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Power and purpose : U.S. foreign aid and development

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POWER AND PURPOSE: U.S. FOREIGN AID AND DEVELOPMENT

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To Halley, who got me to stop running away from this project and made it possible for me to finish. I love you so much.

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Abstract

Foreign aid represents about 1 percent of the United States federal budget, but it also represents a significant portion of many recipient countries' gross domestic products. Although there has been substantial interest in foreign aid among international political economy researchers over the last decade or so, there are still few if any answers to the most basic questions: who gets foreign aid, how much, and is it effective?

Through a combination of cross-national analyses and a quantitative case study of Afghanistan during the Taliban insurgency of 2003–2009, this dissertation seeks to advance our understanding of the utility of foreign aid as a foreign policy tool for the United States. The results indicate several important findings. First, U.S. economic assistance is directed toward deserving recipients despite claims focusing on strategic interests. Second, both economic and military aid from the U.S. to its allies have reduced the level of political development in those countries, whereas aid to nonallies has had beneficial results. Finally, aid has limited utility as a weapon against insurgencies: civilians respond positively to the number of certain types of projects, but the actual amount of money spent has no effect. The ultimate conclusion is that aid is a useful tool of foreign policy in preventing and combatting the breakdown of political order if it is applied correctly.

Chapter 1. Introduction

The United States has included economic assistance as a key foreign policy tool since the Marshall Plan was created to help Europe rebuild after World War II.[1] In 2011, the fiftieth anniversary of the formation of the U.S. Agency for International Development (USAID), more than $30 billion was appropriated for economic assistance, with another $15 billion approved for military support (USAID 2012). U.S. aid reaches a host of countries and serves multiple foreign policy goals, which is part of why its utility and effectiveness are constantly debated in political, media, and academic circles. While proponents apply both moral and practical arguments in support of using aid to alleviate the suffering of the world's poor, opponents point to inconsistencies in selection and allocation practices, ineffectiveness of aid, and pernicious consequences of aid in recipient countries.

This dissertation is a first-cut exploration into the selection of U.S. aid recipients, the allocation of funds, and the effects of aid on recipient countries. The process of aid is traced, from the selection of recipients to the amount allocated to the effects on the development of those countries. The objective is to develop as much as possible a complete picture not just of U.S. foreign aid policy but also of how international system leaders use nonmilitary means to achieve political goals with respect to other states (Palmer, Wohlander and Morgan 2002); thus, the three chapters, while written as individual papers, contribute to a single story of U.S. foreign aid. The next section explains the genesis and motivation of the dissertation project, and the second section introduces the questions and findings of the following chapters.

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[1]See `http://www.usaid.gov/who-we-are/usaid-history` for brief history of U.S. foreign aid.

1.1 Motivation

In the post-Cold War era, the field of international relations poured much time, energy, and ink into explaining civil conflict and, more broadly, state failure.[2] In turning toward civil conflict, these international relations researchers began focusing on domestic institutions and distributions of power.[3] This contrasts with the neorealist paradigm in international relations, which holds that interstate politics is the product of system-level variables, such as the distribution of power among the major powers (Mearsheimer 2001; Waltz 1979).

The levels of analysis problem has been a prominent feature in the development of the study of international relations. Contrary to previous realist thought (Carr 2001; Morgenthau and Thompson 1985), Waltz (1959; 1979; 1988) argues that war is the result of rational, unitary states responding to system-level, not domestic, factors (see also Mansfield 1992; 1994). Some recent research has begun to explore system-level explanations for even internal political phenomena: Kalyvas and Balcells (2010) show that the "technology of rebellion," or the type of conflict based on the relative strength of the rebels and the state, is strongly related to the distribution of power in the system, particularly the shift from bipolarity during the Cold War to unipolarity after the fall of the Soviet Union.

In order to further explore the connection between attributes of the international system and states' internal politics, this dissertation focuses on a single variable that directly links the leading power(s) of the international system to development in individual states: foreign aid. The foreign aid literature comprises substantial debates over the allocation of

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[2]For some recent discussions of civil conflict, see Collier and Hoeffler (2000); DeRouen and Sobek (2004); Fearon (2005); Fearon and Laitin (2003); Hendrix (2010); Herbst (2004); Kalyvas and Balcells (2010); Lake and Rothchild (1996); Mason (2004); Ross (2004*b*); Sambanis (2001; 2004); Snyder and Bhavnani (2005); Thies (2010). For state failure, see Bates, Greif and Singh (2002); Bates (2008); Bøås and Jennings (2007); Boege, Brown and Clements (2009); Brooks (2005); Goldstone et al. (2010); Hameiri (2007); Howard (2008); Patrick (2007); Piazza (2008); Vinci (2008).

[3]The same, of course, could be said of democratic peace theorists, another substantial research program in international relations (Farber and Gowa 1995; 1997; Gartzke 1998; 2000; Gowa 2011; Oneal and Russett 1999; Russett and Oneal 2001; Schultz 1999; 2001; Sobek 2003; 2005).

aid (see Alesina and Dollar 2000; Bueno de Mesquita and Smith 2009; Clist 2011; Hoeffler and Outram 2011; Tingley 2010) as well as the effectiveness of aid (see Bearce and Tirone 2010; Doucouliagos and Paldam 2009; Easterly 2001; 2006; Sachs 2005). These debates are particularly important specifically with regard the United States, which contributes the largest share of global foreign economic assistance among the members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (see Callaway and Matthews 2008; Demirel-Pegg and Moskowitz 2009; Finkel, Pérez-Liñán and Seligson 2007; Fleck and Kilby 2006; 2010; Harrigan and Wang 2011; Lai 2003; Lancaster 2008; Milner and Tingley 2010; Weinstein and Vaishnav 2006).

Foreign aid has received quite a bit of attention and become quite a target for fiscal hawks amid the financial and budgetary crises of the past few years.[4] These financial woes combined with international turmoil, particularly in the Middle East and sub-Saharan Africa, has led for calls for a leaner military, further stressing the importance of effective foreign policy tools. Thus, the motivating question for this dissertation is whether or not aid is an effective foreign policy tool, particularly for the U.S.

