Foreign Aid in Hard Times: The Political Economy of Aid Effort

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Empirical research on foreign aid typically explains donors' allocation of aid money, or the effectiveness of aid in securing specific outcomes. However, the recent global economic downturn has sparked concern about donor's continued willingness to give. What happens to aid effort in economic hard times? Do hard times in donor countries lead to significant cuts in aid expenditures? To what extent is aid effort driven by domestic politics within donor governments? Utilizing a new resource (AidData), we create a cross-national time-series dataset to examine the determinants of aid effort. We argue that the mixed results in the existing empirical literature concerning the relative importance of political and economic determinants of aid effort results from a failure to take account of interactions between the two. Economic conditions such as unemployment are significant predictors of aid effort, but their influence is conditioned by the type of political coalition supporting a given donor government. Other things equal, left-wing governments spend slightly more on foreign aid (normalized by GDP) than centrist or right-wing governments. However, aid effort is much more sensitive to economic conditions under left-wing governments than under centrist or right-wing governments. During hard times left wing governments cut foreign aid more dramatically. We argue that this discrepancy results from differing bases of political support for left and right governments, as well as the different purposes that each have for providing foreign aid.

Introduction

"We're going to be as strong an advocate as we can be, but with 10 percent unemployment, urgent needs at home, a trillion-dollar budget deficit, and focus on creating jobs, there is no doubt that these factors make it a difficult political environment for expanding our foreign assistance and development budgets,"

~Rep. Nita Lowey, D-NY, the chairwoman of the House Appropriations State and Foreign Operations subcommittee after cutting the budget for foreign aid by $4 billion (April 2010).

Determinants of a country's aid effort have been debated, refuted, amended and re-debated again. Several factors help to explain variations in aid effort across donors—including cultural characteristics, national identities, domestic political institutions, great power status, and the existence of a domestic welfare state within the donor. Accounting for these country-specific characteristics helps to explain why Scandinavian donors traditionally have the highest aid effort of all donors and why the United States seems to continually lag behind its European counterparts. Of course, most of these characteristics are static and if they change at all, they change slowly. However, the recent and dramatic economic downturn in donor countries and the consequent reshuffling of partisan control within many governments highlight other factors that might affect a donor's aid effort. Are there economic and political determinants of aid effort that operate across all (or most) donor governments? As U.S. Representative Nita Lowey suggests above, foreign aid allocations are shaped by evolving political and economic factors that interact in predictable and interesting ways. In this study, we attempt to determine what some of these dynamic determinants of aid effort might be, and we identify patterns that are apparent across donor countries of all stripes.

The current economic downturn has become a harsh reality for individuals and governments across the globe. As profits shrink, workers lose their jobs, and tax revenues fall, no one seems immune from the widespread effects of these hard times. In response, developed country governments have spent billions of dollars on fiscal stimulus packages to mitigate the economic carnage within their own economies. As these governments refocus their efforts on domestic problems, many analysts and aid recipients fear that increased demand for domestic spending will undercut previous commitments to foreign aid and leave aid-dependent countries to fend for themselves.[1] Such sudden aid reductions have been shown to have catastrophic effects on recipient economies (Kharas 2008) and may even catalyze civil violence and war (Nielsen et al forthcoming). Given increased pressures on developing countries stemming from high food prices, climate change adaptation, and shrinking global trade, the need for foreign aid receipts has increased.

As donor countries weather their own domestic economic storms, what will happen to foreign aid allocations over the next few years? The evidence to date is inconclusive, as individual governments' responses to current economic conditions have varied. Ireland, for example, cut its foreign aid budget for 2009 by €224 million, which represents a 24% decrease in its planned aid budget (Dóchas 2010). In the wake of its default crisis, Iceland has curtailed its aid budget dramatically, prohibiting any new aid commitments for the foreseeable future.[2]

At the same time that Iceland and Ireland have announced cuts, countries like the US, Canada, Russia, and the UK have pledged to maintain or even increase foreign aid disbursements over the next few years.[3] At the height of the recession World Bank President Robert Zoellick (2009) pressed donor governments to increase foreign aid by at least 0.7 percent of their respective domestic stimulus packages. U.S. President Barack Obama's budget request for FY2011 increases the international affairs budget by 3% over the FY2010 budget, with large increases for food security, global health, and international financial institutions (US Department of State 2010).[4] During the 2010 general election campaign in the UK, both the Conservative Party and Labour Party promised to "ring-fence" the foreign aid budget and meet the country's commitment to spend 0.7% of GNI on international development by 2013 (Conservative Party 2010, and Department for International Development 2009). While the new Conservative government has dramatically re-oriented British aid toward Afghanistan and other strategically important recipients, there have still been no cuts in the amount of money to be allocated for development assistance.

