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**Section II: Literature Overview**

**I: Individual Paper Reviews**

A. Aid and Economic Growth

***1. A Political Economy of Foreign Aid* – Bruce Bueno de Mesquita and Alastair Smith**

In contrast with the popular understanding of foreign aid as a benevolent action on the part of donors, Mesquita and Smith (2009) present a realist conception of foreign aid. The authors contend that the political economy of aid in both donor and recipient countries is best conceptualized in terms of “selectorate theory”. According to this understanding, donor governments do not conduct foreign aid in the interest of economically destitute, but to serve the goals of their nation’s political elites. Likewise, the governments of receiving countries tend to utilize aid in order to secure the political survival of their own elite. As a consequence, it is merely coincidental when foreign aid that is spent effectively on the alleviation of poverty in recipient countries.

In applying “selectorate theory” to foreign aid, there are two primary actors the donor state (*A*) leadership and the recipient state (*B*) leadership. These actors are ultimately interested in satisfying their winning coalitions, *WA* and *WB* respectively. In donor countries, leaders make policy concessions in the form aid in order to achieve a result that will satisfy a specific subgroup of their winning coalition (*WA*). The leaders of recipient nations follow much the same logic in their actions regarding aid. Bilateral aid between nations is almost never ‘free’ for the recipient either, and is often conditioned on internal policy changes. Therefore, recipient leaders must prefer the additional rewards they can give their coalition (*WB*) above receiving no aid and making no policy concessions.

The authors find that political institutions and resources affect the resulting bargain. Due to its proposal–making power, the donor nation (*A*) has bargaining leverage, and thus is able to offer the minimal amount of aid necessary to make the recipient nation’s (*B*) leader indifferent. The donor nation’s (*A*) internal factors that increase the size of its desired policy concessions are the salience of the policy for the nation (*σA*), the size of the winning coalition (*WA*), and the nation’s resources (*RA*). This desired amount of policy concessions experiences a negative relationship with the by the corresponding variables in the recipient nation (*σB*, *WB*, *RB*). While the significance of policy salience and available resources are somewhat obvious, the impact of coalition size necessitates a brief explanation. Leaders of large-coalition nations rely more on public goods to reward supporters than private ones, which makes policy concession difficult to reimburse. The contrary is true for small-coalition leaders. This observation explains why coalition size in the donor and recipient country affects the bargaining over policy concessions.

The authors point to the example of the US’s attempts to purchase policy concessions from Turkey in the run-up to the 2003 invasion of Iraq as a particularly illustrative of their argument’s logic. Despite supposedly being a close ally to the US, Turkey refused the US basing rights in exchange for aid. The negotiations invoked domestic discontent at the perception that Turkey was assisting a Christian nation in the invasion of a fellow Muslim one. Turkey is a relatively democratic and wealthy nation, and thus the nation’s leadership calculated the exchange to not be worth the threat to their political survival.

Mesquita and Smith’s model makes a couple of predictions about the way foreign aid is conducted. Firstly, it offers a prediction about the types of nations that are most likely to give and to receive aid. It follows from their logic that donor nations are more likely to be are to be rich and democratic, while recipients nations are more likely to be poor and nondemocratic. The paper points to empirical data that confirms these expectations. Secondly, the paper predicts that donor nations are not ultimately motivated by humanitarian concerns, but instead by domestic political perceptions. Once again, this prediction is borne out in the empirical data, which demonstrates little relationship between a nation’s humanitarian situation and the amount of aid that it receives. A trend that is clearly expressed in the fact that Israel and Egypt are the largest recipients of US foreign aid.

The paper raises the most serious objection to their model in that it is not perfectly predictive. For example, and by the fact that in some rare instances aid does appear to be given for humanitarian reasons. In response, the authors suggest that more research needs to be conducted into the circumstances that are conducive to different types of aid

Supplemental Paper:

***a. The Logic of Political Survival* – Bruce Bueno de Mesquita and Alastair Smith**

This paper serves as the logical framework underlying Mesquita and Smith’s examination of foreign aid’s effects. It introduces “selectorate theory” as a means of demonstrating how leaders attempt to maximize their prospects for political survival. The logic that follows is analogous to public ‘choice theory’ in that the incumbent trades “rents” in exchange for the political loyalty of his or her supporters.