1.2 Donors, recipients, and international order

This dissertation seeks to contribute toward a theory linking foreign aid and the political development of states. This theory begins by assessing the role of foreign aid within a donor's foreign policy portfolio. Researchers debate the role of aid either as an effort to assist in humanitarian relief and the economic development of recipients or as a self-serving, strategic tool (Callaway and Matthews 2008). The theory developed and evidence offered here support a middle ground: hegemons offer foreign aid in order to maintain a stable, orderly international system by supporting stable regimes. Hegemons seek to create and

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[4]Last summer, the *New York Times* ran an interesting panel of essays titled "Can't afford foreign aid, or can't afford to cut it?" It is available at `http://www.nytimes.com/roomfordebate/2012/08/15/cant-afford-foreign-aid-or-cant-afford-to-cut-it`.

maintain a favorable international system. Hegemons take on the responsibilities of the system not only because they can but also because "they want their system to be orderly and peaceful, and they want common interests to be cared for" (Waltz 1979, 198). What then are the common interests of the system? After the maintenance of the polar structure of the system itself and the preservation of peace, Waltz (1979, 199–210) lists four target issues affecting the modern world: poverty, population, pollution, and proliferation. While proliferation exists solely within the domains of national and international security, the first three issues are highly interrelated: demographic shift is highly correlated with economic development, as birth rates are steeply declining in North American and Western Europe and populations are booming in developing countries. Growing populations and unregulated foreign investment in underdeveloped regions are putting increasing strains on basic natural resources and environments.

But why should the hegemon interest itself in the problems facing the lesser members of the international system? Should the U.S., facing economic woes, military engagements, and partisan deadlock commit resources that could be used at home to these seemingly irrelevant issues? Whether directly affected by conditions and events in other parts of the world or not, the U.S. engages global interests as if they were its own. As the power of a state increases the more its own interests align with those of the system as a whole and the more costs it willingly bears in order to fulfill those interests: "The greater the relative size of a unit the more it identifies its own interest with the interest of the system. . . Units having a large enough stake in the system will act for its sake, even though they pay unduly in doing so" (Waltz 1979, 198).[5] Hegemons can pay the costs of system leadership in multiple ways, including engaging military force, establishing international institutions, and exercising economic dominance.

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[5]Hegemons can be expected to bear the costs of maintaining the system only to a point, however, after which the system may experience hegemonic war and change (Gilpin 1981) or stability and cooperation under the rules of international regimes (Keohane 1984; Keohane and Nye 1989).

In order for hegemons to maintain a favorable system, however, they must also focus on individual members of the system of states. In fact, all international actors use foreign policy tools in order to maximize their expected benefits by promoting either maintenance of or changes to the *status quo* of their relations with other countries (Palmer and Morgan 2006). The donation of foreign aid represents a country's desire to effect change in the recipient's policies: "foreign aid, at the most general level, is a tool of influence—states give it because they believe it encourages recipients to take desired actions" (Palmer, Wohlander and Morgan 2002, 11).

What sort of change would the U.S. in particular seek? In a highly critical view based on selectorate theory, if U.S. leaders, like all others, focus solely on the goal of staying in office as long as possible, then U.S. foreign aid policy should in fact not promote the kinds of changes many U.S. citizens would expect: although aid is offered in terms of promoting democracy, human rights, economic opportunity, and other liberal ideals, in fact aid should tend overall to entrench dictators that offer strategic benefits to the U.S. (Bueno de Mesquita and Smith 2007; 2009). Bueno de Mesquita and Smith (2011, 161–194) focus on, for example, U.S. aid to Egypt following the Camp David Accords, meant to buy peace with Israel, and aid to Liberia during Samuel "Sergeant" Doe's regime that secured his support in fighting communism in Africa and the Middle East.[6] Although aid creates a dilemma for incumbents—foreign aid, as an unearned source of revenue, represents a prize to the challengers of the recipient regime (Ahmed 2012; Smith 2008)[7]—it works to secure policy concessions in the short term. Thus, aid directly serves the interests of the donor at the expense of the recipient population.

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[6]See Chapter 2 for a discussion of U.S. aid to Egypt and Israel and Chapter 3 for a case study of U.S. aid to Doe's regime.

[7]The relationship between unearned income and stability has been highly debated recently. Fearon (2005) argues that oil producing states are prone to civil conflict because oil makes for a tempting prize for political challengers (Ross (2004*b*) also supports this finding); however, Bermeo (2013) argues that aid and oil have differential effects on the prospects for democratization. Snyder and Bhavnani (2005) argue that the importance of lootable resources, especially alluvial diamonds, relative to nonlootable resources, as well as the mode of extraction, are important specifications in determining the likelihood of civil conflict.

This cynical story not only paints a severely grim picture of U.S. foreign aid policy but it also generalizes too much based on a few cases of U.S. development assistance gone wrong. Comprehensive analyses of how U.S. foreign aid funding is determined tell a more nuanced story. Whereas Bueno de Mesquita and Smith (2011) do not take ideological differences among incumbent leaders into account, the overall partisanship of Congress and the White House is important. Liberal governments offer more aid in general than do conservative ones (Tingley 2010); moreover, liberal administrations and legislatures produce more development-driven aid whereas conservative Congresses focus more on commercial concerns (Fleck and Kilby 2006). These ideological preferences have roots in legislators' constituencies as well: U.S. Representatives from left-leaning districts prefer economic aid, whereas those from right-leaning districts prefer military aid (Milner and Tingley 2010). U.S. legislators and the constituents they represent tend to apply their preferences for the role of government in domestic lives toward their preferences over foreign affairs as well, supporting the assertion that leading powers' interests include those of the international system (Waltz 1979).