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[1] Roodman (2008) claims, "After each previous financial crisis in a donor country since 1970, the country's aid has declined."

[2] Author correspondence with Icelandic International Development Agency, November 2009.

[3] One Report 2009; Author interview with senior Russian official within the Ministry of Finance, August 2009; U.S. President's budget request for 2009.

[4] However, the new Republican majority in the House immediately targeted foreign aid appropriations as a place to address budget shortfalls.

In hard times, will these governments follow through on their commitments to increase or maintain funding? Mead Over, writing in late 2008, predicted that real aggregate foreign assistance will drop 10% by 2011 and will not recover until 2013 or 2014 (Over 2008).

Although we have seen some of these predictions come true, in countries like Ireland, Italy, and Iceland, a more comprehensive assessment of the current economic downturn and its effect on foreign aid effort will have to wait until we get data on aid effort from 2010-2014. However, we believe that many of the same political forces at work during previous economic downturns are likely to shape aid flows in the current environment.[5] Since past may be prologue, it makes sense to understand what economic and political factors have affected donor's aid effort in the past.

In this paper, we address the question: What political and economic factors drive donor countries' aid effort? We survey the fractured literature on donor aid level/effort, and identify a number of variables that represent the most important potential explanations of aid effort. We build upon this literature by constructing a cross-national time-series dataset, including donor countries outside the OECD's Development Assistance Committee (DAC) – extending the conventional sampling frame for empirical research on aid. We advance and test a political economy explanation of aid effort by holding the traditional state-specific characteristics constant; arguing that some key time variant economic conditions that most directly affect popular welfare in donor countries, namely unemployment and per capita income, have a substantial impact on a country's aid effort. We test an alternative explanation as well: that aid effort is affected by the political ideology of the party or parties in control of donors' legislative and executive branches of government. We find support for both hypotheses, but also find that these political and economic factors *interact* in very interesting ways. Unemployment has the largest effect on aid effort, but its influence is strongly conditioned by the political ideology of the donor government. We conclude by noting the limitations of this study, and by offering suggestions for further research.

Literature Review

Empirical research on development assistance has focused on how donors allocate their foreign aid funds or the effectiveness of aid in securing specific outcomes in recipient countries.

[5] Just as Peter Gourevitch (1984) used economic downturns as an opportunity to evaluate trade policy and trade politics, we use a similar strategy to explore the policy implications for foreign aid in hard times.

There has been relatively less attention paid to the amount of development assistance that governments provide (but see Tingley 2010). What factors determine the overall size of a donor's aid budget, and, more specifically, what causes a donor to change its level of aid effort? We draw upon prior research to identify what factors drive the provision of development assistance in general and what short-term factors, such as economic hard times, can change these aid levels.

In general, previous research on donor effort has focused on two broad categories: political factors and economic factors. In studying political factors, many authors have asserted that a country's overall level of aid is affected by geo-strategic interests (Liska 1960; Morgenthau 1954; Hoadley 1980; Griffin 1991; White 2004; Round and Odedokun 2004), and domestic political ideology (Fleck and Kilby, 2001; Milner and Tingley, 2010). However, there is little consensus on how a government's domestic political ideology affects its allocation decisions. Many studies have found that left-leaning governments are more likely to support foreign aid than conservative governments (Lumsdaine 1993; Chong and Gradstein 2008; Knack and Paxton 2008; Milner and Tingley 2009; Tingley 2010). In contrast, other research on the United States suggests that Republican administrations have higher aid budgets than Democratic administrations (Goldstein and Moss 2005) and some cross-national time-series studies find that right-wing governments spend more on foreign aid (Round and Odedukun 2004; Bertoli, Cornia, and Manaresi 2008). To further muddy the waters, Dang, Knack, and Rogers (2009) find that political orientation has *no significant effect* on aid effort.

In addition to political factors, many researchers find that economic factors drive aid effort. For example, increases in trade levels, and consequent increases in economic interdependence, may increase donors' aid effort (Haggard and Moravcsik 1993; Van der Veen 2011). Research on government fiscal balance suggests that weaker fiscal positions will constrain aid budgets. Faini (2006) concludes that the cumulative stock of public debt has negative effects on aid, particularly among European donors. Bertoli et al (2008), while primarily concerned with Italian aid performance, find similar results. In contrast, Round and Odedukun (2004) claim that fiscal balance does not have any discernable effect, but they do find that as real income per capita increases, so does aid effort.