In this case, the Leaders act in order to secure an effective majority of the group of individuals responsible for determining who is in power, a referred to as the ‘real selectorate‘. The “real selectorate”, *S*, serves as the pool of individuals that leaders draw support from in order to form a winning coalition, *W*. The size and composition of the ‘selectorate’ is partially determined by whether the country’s political system is democratic or autocratic. For example in a two-party democratic election, the selectorate is about 50 percent of likely voters. By contrast, in autocracies the selectorate might be an extremely small cadre of individuals.

According to Selectorate theory, incumbents need to maintain the support of their coalition or be deposed by political rivals. In order to secure this support, they must buy their supporters through balancing the allocation of the state’s resources (*R*) between private goods (*z*) and public goods (*g*). While the former category benefits solely the members of the winning coalition, the latter category benefits the entire society. These previously defined variables enable utility functions to be constructed in respect to a budget constraint, which explains a leader’s policy allocations with respect to maintaining his coalition (*W*).

Basic ‘Selectorate Theory’ Equations:

1. Individual selector utility function = *U*(*g, z*) *= v*(*g*) *+ u*(*z*)

*Note: Variables “v( )” and “u( )” are continuous, concave utility functions and u(0) =0*

1. Policy allocation decision with respect to a budget constraint = *pg + Wz ≤ R*

*Note: p = price of providing public good, price of providing a private good is implicit in W*

B. Aid and Economic Growth

***1. Aid and Growth: What Does the Cross-Country Evidence Really Show?* - Raghuram G. Rajan and Arvind Subramanian**

Rajan and Subramanian (2008) recognize the widespread disagreement across the literature concerning the link between economic growth and foreign aid. As a result of this disagreement, advocates for any policy position are capable of cherry picking the data in order to support their preferred policy outcomes. Therefore, this paper attempts to extricate itself from the bias in the literature by starting over from square one, and analyzing the basic question in the most comprehensive and transparent fashion possible. This basic question is whether a nation’s foreign aid inflows demonstrate any relationship to future economic growth. Ultimately, they find they find little robust evidence of a positive (or negative) relationship between foreign aid and economic growth.

The paper examines the long run through an examination of different horizons for cross-sectional regressions. It recognizes and isolates a number of exogenous factors that influence a country’s aid flows (e.g. war, natural disasters, historical growth rates). Their transparent and structured method enables a number of particular claims about the aid-growth relationship to be evaluated individually. Their findings demonstrate little relationship between aid and growth with respect to a number of variables. Differences in domestic policy, institutional environments, or the type of aid exhibit little evidence of impacting aid’s relationship on growth rates. While the findings do demonstrate (weak and mixed) evidence that aid works better in some geographic setting, the authors are skeptical whether any conclusions can be generalized from it. Aid is particularly ineffective in the tropics, but there are little plausible stories for why this is the case.

The findings of the paper suggest that even if aid is extremely well utilized, its effects on economic growth are far smaller than has been previously hypothesized. The study raises the question as to what countervailing forces that offset the indisputable growth effects of wealth transfers. The authors acknowledge their approach of utilizing cross-sectional regressions is vulnerable to outliers, endogeneity, model uncertainty, measurement error, and unobservable heterogeneity (the omitted variable problem).

***2. Aid, Policies, and Growth* - Craig Burnside and David Dollar**

Craig Burnside and David Dollar (2000) examine the relationship between a country’s internal economic policies in regards to both its likelihood of receiving it, and the degree to which it is likely experience of economic growth as a consequence. The primary variables used to conduct this examination are foreign aid transfers, economic policies, and growth of per capita GDP.

Two conclusions result from this inquiry. Firstly, the quality of a country’s economic policies exhibits a weak relationship with the amount of aid that it receives. Secondly, that the quality of economic policies is strongly correlated with the economic impact of aid. As a consequence, the authors suggest that the distribution of humanitarian aid should be made conditional on a country’s internal economic policies. Aid should be offered on a selective basis based on “good policies”, and subsequently conditional upon maintenance of these policies in the future.