What, then, should be the overriding foreign policy interest for a hegemon seeking to maintain international order? Despite interest in great power wars from leading theorists (Mearsheimer 2001; Waltz 1988), the relative lack of interstate war since the end of World War II has shifted much of the attention of international relations researchers toward civil conflict (Fearon 2005; Fearon and Laitin 2003), terrorism (Pape 2003; Pape and Feldman 2010), and state failure (Goldstone et al. 2010; Howard 2008). State failure has become an umbrella term that incorporates weak institutions and the collapse of political authority along with the outbreak of unchecked violence. Recent work on state failure in the developing world confirms that political institutions, and not economic, demographic, or geographic factors, are the most powerful predictor of political instability (Goldstone et al. 2010). Correlates of state capacity, such as per capita income, recent independence, and large population, are strong predictors of civil conflict, supporting a view that weak states are particularly

destabilizing (Fearon and Laitin 2003). A special issue of the *Journal of Peace Research* supports the conclusion that stronger states face a lower threat of civil violence; moreover, among countries fighting a civil war, a higher level of state capacity allows governments to more credibly commit to a negotiated settlement with rebels, thus allowing for a quicker end of hostilities (Sobek 2010). This finding—that governments of stronger states are more capable of securing peace and stability—confirms the formal argument presented by Bates, Greif and Singh (2002). They argue that private citizens in a stateless society reward a specialist in violence who can effectively defend property rights, thus taking society out of the state of nature. This, they argue, is the foundation of government.

If this story is true, which the evidence supports, then the primary political objective of society is the formation and maintenance of order. The development of the modern nation-state shows that governments that were able to effectively marshall resources and apply them toward security and order prospered (Tilly 1992). State weakness has negative implications for democratization (Kraxberger 2007), terrorism (Piazza 2008), and the spread of infectious disease (Patrick 2007). Weak and failed states allow for what Vinci (2008) terms "domestic anarchy," and these anarchic subsystems are in fact "open" and therefore linked to the anarchic international system, permitting direct relationships between armed and dangerous substate groups and elements within the broader international system. In sum, as the U.S. National Security Strategy states, "Failing states breed conflict and endanger regional and global security" (Obama 2010, 8). Domestic order is thus linked to international order.

In general the arguments that follow support the overall expectation that U.S. foreign aid is intended to maintain a peaceful, stable international order by supporting the development of political capacity and thus preventing insurgency, civil conflict, terrorism, and other related phenomena. The theoretical and empirical story presented here traces U.S. aid from its allocation to its effects on the prospects for political development in recipient countries. Foreign aid, as a change-seeking foreign policy tool (Palmer, Wohlander and Morgan 2002;

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Palmer and Morgan 2006), is seen as a preventive measure, meant to promote political stability in recipient countries and thus the international system at large. This story differs from previous explanations, however, by reconsidering the concept of donor self-interest. Recent work has found that the U.S. appears particularly self-interested in its foreign aid allocation (Harrigan and Wang 2011; Hoeffler and Outram 2011). The arguments and evidence presented here support a broader motivation for aid; instead, aid targets potential threats to international stability.

One issue in particular looms over this discussion. If humanitarian need, evidenced by poverty, is also associated with threats to international stability, then can we differentiate between national and human security? This is a growing concern in recent decades, which have seen far more genocides, terrorist attacks, droughts, plagues, and other such humanitarian crises than it has interstate wars. Analyzing international stability in terms of national security presents leaders with serious challenges and offers few if any appropriate tools to combat these phenomena. A focus on human security, however, shifts solutions away from armed force and toward more constructive measures of dealing with crises (Beebe and Kaldor 2010). While strategic interests continue to be conceptualized and measured in military terms, the project also considers humanitarian need as a separate but equally important consideration for foreign policies that focus on maintaining international stabilty.

1.3 Questions and answers

Analysis of foreign aid is generally broken down into three phases: selection, allocation, and effectiveness, with selection and allocation considered jointly. Chapter 2 analyzes the selection of U.S. foreign aid recipients and allocation of aid. Particularly the focus is on the relative importance of U.S. strategic interests and recipient need (see Callaway and Matthews 2008; Harrigan and Wang 2011). The apparent importance of self-interest appears to indicate a strategic approach to U.S. aid, whereby aid is used to reward those countries that

support U.S. foreign policy interests abroad, even at the expense of the political, economic, and humanitarian needs of the populations of the recipient governments (Bueno de Mesquita and Smith 2011). This short-sighted view is rejected. Although some limited cases, such as Liberia in the 1980s, point to this kind of logic, overall U.S. aid policy promotes a more long-term stability founded upon stronger political institutions. This story not only fits in better with a rational view of aid as a foreign policy tool, but it also fits better with established empirical findings that democracies promote democratization and political development abroad (Bermeo 2011).

Previous studies of US foreign economic aid have blurred the line between strategic importance of the recipient to the U.S. and foreign policy preference similarity, or friendliness, between the U.S. and the recipient. Only including one measure or the other biases analyses in favor of evidence of a strategic, as opposed to humanitarian, use of economic aid. Distinguishing between the two separate concepts and including both in the analysis of U.S. foreign aid drastically increases the relative importance of need-based factors of recipients relative to U.S. strategic interests. Panel regression results of recipient economic aid allocations from the U.S. indicate that recipient level of development, political democracy, and proximity to conflict drive U.S. economic aid much more than U.S. geostrategic concerns, and this result is further emphasized in relation to the allocation of U.S. military aid. These results indicate that U.S. economic aid giving is in general based on recipient need.

The results indicate that U.S. aid targets countries that have lower wealth and more democratic institutions. This shows a preference toward fledgling states that show the early warning signs of insurgency (Fearon and Laitin 2003). These results are robust as to model specification and alternative measures of key variables. These results support the theoretical position that hegemons use foreign policy tools, particularly aid, to maintain a stable international order.