Beyond studying general determinants of aid effort, few studies have examined the effect of economic downturns on the level of aid provision. The research that has been done examines macroeconomic indicators in donor countries to see whether they predict aid budgets. Unfortunately, most of this research has limited explanatory power due to the restricted number of donors or years examined. In an exploratory article, Frot (2009) examines the relationship between financial crises and foreign aid budgets. The six crises he studies are: the United States in 1988, Japan in 1990, Finland, Norway and Sweden in 1991, and South Korea in 1997. Frot finds that donors decrease aid by 13% following crises. Mold et al. (2009) argue that there is no clear relationship between GDP growth and aid, citing examples where the U.S. has decreased aid during recession in 1990-1991 but increased aid in 2000-2001. These articles focus on a small number of cases—neither of them provides thorough analysis or allows us to draw general conclusions about the relationship between economic downturns (or crises) and foreign aid levels. In a larger time-series cross-sectional study, Tingley (2010) finds no evidence that GDP growth influences aid effort (though it may predict greater levels of aid to middle income recipients).

Dang, Knack, and Rogers (2009) examine banking crises as another aspect of donors' economic ability to provide foreign aid. They theorize that because these crises place high demands on the public sector, they are more likely to reduce the aid budget than other types of recessions or economic slowdowns. They argue that banking crises lead to the accumulation of public debt, which Faini and others have found to reduce aid budgets. Dang, Knack, and Rogers find that aid declines by 20 percent for over a decade after a country undergoes a banking crisis. Decreases in income per capita also have a negative effect on aid; they estimate that the current financial crisis will depress aid budgets by 20 to 30 percent over the next decade. They also find evidence that other measures of economic health, including employment, have an effect on aid budgets, but they do not pursue these findings in-depth.

As we summarize in Table 4, there is little consensus in the aid literature concerning which factors most influence changes in donors' aid effort. Even when scholars agree on which variables matter most, they frequently disagree on the precise effects that those variables will have. In this paper, we attempt to consolidate the currently fractured state of knowledge about changes in aid effort. In the next section of the paper we identify some of the more promising political and economic explanations of aid effort, and draw them together within a single research design.

The Political Economy of Aid Effort

If the existing literature on aid effort demonstrates anything, it suggests that both political and economic factors influence donors' aid effort; however, the extant literature has not been able to consistently (or convincingly) demonstrate how these factors matter or how much they matter. While we do not have a fully specified theory of aid effort in hard times, we believe that any convincing explanation of aid effort must account for both economic and political factors. Moreover, it is probably misleading to cast these as alternative explanations. Instead, economic and political factors work in tandem. Foreign aid budgeting is a political process. Therefore, the economic conditions that most directly influence aid effort are likely to be those that are most politically salient.

Basic economic theory suggests that economic hard times will increase pressure on donor governments to make spending cuts. If there is a tight budget constraint due to falling tax revenues, then the chances of budget cuts increase. One reason donors might spend less on aid is that there is less to spend. Although slowing or negative GDP growth may lead to slowing or decreasing aid spending, it is not obvious that it would lead to lower aid *effort* – measured as aid spending as a percentage of GDP. If budgets are slow in responding to changes in GDP growth, it is equally plausible that aid effort will *increase*, at least in the short term, since, if sticky budgets remain constant and GDP is reduced, then aid effort measured as aid/GDP will increase. Hence, low or negative economic growth may not be the best measure of politically salient hard times.

Therefore, to explain changes in aid effort we focus on economic factors that more politically salient. Meernik and Oldmixon (2004) argue that U.S. Congressional support for "cooperative internationalism" is sensitive to domestic economic conditions because legislators are sensitive to the domestic political priorities of their constituents. We argue that this phenomenon is not specific to the United States, and that Meernik and Oldmixon's findings likely apply generically across aid donors. Regardless of location, rising unemployment and falling wages can be expected to increase demand for domestic welfare spending, which creates pressure to reduce spending on other government programs. Aid budgets are tempting targets, because the recipients and beneficiaries of foreign aid will not be voting in the next election but unemployed workers and pressured business owners within donor countries will be (Martens 2003; Frot 2009). Hence, the politicians who are cutting checks and cutting budgets will have even stronger incentives to enact policies that serve their constituents, even if these cuts contradict previous promises and come at the expense of poor people abroad.

Indeed, foreign aid's position on the budgetary landscape is often precarious. In rich Western democracies foreign aid is one of the least popular government expenditures. Among the growing group of emerging donors, governments are frequently reluctant to publicly claim the identity of "donor" and often do not refer to development finance transfers as "aid," fearing a backlash from their own people.[6] In fact, USAID sponsors workshops with non-traditional donors on building public support for their own foreign aid programs.[7] All these factors suggest that foreign aid allocations by donors will decline during tough economic times.