The conclusions drawn from this data are subject to three potential areas of error. First, the data observed in the paper may be insufficient in scope or incorrect in nature. The second area of concern stems from the author’s selection of the predefined bundle of fiscal, monetary, and trade policies that constitute “good policies”. The subjective process of determining proxies for the qualitative distinction of “good policies” is vulnerable to error in a number of ways. Finally, the problems commonly associated with econometric modeling constitute a third area of potential error. In particular, the study is vulnerable to endogeneity problems.

C. Aid and Democratization

***4. Does Foreign Aid Promote Democracy?* - Stephen Knack**

Stephen Knack (2004) conducts an inquiry into the efficacy of foreign aid as a tool for promoting democratization. Despite the fact that the promotion of democratic government constitutes a major motivator for global aid transfers, an empirical examination finds the practice to be largely ineffective. The aggregate data suggests that there is no evidence that ‘pro-democratic’ aid worked as intended during the 1975-2000 period. Aid’s apparent lack of effectiveness towards democratization remains even in the post-Cold-War era.

Knack identifies three primary varieties of allegedly ‘pro-democratic’ aid. It can be directly transferred to the provision of technical assistance to the electoral processes, the strengthening of legislatures and judiciaries as checks on executive power, and the promotion of civil society organizations, including a free press. A second avenue is the conditional transfer of aid in exchange for policy concessions. The third sort of allegedly ‘pro democratic’ aid seeks to improve education and increase per capita incomes, which research shows are conducive to democratization. However, the influx of these sorts of aid into a country shows no relationship with democratization across a variety of indexes (e.g. Freedom House, Polity index).

Any sort of ‘pro-democratic’ impact on created by aid in recipient countries appears to be counterbalanced by an anti-democratic effect. In fact, it is a popular view amongst scholars that foreign aid can undermine democratic government. Milton Friedman (1958) has even posited that foreign aid is directly hostile to democracy and civil liberties. Because aid mostly goes to governments, it tends "to strengthen the role of the government sector in general economic activity relative to the private sector." Freedom and democracy, Friedman and others have argued, are less likely to emerge and to survive where most economic activity is organized by the public sector.

The lack of any measurable relationship between democratization and “pro-democratic” foreign aid appears to suggest that its effect on the process is mixed.  While there are certainly successful democratization processes have been undertaken alongside aid, it is impossible to attribute it to the foreign aid itself, in light of the broader picture painted by the data.

***5. How Foreign Aid Can Foster Democratization in Authoritarian Regimes -* Joseph Wright**

Given ‘pro-democratizing’ foreign aid’s mixed record, Joseph Wright (2009) attempts to identify the necessary preconditions for its successful functioning. Wright assumes that political survival is central to a dictator’s decision-making, and that they prefer more aid to less. Therefore, dictators will only pursue aid that is contingent on democratization if it doesn’t significantly harm their chances of political survival.

Wright identifies two key predictors of the dictator’s decision making, the size of the dictator’s distributional coalition, and economic growth. Hypothetically, a large distributional coalition translates into greater levels of name recognition and a larger patronage party, which are both conducive to electoral success through the democratic process. The other factor, the economic growth rate, is perhaps one of the most reliable indicators of authoritarian regime survival. However, Knack assumes that growth is more important to the survival of a dictator in an authoritarian regime than to a dictator-turned-democrat. He contends this is because elections enable the public weigh in on factors beyond growth (e.g. party ideology, perceived corruption, social issues). Therefore, aid conditioned on democratization is most effective in regimes with high economic growth.

According to Knack, the end of the Cold War has strengthened this connection between the size dictator’s support coalition and aid conditioned upon democratization. The global rebalancing of power that accompanied the end of the Cold War era upended the geopolitical equilibriums around foreign aid. Aid receiving states have lost their former capability to play the two superpowers (USSR, USA) off against each other. As a consequence, the threat of revoking aid if democratization conditions are not met is significantly more credible. In the post-Cold War era, dictators that desire foreign aid must believe they will be able to survive its conditionality upon democratization. Therefore, dictators backed by large support coalitions are even more likely to democratize in exchange for aid in the current era than in the past.