Chapter 3 looks at the effects of U.S. aid on recipient countries, particularly in terms of political development. Previous studies of the effects of foreign aid have either focused the generation of democratic institutions (Acemoglu, Verdier and Robinson 2004; Bermeo 2011; Bueno de Mesquita and Smith 2007; 2009; Djankov, Montalvo and Reynal-Querol 2008; Dunning 2004; Finkel, Pérez-Liñán and Seligson 2007; Knack 2004; Kono and Montinolo 2009; Licht 2010; Savun and Tirone 2011) or the promotion of economic growth (Burnside and Dollar 2000; 2004; Doucouliagos and Paldam 2009; Easterly, Levine and Roodman 2004; Rajan and Subramanian 2008). However, foreign aid may also be used to boost geostrategically important and forthcoming governments despite their political, economic, or social policies. With this source of guaranteed external support, allied regimes have little incentive to develop domestic institutions while opting to suppress any political or social opposition. I find evidence of an inverse relationship between U.S. foreign aid—both economic and military—and relative levels of political extraction, a proxy for political development, among U.S. allies, except for economic aid given in the post-Cold War period; however, among non-allies, aid generally has a positive effect on development. Thus, by considering foreign aid within a geostrategic context, I link a potential source of state capacity and state failure with the international system.

The story told by these two chapters points toward a generally coherent aid policy that seeks to maintain international stability by preventing political collapse in weak states. Unfortunately, there are limitations. When strategic interests overlap with need, as indicated by the alliance variables in both chapters, these concerns appear to take precedence. U.S. alliance partners are particularly prone to actually see reduced political development when they receive aid; however, this result may be driven by the structure of the international system, as economic aid has generally had a more positive effect since the end of the Cold War. Future work will examine more closely the effects of aid in the post-Cold War era, including the War on Terror, as more recent data become available.

Chapter 4 provides an extended case study of Afghanistan during the Taliban-led insurgency that began in 2003, which forced the occupying military forces into counterinsurgency. The release of the *Afghan War Diary* allowed scholars and the public to analyze trends of violence in the prosecution of the war against the insurgency; however, the effects of the more than $90 billion in U.S. aid to Afghanistan have gone untested. A substantial portion of that aid has come from the Department of Defense via the Commanders Emergency Relief Program. Including data on CERP projects provides an expanded understanding of how development and relief aid have affected counterinsurgency efforts in Afghanistan and offers a rare glimpse of how aid affects the course of a violent conflict. The number of economic development and humanitarian relief projects fosters collaboration of Afghan civilians with Western forces; interestingly however, the actual amount of money spent has a negligible effect.

Conclusions, policy implications, and a brief discussion of the limitations of the current project and opportunities for future research are presented in Chapter 5. In short, U.S. aid is beneficial for recipient states as well as the international system as a whole. The focus of aid projects should be on developing political institutions and not expanding markets. In general economic aid that is not potentially tied to any additional expectations due to an alliance commitment promotes stronger basic political institutions in the form of more effective tax regimes. In Afghanistan, the appearance of a commitment to improving daily lives is a key factor in improving state capacity in the form of legitimacy. In short, U.S. aid promotes political development and thus a more stable international system.

Chapter 2. Preferences, Purpose, and U.S. Foreign Aid

2.1 Introduction

Between 2004 to 2010, the United States gave more humanitarian aid to Sudan ($4.54 billion) and Ethiopia ($2.76 billion) than to any other countries. Regular recipients include such troubled spots as Iraq, Afghanistan, and Somalia, but the list changes each year (Development Initiatives 2012). How the U.S. determines which countries receive aid and how much they should receive are questions that have been increasingly central to the exploration of the U.S. foreign policy and global leadership over the past decade. Foreign aid represents a tool in the foreign policy menu; moreover, students of international politics have come to view "foreign aid not as separate from other aspects of foreign policy, but as a component of a state's foreign policy portfolio" (Palmer, Wohlander and Morgan 2002, 6). As the leading power in the international system, as well as the donor of the largest share of foreign aid among members of the Development Assistance Committee of the Organization for Economic Cooperation and Development, particular focus is placed on the United States in terms of the allocation and effects of its foreign aid.

The U.S. features a unique debate over the general purpose of aid. Since the founding of the country, the metaphysical debate between "humanitarians" or activists,those who view the state as an institution for social and humanitarian good and progress, and "libertarians" or isolationists, those who prefer limitations on the role of the state in society has played out in the decisions to offer assistance to foreign countries. "In no other aid-giving country," foreign aid expert Carol Lancaster (2007, 94) reports, "has the debate on foreign aid between these two traditions been as evident and enduring." Proponents of foreign aid form an uneasy alliance between those who support an active humanitarian foreign policy and those who see foreign aid as a tool of advancing U.S. strategic interests. Which side of the debate

gets its way sets the tone not only for U.S. foreign aid policy but also for the prospects of development, peace, and even the struggle between life and death in recipient countries.

As the donor of the largest share of official development assistance, U.S. aid policy and programs have faced considerable scrutiny both in popular discourse and in academic studies. This scrutiny is the product of the disconnect between the rhetoric of foreign aid, which focuses on humanitarian concerns and promotion of liberal economic and political policies and institutions, and the application of foreign aid, which appears to be motivated by U.S. national security interests. "Needless to say," as a recent analysis of U.S. foreign aid introduces the topic, "national security concerns dominate the motivation for the allocation and distribution of U.S. foreign assistance" (Callaway and Matthews 2008, 1). I challenge the definitiveness of this statement, both in theoretical and empirical terms. I offer a strategic framework of economic aid that in fact points toward a humanitarian—not self interested— emphasis. Tests using U.S. economic aid from 1950–2000 provide strong support for this framework. U.S. economic assistance is directed where humanitarian rhetoric would indicate: toward poor, democratic states that suffer from or are at risk of violent conflict. Aid is exclusively directed to neither strategically important countries to the U.S. nor those that support the U.S. in international settings by publicly expressing similar foreign policy preferences. While friends do receive more aid, allocation is driven by need as well.