Turning to domestic politics, we argue that the position of a government along the traditional right-left spectrum will influence its aid effort. Though the existing literature has yielded mixed results with respect to the influence of political ideology among different sample groups, we argue that there is a general relationship between the two. Even though governments provide foreign aid for a myriad of reasons (Lancaster 2007), as Tingley (2010, 41) observes, "foreign aid is fundamentally about the transfer of resources away from taxpayers to some other entity." Therefore, regardless of donor countries' specific objectives, we expect that a government's general orientation toward redistribution will influence the level of foreign aid that it provides. Therein and Noel (1995, 2000) and Lumsdaine (1993) both show that donors with a large welfare state at home tend to be more generous when re-distributing money abroad. But we are fundamentally interested in the impact of hard times, *no matter what the pre-existing level of aid* from a donor government. So, while left-oriented governments may indeed be more supportive of foreign aid than right governments all else equal, what about when all else is not equal? Below we test to see whether the conventional wisdom is correct on average, but then we interact ideology with several variables that measure "hard times."

[6] Author interviews with officials from Mexican Ministry of Foreign Affairs, September 2009; Uruguayan Finance and Planning Ministry, November 2009; Brazilian ABC, January 2010.
[7] Author correspondence with USAID Emerging Donors Initiative, March 2010.

While the existing literature has identified a number of plausible political and economic factors that might influence aid effort, it has much less to say about the combination of political and economic factors. Because much existing work fails to acknowledge that economic factors may be conditional on political variables, it is possible that contradictory findings regarding the influence of, for example, political ideology may not be contradictory at all. They may result simply from systematic differences in empirical samples.

Political ideology and economic conditions may have an interactive influence on aid effort if there are systematic differences between the motivations of right- and left-wing governments in providing foreign aid. In fact, there is good reason to believe that this is the case. If right-wing governments are generally predisposed against redistributive policies at home, it is reasonable also to expect that they will be opposed to redistributive international policy.[8] The fact that they continue to provide foreign aid suggests that there are motivations for aid-giving beyond reducing poverty abroad. For example, aid may be seen as a tool to promote commerce with the donor country. Since right-leaning legislators tend to garner more political support, votes, and financial contributions from the business community, which has international commercial interests, then if aid supports or promotes trade and investment opportunities, this would be one good reason for right-leaning politicians to support aid. Alternatively, aid may be a geopolitical tool of statecraft, and while such tools are not the sole purview of right-leaning governments, such governments tend more than their left-leaning counterparts to campaign on a platform that promises strong national security. If aid is seen as the grease that helps to solidify alliances or a tool by which powerful countries purchase cooperation from recipients in other policy realms (buying UN votes or basing right), then variations in the domestic economy are less likely to influence the amount and destination of foreign aid. (Baldwin 1985; Dreher and Vreeland 2010). Therefore, for domestic political reasons, right-leaning governments are more likely to see aid as a commercial or geo-political tool, rather than as a resource transfer designed to eliminate poverty or promote economic development in the poor countries.

Conversely, if aid is given primarily for altruistic reasons, it is reasonable to expect that the marginal utility of aid provision will be strongly contingent on domestic political and

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[8] Both elite interviews and public opinion surveys suggest that right-leaning respondents are less supportive of foreign aid in general.

economic conditions. Simply by acting "appropriately," left-wing governments may extend domestic norms of economic redistribution to the international arena (Lumsdaine 1993). However, during hard times, left-wing governments may be under increased pressure to provide domestic welfare in order to maintain winning electoral coalitions since support for left wing parties tends to come from labor organizations and individuals most vulnerable to economic shocks. Hence, increasing demands for domestic welfare provision are likely to have different effects on aid budgeting under left-wing governments than under right-wing governments, whose electoral success is less tied to provision of domestic welfare benefits. Since left-wing governments rely disproportionately upon support from the beneficiaries of domestic welfare programs, they will be more responsive to such demands in economic hard times.

Finally, we examine the influence of international trade on aid effort. Economic interdependence may affect the influence of the political variables discussed above. Donor countries whose domestic economy is more dependent on international trade are less likely to view foreign aid as an economic tradeoff. For such donors, aid is not simply a unilateral transfer of money out of the country. Rather, it is also a means of generating positive economic externalities. Put simply, countries that trade more have more to gain from international development. Therefore, we expect aid effort in these countries will be less sensitive to economic hard times, since one of the primary motivations for aid-giving is to promote gains from trade.