The central argument of this paper is potentially vulnerable to a problem of endogeneity. The causative link between growth rate and the effectiveness of aid on democratization in an authoritarian regime is slightly tenuous. For instance, rather than democratization being a consequence of aid, aid may in reality be a consequence of perceived democratization. According to this contrary interpretation of the data, donors may wish to encourage democratization in countries where it is observed by offering aid. Although Knack attempts to dispel this alternative explanation, the issue cannot be considered definitively settled.

Paper #8

***6. Donors, Dictators and Democrats in Africa* - Arthur A. Goldsmith**

Goldsmith (2001) examines the relationship between development aid and democratization in African nations. This paper seeks to combat the widely held assumption that aid serves to inhibit democratization. It concludes that the experience of sub-Saharan African countries during the 1990s demonstrates empirical evidence in support of the claim that aid encourages democratization.

The paper offers four theoretic avenues through which aid encourages democratization. The first avenue for democratization is accidental; aid that is often conditioned upon market reform can lead to democratization as a by-product. The second mode is a direct transfer of aid in exchange for political reform. Thirdly, aid can strengthen the position of non-governmental organizations within a country. This has the effect of strengthening civil society bonds, which are conducive to democratic governance. The fourth avenue, which this paper considers to be most important, is through specific political conditionalities. Donors can attach strings to aid that must be follow through in order to receive aid funds. Theoretically, this method is the strongest because it creates incentives that put pressure on dictators that wish to gain access to foreign aid.

The paper’s empirical findings demonstrate a weak positive correlation between development assistance and democratization in sub-Saharan Africa throughout the 1990s. The paper considers this finding to be encouraging in that it evidences the claim that foreign aid donations can be conducive to democratization.

This paper is potentially vulnerable to error in a number of ways. First of all the data set analyzed is extremely small. The paper only considers sub-Saharan African countries during the 1990s, which is a smaller time horizon and quantity of nations than similar studies that produce contrary results. Given pro-democratic geopolitical changes that accompanied the Cold War era, it is especially difficult to draw any broad conclusions concerning the data in question.

D. Aid and Regime Stability

***7. Does Foreign Aid Support Autocrats, Democrats, or Both?* - Daniel Yuichi Kono and Gabriella R. Montinola**

Kono and Montinola (2009) inquire as to what degree foreign aid supports the survival of recipient government regimes. They conclude that aid does in fact promote regime survival, but its precise effect depends on both the time horizon in question and the regime type. Overall, autocratic regimes benefit more in terms of survival from aid, but a longer run time horizon is necessary for this advantage to become manifest. In the short run, aid appears to support democratic regimes to a greater extent than autocratic ones.

In order to provide a theoretic foundation for their findings, the paper draws on Mesquita’s (2003) ‘selectorate theory’ of political survival. Political leaders allocate resources amongst their winning coalitions in order to secure a majority of the real selectorate, and thus remain in power. Incumbents are under constant threat of being deposed by a challenger coalition. As a result, incumbent leaders must propose policy packages that prevent defections amongst the ruling coalition. The policy packages proposed are subject to a revenue constraint composed of both endogenous variables (e.g. tax policy) and exogenous “shocks” (e.g. foreign business cycles), which can negatively or positively affect revenue. Assuming imperfect information, negative shocks provide an opportunity for challengers because constituents cannot decide whether to attribute a downturn to incumbent policy or shocks.

Stockpiling resources during positive shocks (e.g. sudden influx of foreign aid) provides an opportunity for incumbents to protect against negative shocks (e.g. global recession). The way that different regime types relate to these shocks constitutes the primary contribution that this paper makes to literature on foreign aid. Autocratic regimes are more capable of stockpiling resources in the long term because of their smaller winning coalition (W) than democratic regimes. Leaders of democratic regimes are beholden to a much larger segment of the population, and thus forced to distribute additional revenue quickly amongst a larger swathe of the population. While autocracies’ capacity to stockpile resources to protect against large shocks makes them more effective utilizers of aid in the long run, democratic leaders are more capable of placating the population in the short term.

An analysis of the empirical data appears to support the theoretical model presented in the paper. This data set includes a survival analysis of 621 leaders in 123 countries between 1960 and 1999. As a result of their findings, the authors recommend that democratic regimes receive aid on a long term, conditional basis. While conditionality has been identified as potentially ineffective in the past, the authors contend that this finding may result from the pooling of autocratic and democratic regime types. In contrast, autocratic regimes should only be given single payments of emergency aid in order to prevent stockpiling.