Given the enduring controversy surrounding U.S. foreign aid, propelled by the ongoing debate between libertarian isolationists and humanitarian activists, concerns have focused on the effectiveness of U.S. economic assistance. As one recent study puts it, "regardless of the original intent of aid, understanding the consequences of the allocation and distribution of foreign aid is imperative given the hegemonic role of the United States in the international system" (Callaway and Matthews 2008, 1). While great emphasis should certainly be placed on determining the effects of U.S. aid, the outcome can only be considered as conditioned by the first step of selecting who gets aid and how much. When we reach some level of

confidence in our answers to that question, we can begin to take account of the results. What follows is an effort to gain better understanding of this set of primary questions. The next section offers a review of previous explanations of U.S. foreign aid. The review shows that while security concerns are ever present in U.S. aid policy, evidence bears that U.S. economic assistance is not merely used to advance U.S. strategic interests. This position is then considered in general theoretical framework that leads to testable hypotheses that can lead us to differentiate between strategic and humanitarian motivations for aid. Empirical tests of these hypotheses are presented, and conclusions about the nature of U.S. foreign aid policy are presented.

2.2   Review

A self-interested view of foreign aid focuses on the gains to the donor country. These gains can come indirectly in the form of satisfaction through successful achievement of the intended results of the aid or by directly benefitting the U.S. in economic terms. During the Clinton administration, U.S. foreign aid dropped as a result of the end of the Cold War, Clinton's efforts to cut the federal budget coinciding with the efforts to cut the size of the federal government by the Republican-led Congress, and a growing lack of results in recipients (Lancaster 2008, 4). However, even in the face of these cuts—the largest cuts to U.S. foreign aid since the end of the Marshall Plan (Lancaster 2007, 83)—foreign aid was still applied to places where direct benefits could be expected. Over time, in the U.S., changes in ideology within Congress and the White House produce changes in foreign aid commitments. Specifically, more liberal administrations and Congresses produce more development-driven aid; however, more conservative Congresses, such as though out the 1990s, focus on commercial returns and allocate more aid to recipients that accept more U.S. exports relative to their own exports to the U.S. (Fleck and Kilby 2006).[8] Berthélemy

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[8]Indeed, among all donor states, conservative governments tend to allocate less for economic aid (Tingley 2010).

(2006) indicates that this relationship between U.S. exports and aid holds in general. At the Congressional district level, representatives of districts that lean toward Republican presidential candidates are less likely to support economic aid (Milner and Tingley 2010).[9]

The benefits from recipients can also come in the form of international security. The U.S. applies foreign aid to individual countries that present strategic opportunities, especially during critical times. States serving on the UN Security Council receive much more foreign aid from the U.S.: on average, UNSC nonpermanent members receive 59 percent more U.S. aid, and during a geopolitically important year,[10] that figure rises to nearly a 170 percent increase (Kuziemko and Werker 2006, 918). Lai (2003) finds that states that are strategically important to U.S. security are more likely to receive U.S. aid. These important states include all Latin American states, those that border communist countries during the Cold War, and states bordering those listed as "rogue states" by the U.S. State Department after the end of the Cold War (Lai 2003, 107).[11] The U.S. favors its allies in key regions, particularly the Middle East, relative to recipients' need compared to other donors: "the United States seems to be a more selfish donor than the rest in that it pays less attention to recipient need and more attention to its own interests when allocating its aid budget" (Harrigan and Wang 2011, 1291). The U.S. also places a higher value on countries that vote similarly in the UN but little if any value on recipient merit, measured as good economics (GDP per capita growth), good politics (democracy scores according to the Polity IV project), and good human rights records (according to U.S. State Department and Amnesty International records) (Hoeffler and Outram 2011). While the U.S. provides aid to states that generally respect human rights

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[9]Representatives of these districts, however, are slightly more likely to vote for military aid.

[10]Kuziemko and Werker (2006, 915–916) use the frequency of articles including the terms "United Nations" and "Security Council" in the *New York Times* each year.

[11]Latin American countries are considered strategically important because of the Monroe Doctrine; Berthélemy (2006, 191) shows that the U.S. is particularly tied to Latin America through trade linkages that affect foreign aid allocations. Communist countries includes the member states of the Council for Mutual Economic Assistance. Iran, Iraq, Syria, Libya, North Korea, Sudan, Serbia, and Cuba are coded as rogue states.

(Neumayer 2003), as well as specifically in the post-Cold War era (Lai 2003), greater levels of respect for human rights actually decreases the amount of U.S. economic aid a recipient can expect, and this effect is far more pronounced after the Cold War (Demirel-Pegg and Moskowitz 2009).[12]

Shifts in the international system may have produced different ways of calculating which countries should receive aid, particularly in terms of the strategic interests of the U.S. relative to the needs of the recipient countries. Although poorer countries have fared better in receiving U.S. foreign aid since the end of the Cold War, the importance of need has declined since 2001 among core recipients[13] (Fleck and Kilby 2010). However, although there has been some shift in donor selectivity after the Cold War, especially a slight recent decline in the relationship between poverty and U.S. aid allocation due to the Global War on Terror, time-based changes in aid allocation are relatively small compared to the importance given in the literature (Clist 2011). Rather than affect the amount of aid allocated directly, changes in the international system may affect the emphasis donors put on various factors determining aid. During the Cold War, the level of respect for human rights in recipient countries did not significantly affect the likelihood of the U.S. allocating aid; however, after the end of the Cold War, countries with worse human rights records, regardless of economic and political development, are far less likely to receive U.S. aid (Demirel-Pegg and Moskowitz 2009).

The evidence seems stacked against the humanitarian approach to U.S. economic assistance. The U.S. appears to support its key allies and strategic interests, regardless of a lack of respect for human rights and economic and political development. Taking stock of our understanding of U.S. strategic interests within the foreign aid discourse, however, reveals a lack of conceptual clarity and refinement. Strategic interests have been defined in terms

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[12]Neumayer (2003), however, finds that this holds for personal integrity rights only, and not civil or political rights.

[13]Core recipients are those countries that receive U.S. aid every year they appear in the sample of Fleck and Kilby (2010).

of potential security threats due to ideological differences (whether those "threats" actually possessed any capability of challenging the *status quo*), regional neighbors, alliance partners, and foreign policy friends. Each study to date has presented an *ad hoc* approach to the operationalization of strategic interest. Placing such a high level of theoretical and empirical importance on a concept requires a serious consideration of the analytical meaning and empirical measurement of the concept.