Research Design

Dependent variable

For this study, the dependent variable is aid effort. Following convention, we measure aid effort as the aggregate amount of foreign aid that a country provides in a given year, divided by its gross domestic product. We have calculated annual aid effort, from 1980-2008, for each donor in the recently published development finance database, AidData (research release 1.92).[9]

[9] AidData provides project-level information on development finance both for traditional donors (i.e., members of the OECD Development Assistance Committee) and non-traditional and emerging donors (e.g., Kuwait, Poland, Brazil, etc…). Measuring aid effort involves aggregating up from the project level to the national level. For this reason, we restrict our panel to the time period, 1980-2008. We are less confident that aggregating project information will yield accurate measures of total aid in years prior to 1980 because of inconsistencies in data reporting in the 70s.

In calculating aid effort, we have chosen to focus on aid commitments, rather than disbursements. Our study is fundamentally about explaining what influences the political process underlying donors' aid effort. Commitments are the output of that political process and, therefore, are the appropriate measure for this study. Commitment data for all donors has been converted and deflated to constant 2000 U.S. dollars. Finally, we chose to exclude all projects identified as debt relief or humanitarian assistance, as well as projects funded by OPIC or EXIM.[10] We obtain GDP data in 2000 U.S. dollars from the World Bank's *World Development Indicators.* Table 1 provides summary statistics for aid effort, as well as our independent and control variables.

Independent variables

Our primary independent variable is unemployment. To measure unemployment rates in donor countries, we use information on annual mean unemployment rates provided in table 3A of the International Labor Organization's LABORSTA database. Since these are annual means, it seems reasonable that at least a one year lag is necessary for these unemployment figures to affect policymaking. Moreover, budget processes within donor governments involve planning and delays that are almost always greater than one year. We do not expect to see formal aid commitments in the same year that the budgeting process starts. To account for the nature of unemployment data and this delay in budgeting, we consider a three year rolling average of unemployment. We supplement the unemployment variable with an additional politically salient economic variable that captures "hard times": income level. In general, we expect that decreasing income will create political pressure for domestic redistribution to those hardest hit by any economic downturn, putting budgetary pressure on international redistribution. Likewise, we expect that increasing income will relieve this pressure. To account for differences in the size of donor economies, we use per capita measures of gross domestic product provided by the World Bank's *World Development Indicators*. As with unemployment data, we use a three year rolling average when entering income data into our models.

[10] In this study, we measure aid effort in terms of aid transfers, rather than aid flows. Since many of these excluded types of aid are ultimately intra-donor transfers, we do not believe it is appropriate to include them here. Roodman (2006) and Kharas (2007) make similar decisions. Finally, we exclude humanitarian disaster relief by convention and because disasters occur independent of economic conditions within donor countries.

To measure the political ideology of donor governments, we use data from the World Bank's *Database of Political Institutions* (Beck, et al 2001) to construct indicators for left- and right-wing control of the executive, as well as left- and right-wing control of the legislature. Though this is a thin measure of ideology, we believe that this measure is the most straightforward way to capture relevant political influences on aid budgeting, opposition to redistribution generally, and opposition to international redistribution particularly. Since the dynamic that these variables capture is an immediate part of the policy process, we lag these values by only one year.

Finally, we create a multiplicative interaction between unemployment and left/right control of government. Foreign aid can serve multiple purposes, and there is good reason to believe that there are systematic differences in motivation for aid giving between left- and right-wing governments. Moreover, there are likely to be systematic differences in the electoral constituencies / selectorates of left- and right-wing governments. We expect that more egalitarian political ideologies will be associated with relatively greater levels of aid effort. However, since left-wing governments are also expected to provide for domestic welfare to a greater extent than their right-wing counterparts, they are likely to be more sensitive to domestic economic downturns. An increasing demand for domestic welfare and a decreasing supply of money combine to create strong incentives for left-wing governments to cut back on aid during economic hard times. Right-wing governments do not face the same severe trade off because their own political constituents are more insulated from unemployment and because their constituents are more likely to benefit from trade, which might suffer in the event of declining aid allocations.

Control variables

Redistributive policies are more institutionalized in some countries than in others. Therefore, a switch from left-wing to right-wing control of government may not have the same consequences for foreign aid across all countries and all years. To control for this, we supplement the DPI indicators for political ideology and control of government with Gini coefficients (measured as three-year rolling averages).

Following our earlier discussion of the influence of political ideology on aid effort, we control for the importance of trade to a donor country's national economy. As economic interdependence deepens, the perception of foreign aid as a unilateral transfer of resources may give way to a vision of aid as a tool for generating positive economic externalities, resulting from development. If aid to a given recipient country is reduced, its ability to purchase exports from the donor country might also decline. In this paper, we consider the volume of a country's trade as a percentage of its gross domestic product in a given year, as reported in the World Bank's *World Development Indicators*. As with the other economic variables, these are annual data. Therefore, we use three year rolling averages when entering trade data in our models. Next, we control for changes in the size of a donor country's domestic economy by considering the rate of GDP growth – the percent increase in GDP from time t_{-3} to time t_{-1}. Here we are primarily interested to see whether aid increases proportionally with GDP. If aid growth is slower/faster than GDP growth, it will be reflected in our models by negative/positive coefficients for GDP growth. Finally, we control for national debt. Increases in a country's debt burden may well produce pressures to reduce international transfers, irrespective of unemployment, income, or partisanship. We obtain these data from the *World Development Indicators* and, as with other yearly economic data, we use two-year lags when entering GDP growth in our models.

