavitsGovt | | | | | -0.001 [0.001] | |
| TavitsAll | | | | | | -0.001 [0.001] |
| GDPGrowth | 0.158 [0.164] | 0.179 [0.164] | 0.178 [0.167] | 0.156 [0.171] | 0.137 [0.152] | 0.167 [0.162] |
| Openness | -0.002* [0.001] | -0.002* [0.001] | -0.002* [0.001] | -0.003* [0.001] | -0.003* [0.001] | -0.002* [0.001] |
| ColdWar | 0.024+ [0.011] | 0.029* [0.012] | 0.024* [0.011] | 0.033* [0.012] | 0.023+ [0.011] | 0.023+ [0.011] |
| Constant | 0.255** [0.068] | 0.173* [0.064] | 0.267** [0.076] | 0.127+ [0.064] | 0.221** [0.062] | 0.212** [0.059] |
| Observations | 482 | 482 | 482 | 482 | 482 | 482 |
| R2 | 0.413 | 0.415 | 0.413 | 0.416 | 0.418 | 0.415 |

Standard errors in brackets

+ p_i0.10, * p_i0.05, ** p_i0.01

Table 3: Development Projects, First Differences, OLS with SE Clustered By Country

| | 1 | 2 | 3 | 4 | 5 | 6 |
|-----------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| D.IdeoGovt-Econ | -0.043* [0.016] | | | | | |
| D.IdeoGovt | | -0.018 [0.012] | | | | |
| D.IdeoAll-Econ | | | -0.062+ [0.030] | | | |
| D.IdeoAll | | | | -0.018 [0.018] | | |
| D.TavitsGovt | | | | | -0.002+ [0.001] | |
| D.TavitsAll | | | | | | -0.003 [0.002] |
| D.Openness | -0.002 [0.001] | -0.002 [0.001] | -0.002 [0.001] | -0.002 [0.001] | -0.002 [0.001] | -0.002 [0.001] |
| GDPGrowth | 0.387+ [0.214] | 0.357 [0.218] | 0.377 [0.216] | 0.359 [0.217] | 0.299 [0.188] | 0.283 [0.197] |
| ColdWar | -0.001 [0.006] | -0.003 [0.006] | -0.001 [0.006] | -0.003 [0.006] | -0.000 [0.006] | 0.000 [0.007] |
| Constant | -0.002 [0.007] | 0.000 [0.006] | -0.002 [0.007] | -0.000 [0.007] | -0.000 [0.006] | -0.001 [0.006] |
| Observations | 482 | 482 | 482 | 482 | 482 | 482 |
| R2 | 0.050 | 0.026 | 0.036 | 0.014 | 0.042 | 0.035 |

Standard errors in brackets

+ p_i0.10, * p_i0.05, ** p_i0.01

Table 4: Development Projects, xtreg w/ country FE's

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| L.DevelopmentEffort | 0.522** [0.058] | 0.528** [0.057] | 0.520** [0.059] | 0.527** [0.057] | 0.512** [0.054] | 0.515** [0.057] |
| IdeoGovt-Econ | -0.018* [0.007] | | | | | |
| IdeoGovt | | -0.004 [0.006] | | | | |
| IdeoAll-Econ | | | -0.026+ [0.013] | | | |
| IdeoAll | | | | 0.004 [0.009] | | |
| TavitsGovt | | | | | -0.001+ [0.001] | |
| TavitsAll | | | | | | -0.002* [0.001] |
| GDPGrowth | 0.153 [0.138] | 0.152 [0.139] | 0.215 [0.149] | 0.162 [0.140] | 0.124 [0.117] | 0.169 [0.138] |
| Openness | -0.000 [0.001] | 0.000 [0.001] | 0.000 [0.001] | 0.000 [0.001] | -0.000 [0.001] | 0.000 [0.001] |
| ColdWar | -0.039** [0.011] | -0.037** [0.011] | -0.038** [0.011] | -0.033* [0.012] | -0.039** [0.011] | -0.039** [0.011] |
| Constant | 0.181** [0.059] | 0.090 [0.054] | 0.212* [0.077] | 0.040 [0.057] | 0.070+ [0.038] | 0.059 [0.034] |
| Observations | 482 | 482 | 482 | 482 | 482 | 482 |
| R2 | 0.385 | 0.374 | 0.381 | 0.374 | 0.391 | 0.385 |