2.3   Discussion

Studies of U.S. foreign aid giving have hinged on the notion of strategic interest, but the application of the concept has been *ad hoc* and ill-defined. The two most common measures have been military alliances or similarity of alliance portfolios and foreign policy preference similarity, indicated by similarity of voting in the UN General Assembly. These concepts are separated and explored in this section in an effort to advance our understanding of their role in determining U.S. foreign aid.

2.3.1   Strategic interests and foreign policy preferences

A clear, accurate operationalization of strategic interests and foreign policy preference similarity is critical in order to gauge the relative importance of strategic interests and friendship for U.S. foreign aid giving. Previous studies of U.S. foreign aid giving have included either alliance portfolio similarity (Demirel-Pegg and Moskowitz 2009) or UN voting similarity (Fleck and Kilby 2006) as proxies for U.S. strategic interests in recipient countries. Treating these variables similarly, as has been done in the past, conflates their theoretical underpinnings as well as their empirical logics. The two measures indicate distinct qualities of the relationship between two states, and despite contrary expectations, they are empirically uncorrelated.

The alliance portfolio similarity measure Demirel-Pegg and Moskowitz (2009) use is derived from the expected utility measure employed by Bueno de Mesquita and Lalman (1992,

286–292). Alliance portfolio similarity is prominently featured in the expected utility calculations of war. Intended to measure the utility of aggressive demands made to other states, alliance portfolio similarity is a "revealed choice measure of national preferences on questions related to security issues" (Bueno de Mesquita and Lalman 1992, 288). Given the leadership position of the U.S. in the international system after World War II, Reed (2000) uses states' alliance portfolio similarity with the U.S. to proxy satisfaction with the international system *status quo*. This is in line with the claim by Bueno de Mesquita and Lalman (1992, 291) that alliance portfolio similarity reveals "similarity in foreign policy commitments under the presumption that a similarity or difference reflects shared preferences among the states in question." The concern here is whether alliance portfolio similarity in fact can be presumed to indicate foreign policy similarity or more immediate and proximate strategic concerns. Rather than display similarity with one another, alliances are formed in response to mutual enemies in the international system, not as expressions of friendship between partners; in other words, "as with the alliance between the Western powers and the Soviet Union in the Second World War, strategic realities produce incentives to co-operate in the absence of similar underlying preferences. If two dissimilar nations ally against an opponent whose preferences are even more divergent from either ally, then one still must reference preferences to explain a core link in the chain" (Gartzke and Weisiger 2012, 8). States seek allies that help balance against strategic threats, regardless of foreign policy preference similarity: "If pressures are strong enough, a state will deal with almost anyone" (Waltz 1979, 166). Using alliance patterns to indicate similarity between states' preferences ignores the strategic basis of alliances.

On the flip side of the same coin, moreover, using UN voting similarity as a "proxy for U.S. strategic interests" (Fleck and Kilby 2006, 212) has the opposite problem as indicating foreign policy preference similarity by using alliance portfolio similarity. Alesina and Dollar (2000, 38) claim that "even though many UN votes may not be very important, they may

Table 2.1: Pairwise correlations between Alliance Portfolio Similarity and UN Voting Similarity

Region	Overall	Cold War	Post-Cold War
Americas	0.21*	0.21*	0.33*
Europe	0.59*	0.66*	0.11
Middle East	0.25*	0.21*	0.37*
Africa	-0.21*	-0.30*	0.11
Asia	0.30*	0.34*	0.09
All	0.35*	0.41*	0.11*

Cell entries are pairwise correlations. $^*p < .01$

still be an accurate signal of alliances and common interest. In other words, even though UN votes may be unimportant, they may be correlated very strongly with important strategic interests." However, this runs directly counter to the reasoning behind the decision to use alliance portfolio similarity to indicate security interests: voting in the UN "only occasionally pertains to decision regarding the initiation of war. More often, votes that do pertain to war or conflict reflect national policies concerning disputes that have already begun" (Bueno de Mesquita 1981, 110). Indeed, the measure of states' similarity in UN voting is taken to be "roughly indicative of the underlying preference ordering states have over the policy spectrum [because] states probably feel freer to express sincere preferences in the General Assembly than in most other international venues" (Gartzke 1998, 15). Whereas alliance portfolios directly reflect security interests, UN voting is a much truer reflection of foreign policy preferences.

The claim that UN voting correlates with strategic interests, as Alesina and Dollar (2000) put forth, requires further investigation. Table 2.1 includes the pairwise correlation coefficients between alliance portfolio similarity[14] and the similarity of voting in the UN General

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[14]This measure is based on Bueno de Mesquita (1981) and Bueno de Mesquita and Lalman (1992); it uses the S score (Signorino and Ritter 1999) to measure the similarity between two countries' sets of alliance partners, including the level commitment between partners. It ranges from 1, or perfect similarity in alliance portfolios, to −1, or complete dissimilarity.

Assembly with the U.S. (Gartzke 1998).[15] The first column indicates the correlations during the time period 1947–2000. The second and third columns divide the sample into the Cold War (1947–1990) and the post-Cold War (1991–2000) eras; each row shows the correlation for each region, and the last row shows the overall correlations for all countries. All of the correlations are significant except for Europe, Africa, and Asia in the post-Cold War era; however, the strength of the correlations, except for Europe during the Cold War and overall, are relatively weak. The relationship is stronger during the Cold War for Europe, Africa, and Asia, as well as the overall correlation, but it is stronger for the Americas and the Middle East in the post-Cold War era. In fact, during the Cold War, there was actually a negative correlation between alliance portfolio and UN voting similarity between the U.S. and African countries. In sum, there is limited evidence of a correlation between alliance portfolio similarity and UN voting similarity, and the relationship is weak except for a limited geographic and temporal domain. Whether the U.S. uses foreign aid to advance strategic interests or to support friends are two separate theoretical and empirical questions. Strategic interests neither determine nor are determined by friendship and *vice versa*.