[Table 1 about here]

Analysis

To test our hypotheses about the political economy of aid effort, we first built a time-series cross-section dataset with country-year data from 1987-2007. We use as our base model an unbalanced panel regression with country-fixed effects, to control for factors that may vary across donor countries, but not over time. Because there is reason to believe that herding behavior exists among donors,[11] we calculate Driscoll-Kraay standard errors, which are robust both to heteroskedasticity and violations of cross-sectional independence. To help control for the influence of exogenous shocks, we also include year dummies in each model.

Results

Table 2, column 1 summarizes the results of our base model. We find support for our main

[11] Thanks to Alena Stern for this suggestion.

hypothesis: that aid effort is driven by politically-salient economic conditions. The coefficients for both unemployment and GDP per capita are statistically significant, with signs in the anticipated direction. In the base model, a one thousand dollar (2000 USD) increase in per capita income predicts roughly a three percent increase in aid effort. The coefficients for the political variables that we've included also have signs in the direction that we anticipated: left-wing control of the legislature is a significant, positive predictor of increased aid effort. This corresponds with our hypothesis that left-wing governments are likely to show greater aid effort generally. Most interestingly, the multiplicative interaction between unemployment and left-wing head of state is significant and negative. This supports our conjecture that left-wing governments are more sensitive to hard economic times. Moreover, the effect is substantively significant. The size of the coefficient for the interaction term suggests that the dampening effect of unemployment on aid effort is nearly twice as great under left-wing governments as it is under centrist or right wing governments. Thus, for example, a three point increase in the unemployment rate under a left government predicts roughly an eight percent decrease in aid effort (compared to a four percent decrease under a center or right government). We find that trade is not a significant predictor of aid effort, contradicting our expectation that as trade increases, governments will provide a relatively greater amount of aid.

[Table 2 about here]

We present alternate specifications of our base model in columns 2-4. In column 2, we enter Gini coefficients as an additional control.[12] We continue to find that that unemployment, particularly under left wing governments, has a significant negative effect on aid effort. As expected, income continues to have a significant, positive effect. Contrary to our expectations, we observe a positive association between income inequality and aid effort. In column 3, we introduce an additional control for debt burden. Once again, our main result holds; interaction between unemployment and left-wing governments continues to have a significant, negative effect on aid effort. To our surprise, we observe that debt burden has a positive effect on aid effort. It should be noted, however, that reliable data on national debt are not available for all

[12] We exclude Gini from our main model because it comes at the expense of nearly half our sample.

donors in all years. As with Gini, the inclusion of debt burden comes at the steep price of nearly halving our sample. Accordingly, we are reluctant to draw strong inferences regarding the effect of income inequality and debt burden.

In addition to estimating models with extra control variables, we also re-estimate our main model, excluding year dummies (column 4). Our primary interest in introducing these additional specifications is to test the robustness of our primary finding: that the effect of unemployment on aid effort is significantly conditioned by partisanship. In fact, the effect of this interaction is remarkably consistent across all models. Unsurprisingly, per capita income also has a consistent effect across alternate specifications. That income is not significant at conventional levels in column 3 has more to do with the radically diminished sample than with any change in its substantive effect. Interestingly, we observe that GDP growth has a significant (and substantively large) negative effect on aid effort – indicating that aid budgets generally grow more slowly than does GDP. This reinforces our main hypothesis that politically-salient economic conditions have the greatest influence on aid effort. If aid effort falls during hard times, economic growth by itself will not quickly restore aid expenditures to their previous level. This "ratchet effect" finding suggests that while aid may decline severely and rapidly in economic hard times, a return to economic well-being within donor countries does not lead to quick rebounds in aid levels.