***8. Foreign Aid Shocks as a Cause of Violent Armed Conflict* - Richard A. Nielsen, Michael G. Findley, Zachary S. Davis, Tara Candland and Daniel L. Nielson**

Nielsen, Findley, Davis, Candland and Nielson (2011) examine the effect of aid shocks on armed conflict. The paper shows that negative shocks in aid revenue tend to empower armed rebels and weaken the central government. The disruption of aid revenue reduces the government’s capacity to fight back, while simultaneously increasing rebels’ relative bargaining strength. This shift in the balance of power threatens to induce further violence. Additionally, the revenue shortfalls caused by aid shocks compound the problem further by damaging the government’s credibility in committing to settlements that would produce peace.

The paper analyzes aid transfers over the period between 1981 and 2005, and evaluates these findings in relation to violent armed conflicts. This empirical data provides robust evidence in favor of the hypothesis that negative aid shocks can induce armed conflict. Perhaps interestingly, the data also shows the effect of positive aid shocks to have a negligible effect on armed conflict.

In light of these findings, the paper suggests that donors withdraw aid gradually in order to reduce the potential for violent conflict. In order to do so, foreign donors should more actively coordinate with one another.

E. Aid and Measures of Good Governance

***9. Do Corrupt Governments Receive Less Foreign Aid?* - Alberto Alesina and Beatrice Weder**

Alesina and Weder (2002) examine whether corrupt nations are less likely to receive foreign aid. In the effort to alleviate global poverty, it seems only natural that foreign aid would be spent on less corrupt nations in order to maximize its impact. However, the findings of this paper suggest that there no evidence to suggest that nations with higher levels of corruption receive less aid.

In order to evaluate the paper’s central question, the authors choose observe the flows in foreign aid transfers in relation to the recipient nations’ levels of corruption. The paper quantifies corruption in reference to indexes from a variety of well-respected institutions. These indexes evaluate relative levels of corruption through examining a number of distinct measurements (e.g. the pervasiveness of bribery amongst lower level government officials). Not only does the paper find that corruption levels appear to have no impact of the size of aid inflows, but the findings also apply to debt relief programs. Although corruption is not correlated with total aid donations, there are significant differences across donors. In particular, Scandinavian countries tended to reward lower levels of corruption. Interestingly, the United States tended to give more to democracies regardless of their level of corruption.

Perhaps the paper’s most ominous finding is that an increase in corruption tends to accompany the inflow of foreign aid. The authors hypothesize that foreign aid incentivizes competition amongst interest groups over the aid resources, which is manifested through an increase in corruption. The authors refer to this relationship as the “voracity effect”, and hypothesize that it potentially has long-term negative consequences by inhibiting institutional reform.

***10. Does Foreign Aid Promote the Expansion of Government? -* Karen L. Remmer**

Remmer (2004) offers an examination of the effects of foreign development aid on the fiscal policy of recipient nations. Foreign aid is often offered to developing nations on the condition that they institute market-oriented reforms. The International Monetary Fund (IMF) has been particularly instrumental in the practice of imposing strict fiscal policies on less developed nations in exchange for donations. The hope is that these fiscal reforms will facilitate future economic growth, thus serving to alleviate domestic poverty. This paper questions the efficacy of this approach. In contrast to with the conventionally received wisdom, this paper argues that foreign aid generates incentives for the expansion of government. In doing so, the study positions itself in opposition to the “Washington consensus”.

The paper identifies that current trends indicate a relationship between the receiving of foreign aid and government expansion. This trend evidences the claim that the conventional approach to imposing fiscal restraint upon foreign nations in exchange for donations is fundamentally flawed. According to this contrary theoretical framework, it cannot plausibly be denied that externally augmenting government’s resources has the effect of restraining its size. Public choice theorizing on public finance appears to evidence this perspective. For instance, political leaders have the incentive to expand public spending in order secure political survival. Furthermore, foreign aid appears to undermine the incentive to maintain sound domestic revenue generation. This problem is analogous to the “flypaper effect”, which denotes the tendency of local governments to increase spending more when it emerges from an exogenous source (i.e. the federal government) than from an increase in local income of an equivalent size. The result of this effect is fiscal decay, public sector growth and dependency upon the higher level of government. By promoting dependence on external sources of revenue, foreign aid appears to function in much the same way.