2.3.2   With friends like these. . .

To further explore the relationship between strategic interests, foreign policy preferences, and foreign aid, consider the examples of Egypt and Israel, the recipients of the largest share of U.S. aid. These examples show not only that "friendship" does not necessarily lead to aid but that changes in aid given result in both changes and maintenance of policy similarity. Figure 2.1 plots the similarity between U.S. voting in the UNGA and Egypt's and Israel's

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[15]Gartzke uses the S score (Signorino and Ritter 1999) to measure the similarity of voting on UN General Assembly resolutions between pairs of countries. It ranges from 1, or perfect similarity in voting, to −1, or complete dissimilarity.

voting measured by the Affinity score (Gartzke 1998)[16] with U.S. economic aid to those countries.[17]

The range of Egypt's Affinity with the U.S.—from -0.56 to 0.34, with a mean of -0.14—shows that in terms of policy preferences the two countries have been neither close friends nor sworn enemies. This suggests that shifts in similarity are likely the result of exogenous factors rather than a preexisting determinant; thus, it should be fruitful to compare shifts in theoretically-linked variables. In short, there is no evidence of an endogenous factor producing policy preference similarity between the two countries, so changes in aid should be related to shifts in preference similarity. Economic aid to Egypt reached a peak in the early 1960s, immediately following a steep decline in voting similarity that began after the Suez Crisis in the late 1950s. Economic aid again peaked, reaching record levels, in the mid-1970s. The U.S. began offering military aid to Egypt as part of the settlement terms of the Camp David Accords, but Egypt-U.S. affinity plummeted after the peace agreement. Aid has generally declined for the last three decades, despite an upward shift in Affinity throughout the 1990s. Overall, despite the friends hypothesis, UN voting similarity between the U.S. and Egypt is actually negatively correlated with economic aid commitments made the following year ($r = -0.28$). Moreover, aid did little in the way of changing Egypt's preferences: economic aid is negatively correlated with the following year's Affinity score ($r = -0.38$).

Examining the range of Israel's Affinity with the U.S.—from 0.27 to 0.82, with a mean of 0.59—indicates that the two countries are generally friendly, sharing a common vision for the international system. In fact, the only time the Affinity score dropped below 0.4 was immediately after the Six Days' War, after which U.S. aid to Israel began increasing. Economic aid peaked in the mid-1980s and has declined overall since then despite a rapid

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[16]The Affinity score measures the similarity of voting on UN General Assembly resolutions between pairs of countries. It ranges from 1, or perfect similarity in voting, to -1, or complete dissimilarity.
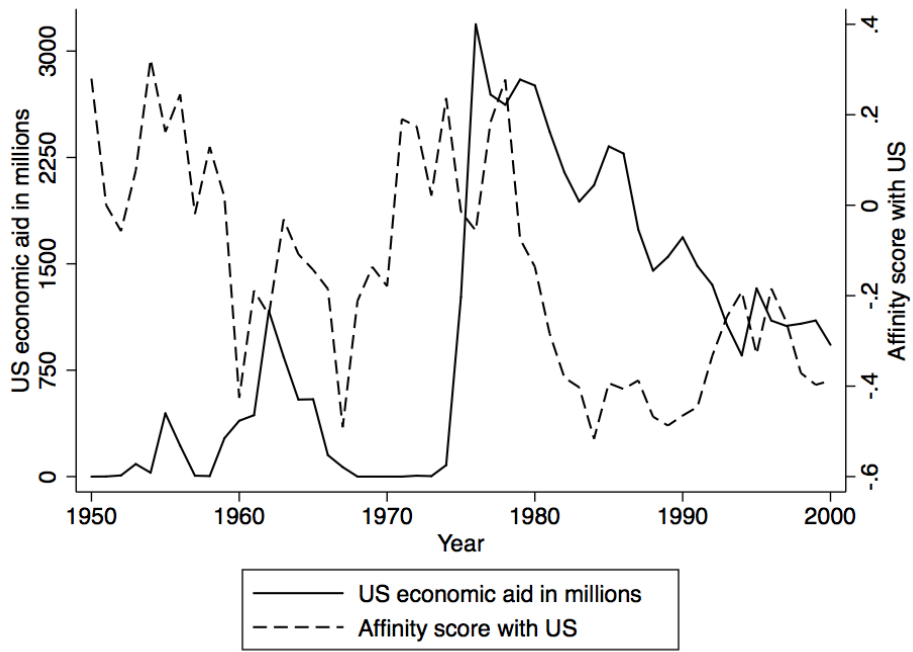[17]Aid data are from the USAID (2012) *Greenbook*; these data are further described below.