To further test the robustness of these findings, we also modeled total aid commitments, with GDP and population entered as controls. Additionally, we used the DPI indicators of political ideology to produce two subsamples: left-wing control of the executive and legislature and right-wing control of the executive and legislature. As shown in Table 3, under left-wing control we find that unemployment and GDP continue to have significant effects, in the expected direction. Interestingly, population has a significant, negative effect. This is entirely consistent with our conjecture that left-wing governments are constrained by the need to provide domestic welfare benefits. Under right-wing control, none of our main explanatory variables are statistically significant. Again, this is entirely consistent with our conjecture that domestic conditions will be a weaker predictor of aid levels under right-wing governments. The reason for this, we argue, is that right-wing governments have very different motivations for providing aid. The significant positive effect of trade on aid levels under right-wing governments provides further support for this conjecture. Our results show that right-wing governments are more likely to use aid to promote international trade than are left-wing governments.

[Table 3 about here]

Conclusions

Following the recent global economic downturn, scholars have turned their attention to explaining the determinants of a donor's aid effort. Our contributions to this literature have been (1) to broaden the scope of time-series cross-section analysis to include non-traditional donors (i.e., donor countries that do not belong to the OECD DAC) in this analysis and (2) to test side-by-side some of the most convincing economic and political explanations of aid effort that have been identified in the literature. Our results strongly support the hypothesis that measures of constituents' economic welfare (unemployment and income per capita) are important determinants of aid effort. Macroeconomic expansion/contraction alone does not cause aid effort to increase/decrease. Importantly, however, the effect of domestic economic variables on aid effort is strongly conditional on domestic politics. Our results were largely robust to the addition of gini coefficient to our main model, and they remained robust across three different statistical techniques. That we observe consistent results across these models, using a more complete time series than in much previous research, makes us confident that unemployment and income per capita have a substantively and statistically significant effect on aid effort, but mainly under left-wing governments. In contrast, aid levels under right-wing governments are relatively underdetermined by domestic conditions.

Our results also show that future research will be necessary to explain aid levels under right-wing governments. In particular, there is great need to move beyond an exclusive focus on domestic politics to explore how international politics shape aid effort. Moreover, we encourage future research to move beyond the dichotomous indicators of ideology that we use in the current study. A more fine-grained measure of political ideology could provide more information about the relationship between political ideology and aid effort.

Another possible extension of our study will focus on the difference between OECD DAC donors and non-traditional donors. As AidData continues to expand its coverage of non-

DAC donors, we will be better able to compare the behavior of these groups of donors. We will also be able to do more to compare the influence of democracy on aid provision.[13] This could tell us, among other things, how general our findings are concerning the importance of income and unemployment. Such conditions ought to operate most directly and strongly within democratic polities where there is a strong electoral connection. Are non-democratic donors less sensitive to this political logic? Do selectorates in authoritarian regimes respond the same way to these political-economy factors, and under what conditions can they influence policy? We think it likely that on average democracies will be more sensitive to the economic well-being of the general populace than authoritarian governments. However, if the selectorate within an authoritarian government is drawn from a segment of the population that is not shielded from economic downturns, then we could see a similar dynamic as observed in democracies (particularly those with left governments). Similarly, if authoritarian states are unstable and the continued rule of the governing coalition is threatened by popular unrest, then we might also observe these authoritarian states reducing aid effort in hard times. However, most of our observations of authoritarian donors through 2008 come from oil rich regimes in the Middle East that are both stable and have very narrow selectorates that are insulated from changing levels of unemployment.

A third possibility for extending this research would be to move beyond a strict focus on donor-side variables. We are interested to learn more about the extent to which donors' aid effort is shaped by conditions in recipient countries. Tingley (2010) demonstrates one possibility: that aid effort may vary according to the income level of recipients. Shushan and Marcoux (2010) note that aid effort among Arab donors has fallen markedly in the past decade, at roughly the same time that Western donors have expanded aid allocation to Arab recipients. If some donors traditionally give to certain recipients, is their aid effort subject to a substitution effect?[14] We are also interested to know whether the breadth of a donors' portfolio influences aid effort. Are donors who give broadly less prone to quick swings in aid effort, compared to donors who focus on a particular sector or recipient?

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[13] At present, there is too little variation in common measures of democracy (e.g., polity2) to draw conclusions with confidence.

[14] College students who receive need-based financial aid might describe this as the "scholarship effect."

Finally, it is possible that international financial institutions and multilateral development agencies actually work as their creators intended – as counter-cyclical buffers against the most debilitating effects of a global recession. Aid dependent recipient countries will need more aid during recessions in order to cover balance of payments deficits and to inject capital into these countries to spur economic recovery. However, if our results in this paper are correct, then we should observe lower aid receipts from bilateral donors during hard times. If multilateral agencies work as their creators intended (as lenders of last resort and agents of economic recovery and development), we ought to observe an increase in multilateral grants and loans during recessions in a counter-cyclical effort to avoid reductions in trade and defaults on previous loans. We should not only observe this increased aid effort of multilateral donors because that is what they were designed to do, but, more importantly, because staff and management at these multilateral agencies are insulated from the political fallout of rising unemployment and falling incomes.