To evidence this theory, this study examines the ratio of government expenditures to GDP in the context of aid flows through an empirical study of low and middle income countries over time. A cross-sectional analysis reveals that foreign aid transfers tend to facilitate the growth of government. In addition, inflows of foreign aid tend to accompany a reduction in revenue generation. These findings suggest significant slippage between the goals and outcomes of foreign development aid. The paper contends that its findings demonstrate the need to rethink the role of aid in foreign development.

***11. Foreign Aid and Market-Liberalizing Reform* - Jac C. Heckelman and Stephen Knack**

Heckelman and Knack (2008) examine reigning orthodoxy in regards to foreign development. While market liberalization’s pro-growth effects are undeniable (i.e. the security of property rights is highly determinative of growth), the efficacy of foreign aid as a tool for inducing market liberalization is hotly debated. In theory, inducing market-oriented policies would benefit the developing world as it is a non-excludable public good. However, determining an effective way to induce these changes constitutes an area of ongoing scholarly inquiry. This paper attempts to offer a comprehensive and rigorous examination of aid’s net impact on policy liberalization.

In recent years, a consensus has emerged that the record regarding aid conditioned upon market reform has been largely ineffective. The approach of conditionality, often referred to as the ‘Washington Consensus’, and historically promoted by institutions such as the IMF, has become subject of sharp criticism. Theoretical explanations of this failure have largely centered upon the perverse incentive structures that it generates. In its place, a new mechanism has emerged for targeting aid to the developing world known as ‘selectivity’. Under selectivity, aid should be distributed amongst nations with the best policies, thereby maximizing its efficiency and creating an incentive for nations to undergo genuine reform.

This paper examined the data on aid transfers for the period between 1980 and 2000, and compared the findings to market-oriented reforms over the same period. The Fraser economic freedom indexes provided the dataset to measure market-oriented reform. The findings suggest that aid exhibits a small negative relationship to policy reform. The type of aid (e.g. project aid, programme aid or technical assistance) do not appear function differently to any significant degree. The authors disaggregate policy into 5 areas in order to closely examine foreign aid’s influence upon them (Size of Government, Property Rights, Sound Money, Openness to Trade and Investment, and Regulation). Out of these categories, only Property Rights exhibited a positive relationship with foreign aid, but the authors warn that this result was insignificant, contrary to previously studies, and included fewer observations than any other area in the sample. The rest of the categories showed a negative coefficient with various degree of significance (or insignificance). While some forms of aid may be more effective (or at least less harmful), the overall conclusion of this paper is that aid generally inhibits market-oriented reforms.

***12. The Uses and Abuses of Foreign Aid: Development Aid and Military Spending* - Daniel Yuichi, Kono and Gabriella R. Montinola**

Kono and Montinola (2013) examine the contemporary finding that foreign aid promotes economic development in democracies, but not in autocratic regimes. This paper advances the theory that dictators simply misuse foreign aid. The evidence confirms this theory through presenting empirical evidence that autocracies are more likely to divert development aid towards expanding the military.

This paper utilizes ‘selectorate theory’ in order to demonstrate why it is that autocracies are more likely to misuse aid. Leaders of autocratic regimes are responsible to relatively small selectorate when building their winning coalition. As a result, it is often in their best interest to restrict the public’s civil liberties because they are largely unaccountable to the broader public. In order to enforce these contractions of civil liberties, autocrats are required to strengthen the military, often by diverting foreign aid. In contrast, leaders of democracies will spend aid more on public good because their selectorate encompasses a much broader swathe of the population than autocracies.

These predictions made by the selectorate models are borne out in the empirical data. Autocracies tend to divert development aid to military expansion, which is undesirable from an economic standpoint. This misuse of aid in autocratic regimes provides a framework for understanding why aid benefits democracies to a greater extent economically. While democracies do often still misuse development aid, they typically don’t do so through military spending.