Standard errors in brackets

+ p_i0.10, * p_i0.05, ** p_i0.01

Table 5: Development and Commercial Aid as Percentage of Total Aid; Fixed Effects

| | Dev1 | Com1 | Dev2 | Com2 |
|---------------|---------------------|--------------------|---------------------|--------------------|
| L.DevRatio2 | 0.485** [0.063] | | 0.483** [0.061] | |
| L.EconRatio2 | | 0.534** [0.057] | | 0.536** [0.055] |
| IdeoGovt-Econ | -0.026 [0.016] | 0.018 [0.014] | | |
| TavitsGovt | | | -0.002+ [0.001] | 0.001 [0.001] |
| GDPGrowth | 0.617+ [0.338] | -0.118 [0.524] | 0.567 [0.339] | -0.102 [0.523] |
| ColdWar | -0.089** [0.022] | 0.162** [0.023] | -0.087** [0.021] | 0.160** [0.023] |
| Constant | 0.360** [0.111] | 0.062 [0.080] | 0.196** [0.021] | 0.171** [0.029] |
| D.Openness | -0.003 [0.002] | -0.001 [0.002] | -0.002 [0.002] | -0.001 [0.002] |
| Observations | 447 | 478 | 447 | 478 |
| R2 | 0.393 | 0.600 | 0.392 | 0.599 |

Standard errors in brackets

+ p_i0.10, * p_i0.05, ** p_i0.01

Table 6: Development and Commercial Aid as Percentage of Total Aid; First Differences

| | Dev1 | Com1 | Dev2 | Com2 |
|-----------------|----------|---------|----------|---------|
| D.IdeoGovt-Econ | -0.048+ | 0.041 | | |
| | [0.027] | [0.026] | | |
| D.TavitsGovt | | | -0.002 | 0.002 |
| | | | [0.002] | [0.002] |
| D.Openness | -0.004 | -0.000 | -0.004 | -0.000 |
| | [0.003] | [0.003] | [0.003] | [0.003] |
| GDPGrowth | 0.497+ | 0.162 | 0.422 | 0.230 |
| | [0.248] | [0.439] | [0.271] | [0.457] |
| ColdWar | -0.025** | 0.020* | -0.025** | 0.020* |
| | [0.004] | [0.009] | [0.004] | [0.009] |
| Constant | 0.009 | -0.029* | 0.011+ | -0.031* |
| | [0.006] | [0.012] | [0.006] | [0.013] |
| Observations | 447 | 478 | 447 | 478 |
| R2 | 0.030 | 0.013 | 0.021 | 0.008 |