The current economic slowdown and the resulting hard times within donor countries are taking place in the context of continuing promises to increase or maintain aid flows from traditional bilateral donors, especially the largest donors such as the U.S., U.K. Germany, and Japan. However, our analysis of previous economic hard times suggests that despite current rhetorical commitment to enhanced development budgets, rising unemployment and falling incomes of domestic constituents will lead to reduced aid effort. A series of post-Cold War commitments to development (the Paris Declaration, the MDGs, the Acrra Agenda for Action, etc…) provide a normative admonition to increase aid effort and a bulwark against cutting aid budgets, but underlying political economy variables are pushing donor governments in the opposite direction. Whether these new norms can restrain or reverse the political economy forces revealed in previous economic downturns will become apparent within a few years. The strength of our findings in this paper leaves us pessimistic about the prospects for donor governments fulfilling their promises in this regard.

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TABLE 1. Descriptive Statistics

	Mean	***Min***	***Max***	***SD***	***Obs***
Aid % GDP (3yr average)	0.279	0.000	2.600	0.331	572
Unemployment (3yr average)	7.677	0.698	30.393	4.720	712
GDP P.C. thousands USD2000 (3yr average)	18.085	0.928	76.188	13.012	854
Trade % GDP (3yr average)	78.248	15.378	325.633	44.694	821
GDP Growth (t-1 /t-3)	6.544	-40.668	45.294	6.913	857
Gini Coefficient (3yr average)	31.312	20.200	46.333	5.262	266
Debt % GDP (3yr average)	55.010	3.832	129.675	30.103	252
Left Government (t-1)	0.346	0	1	0.476	736

TABLE 2. FE Panel Regression, Driscoll-Kraay Standard Errors

	1	2	3	4
Unemployment (3yr moving)	-.014* [.007]	-.013 [.010]	.004 [.003]	-.017*** [.006]
Left-wing Government	.116** [.045]	.146** [.055]	.183*** [.034]	.082 [.052]
Unemployment * Left-Government	-.012** [.005]	-.012** [.006]	-.015*** [.006]	-.011* [.006]
Income p.c. ($1000s)	.031*** [.006]	.070*** .014	.012 [.010]	.011** [.005]
Trade / GDP (3yr moving)	.001 [.000]	.001 [.002]	.005* [.002]	-.001 [.001]
GDP Growth (3yr)	-.006*** [.001]	-.004 [.003]	-.017*** [.003]	-.001 [.003]
Gini (3yr moving)		.015** [.006]	-.003 [.007]	
Debt / GDP (3yr moving)			.002* [.001]	
(constant)	-.311 [.135]	-1.889 [.589]	-.422 [.260]	.240 [.164]
Year effects	Yes	Yes	Yes	No
Observations	489	252	110	489
Within R^2	0.29	0.38	0.37	0.14

DV: Aid/GDP

TABLE 3. Split Sample Results (FE, Driscoll-Kraay)

	Left Executive Left Government	***Right Executive Right Government***
GDP (millions) 3yr moving	.013*** [.004]	.006* [.004]
Unemployment 3yr moving	-172*** [48.5]	64.4 [56.5]
Trade (3yr moving)	5.89 [31.32]	-41.0* [22.5]
Gini (3yr moving)	85.89** [35.71]	58.6*** [18.5]
Population (millions) 3yr moving	-964** [334]	-328 [287]
Year effects	Yes	Yes
Observations	112	120
R^2	0.64	0.77

DV: Aid Commitments (millions USD2000)

Appendix

Table 4: Review of Models in Literature Review

Study	Dependent Variable	Significant Economic Variables	Significant Political Variables
Round, Odedokun, 2004	Aid Effort (Aid/GDP)	GDP per capita	Government Polarization
		Phase of economic cycle	Cold War Dummy
		government size (budget/GDP)	Left-Right orientation
		peer pressure (aid effort of all other donors)*	Constitutional checks and balances
		Population	Peer pressure (Total combined aid effort)
Tingley, 2010	Δ Aid Effort (Aid/GDP)	GDP growth	Left-Right Orientation
			Cold War Dummy
Brech, Protrafke, 2009	Δ Aid Volume	GDP growth	Trade Balance
			Cold War
			Left-Right Orientation
Bertoli, et al, 2005	Aid Effort (Aid/GDP)	Trade Balance	
			Political Orientation
		Government Revenue	Colonial Heritage
		Fiscal Balance	Gini Coefficient
		Output gap	
Dang, Knack, Rogers, 2009	Aid Volume	Fiscal Crises	Gini coefficient
		GDP growth	
		unemployment rate	