**Section II:**

**Overview of Foreign Aid Literature**

The academic literature on the subject of foreign aid is diverse and multifaceted. Scholars approach the issue from different angles, and thus come to diverging conclusion on its general efficacy and optimal application. An appropriate entry point into the scholarly work on aid is the question of who actually gives and receives aid. The political economy of foreign aid provides an important avenue for understanding the sorts of states that receive aid. The empirical findings confirm the theoretic prediction of ‘selectorate theory’ modeling, which shows that countries give aid based on domestic political concerns rather than humanitarian need. On the flipside, potential aid recipients only accept aid if its effects do not jeopardize their political survival.

One conclusion that seems universal throughout the literature is that foreign aid, as it is currently practiced has an overall poor track record when it comes to promoting economic growth in developing nations. Two radically divergent responses to this finding emerge in the literature. The first response to this finding is that foreign aid is simply not being implemented properly. While there are a great deal of opinions within this camp, one of the primary arenas of debate is centered on whether aid should be allocated based on conditionality or selectivity. Under conditionality, aid is given as a reward to nations in exchange for the adoption of pro-growth policies. In contrast, under selectivity, aid should be targeted at nations with “good policies” that are correlated with its efficient utilization. In recent years, conditionality has somewhat fallen out favor amongst foreign aid scholars because of its poor historical track record. Critics claim that conditionality fails to produce the incentives necessary for “good” policies to be properly implemented. This results in policies not functioning as intended, while simultaneously delivering aid to a location where it is liable to be utilized improperly.

However, selectivity is not without its critics either. Deciding what counts as a “good policies” is a rather difficult determination, and thus proxy variables (e.g. inflation, government finances, privatization) are used as a stand in. The potential difficulties that result from this approach are two-fold. First of all, selectivity seems to ignore nations where poverty is most prevalent due to the perceived lack of “good policies”. Secondly, it would appear to be a difficult task to disentangle the effects of aid from the benefits that the “good policies” generated on their own. This ongoing debate over conditionality vs. selectivity is one many areas of scholarly debate over how to conduct foreign aid effectively.

The other response to foreign aid’s poor track record in regards to growth is the contention that foreign aid itself is simply ineffective (or even fundamentally harmful). Critics claim that the gains foreign aid generates are offset by the production of perverse incentives within recipient countries. The consequences of these perverse incentives manifest themselves in various forms (government expansion, increased corruption, poor public finances, larger public sectors, etc). Seen this way, foreign aid has a corrosive effect on society through inducing poor local practices and creating dependency on external revenue streams.

The basic disagreements that characterize the aid-growth debate are mirrored in the debate over the aid-democratization relationship. While there exists a minority opinion that contends that aid has been effective in promoting democracy, the vast majority of scholarly research shows it to be ineffective. Analogously to the discussion over the aid-growth relationship, some scholars are optimistic that aid could be effective if only it were designed properly. Discussions of the optimal forms of aid, and whether it should be conditional or selective, reemerge here. Critics of foreign aid point data that suggests the perverse incentives that it generates to be ultimately harmful to democracy.

One area that there seems to be little disagreement over is aid’s efficacy in maintaining regime stability. Foreign aid is generally an effective tool for propping up foreign regimes, though it precise effects depend upon the regime’s type. Leaders of both autocracies and democracies appear to effectively utilize aid as means of ensuring the political survival, but through different means. In general democracies tend to distribute aid more widely amongst than autocracies, which tend to divert aid towards constructing a security apparatus. Aid that is quickly withdrawn tends to create shocks, which threaten to plummet the aid-receiving nation into chaos. The literature seems to be fairly undivided over the conclusion that the utilization of foreign aid is an effective tool for keeping allies in power.

An analogy that can be used applied consistently to square the findings on foreign aid is that it appears to function very much like domestic welfare in its effects, except on a much larger scale. This analogy is warranted because the individuals that govern nations are responsive to incentives in the same way as anyone else. Direct payments from the government tend to be overall ineffective at lifting individuals with poor economic practices out of poverty. While aid is most effective when spent on those with best practices, over time the perverse incentive structure of aid tends to degrade these good practices. These poor incentives effectively offset the benefits that aid creates through inducing poor economic practices and dependency.

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