Standard errors in brackets

+ p_i0.10, * p_i0.05, ** p_i0.01

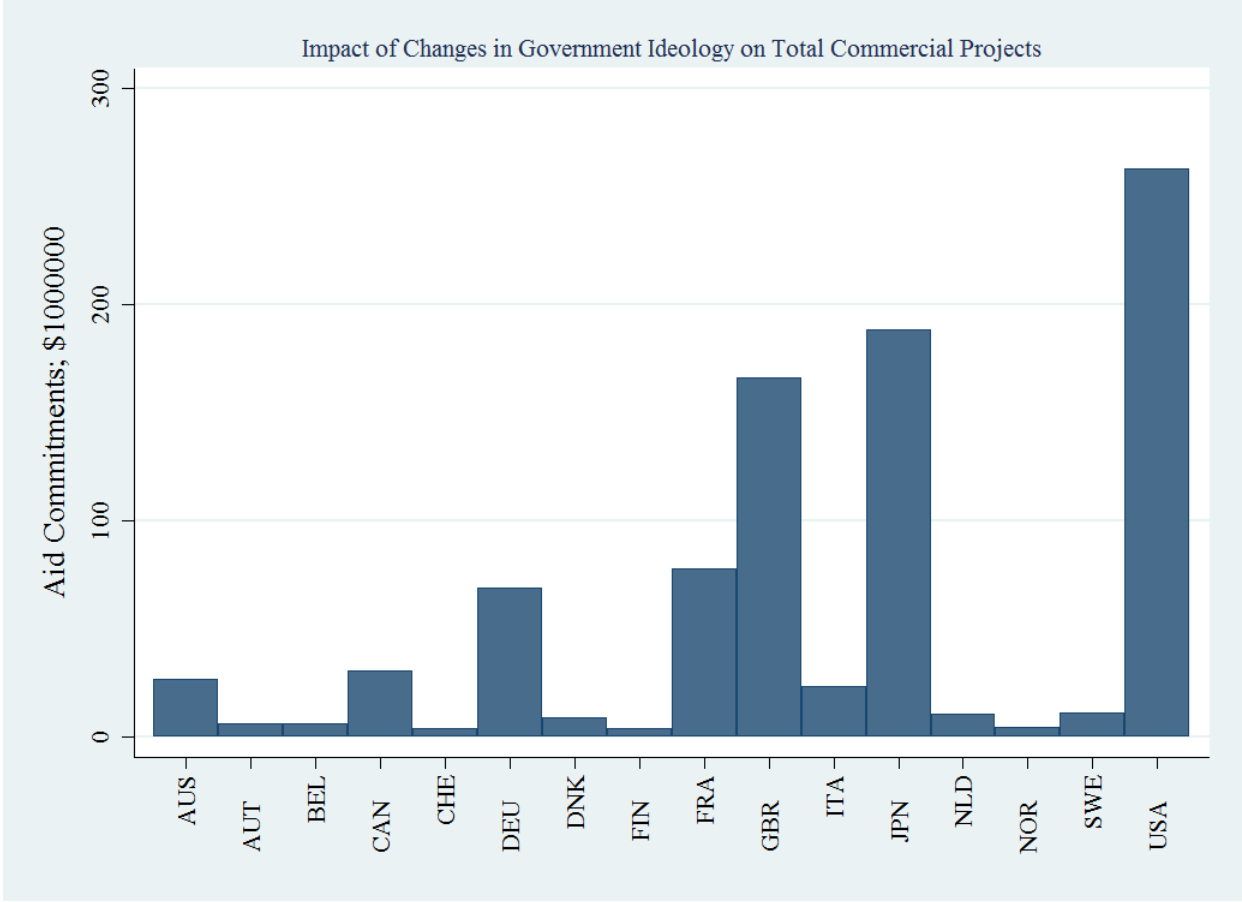


Figure 4: Substantive effect of changing government economic ideology in more liberal direction on commercial project spending

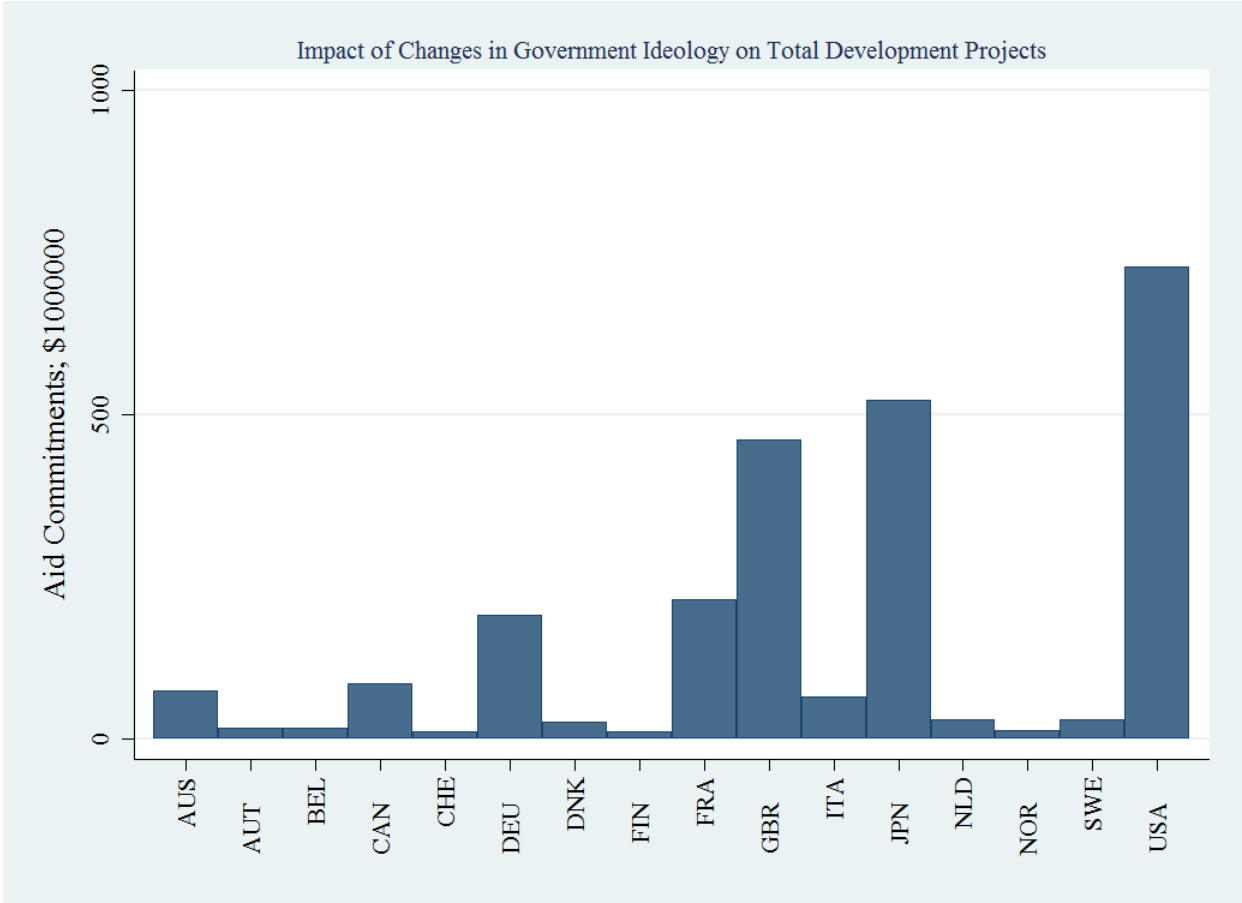


Figure 5: Substantive effect of changing government economic ideology in more liberal direction on development project spending.