(a) Egypt
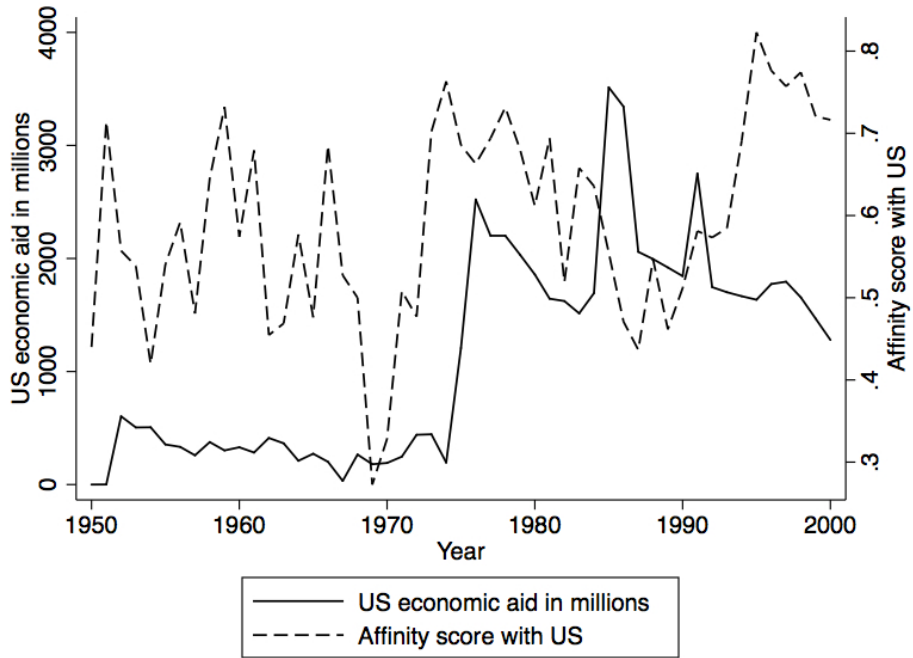
(b) Israel

Figure 2.1: U.S. aid to Egypt and Israel, 1950–2000

increase in similarity in the 1990s, peaking at over 0.8. Overall, Israel does tend to receive more economic aid after its UN voting becomes more similar to that of the U.S. ($r = 0.31$), and economic aid tends to draw Israel's policy preferences closer to that of the U.S. ($r = 0.23$ respectively). This indicates, however, that the U.S. uses foreign aid as a tool to both support a foreign policy friend and to change Israel's policies when it becomes less similar. This appears to satisfy the requirements of the competing hypotheses, but it does not resolve the logical conflict between them, nor does it tell why the two leading recipients of U.S. foreign aid produce diametrically opposed evidence for the two hypotheses.

Examining the trends in U.S. foreign aid to Israel and Egypt highlights the paradox of foreign aid giving: donors seemingly use foreign aid to support friends, yet foreign aid is a policy tool used to induce change in recipients' policy positions. For Egypt, the relationship between friendliness and aid indicates inverse relationships between foreign aid and both foreign policy similarity and foreign aid as a tool for instigating change. In other words, foreign aid is neither the carrot nor the stick; therefore, we are left to ask what other purpose it could serve. This paradox requires a more nuanced approach to U.S. foreign aid allocation. It is necessary to take into account the desired effect, in terms of change and maintenance, of the aid. However, within the framework of change versus maintenance, it is not easy, or perhaps even possible, to determine the purpose of aid strictly based upon its stated aim: "If a nation is helping others through economic aid to raise their standard of living, it may make a great deal of difference for the chances that such aid will be continued or extended whether the nation extending the aid considers economic improvement abroad as being desirable in itself, or promotes it merely for the sake of cementing its alliance with the assisted country or of drawing that country over to its own side" (Wolfers 1962, 69–70). The intersection of the international environment in which donors and recipients exist and the similarity or dissimilarity of their foreign policy preferences should reveal whether the

aid is meant to maintain an arrangement between donor and recipient or is meant to change the preferences of the recipient toward a position more favorable to the donor.

2.3.3 Strategy, friendship, and foreign aid

In order to construct a theory of foreign aid, it is necessary to first determine the goals of foreign aid. The goals are contingent on the strategic needs of the donor and the characteristics of the recipient. In this section I present the beginnings of a framework in order to explain the causes of foreign aid. Two factors linking donor and recipient shape the possible intentions of foreign aid. The first factor is the level of strategic importance of the recipient to the donor. Because foreign aid is a tool of foreign policy, the first step is to separate states that are strategically important to the donor from those that are not. The second factor is the level of foreign policy similarity, or friendliness, between the donor and recipient. The second step is determining whether aid benefits friends due to the donor's rewarding past or encouraging future support or whether aid is used to persuade potential enemies or to altruistically give to needy countries despite differences.

In the simplest version of the model, we have two levels of strategic importance to the donor, high and low, and two kinds of relationships between donor and recipient, similar and dissimilar. At the intersection of values for each factor, we can determine the purpose of foreign aid given under each condition. In a tense geopolitical environment, security concerns dominate. Global leaders ring in allies, reinforce friends, and seek to attract new partners. Foreign aid can serve as a carrot, rewarding those states that are similar, as well as inducing those that are not, to fall into line with the donor country. Short-term global strategic concerns motivate donor-recipient relations. When the global scene is calmer, leading states can focus on longer-term strategic planning, building up friends and generating goodwill among reticent countries.

Table 2.2: Purposes of foreign aid allocation

| | | Policy similarity | |
		Similar	Dissimilar
Importance	High	Patronage	Persuasion
	Low	Assistance	Altruism

The cell entries indicate the purpose of foreign aid allocated under the given conditions.

Based on the two factors discussed, we can determine the four possible situations the donor state can find itself in when deciding how to allocate foreign aid. Table 2.2 summarizes this simplified framework of the purposes of foreign aid. Among countries that present a high level of strategic interest, a state rewards those that have similar policies with patronage. Israel is a typical example,[18] being a close ally that regularly sides with the U.S. at the UN. Most Central American states also fit into this cell.

Donors that give to strategically important states with dissimilar foreign policy preferences are trying to persuade the recipient regime to move more toward the donor's preferred policies. Here the carrot is offered in exchange for gaining a potential partner or perhaps even ally in a significant region or on a critical issue. Mali, which falls into this cell for 30 of the 50 years it is in the data, is an example. The U.S. supported the repressive right-wing Traoré regime from the late 1960s through the late 1980s amid droughts, economic recessions, and student-led revolts.

Aid given to strategically unimportant recipients exhibit humanitarian purposes. Donors offer economic assistance to states that are not strategically important but display similar foreign policy preferences, while altruistic intent characterizes aid given to these countries with dissimilar foreign policy preferences. Throughout the 1950s and 1960s, India was strategically unimportant but expressed foreign policy preferences similar to those of the U.S. In the 1970s and 1980s, under Indira Ghandi, India was strategically unimportant and dis-

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[18]Israel appears in that cell 37 of the 50 years in the data it received aid (1951–2000). For the remaining 13 years (1951–1961 and 1990–1991), Israel had a low strategic importance.

played increasingly dissimilar policy preferences from the U.S., despite receiving U.S. aid, as Ghandi aligned India closer to the Soviet Union.

This categorization scheme resembles those previously devised to aid in understanding foreign aid by examining its purposes. (Morgenthau 1962) presents a six-fold classification system, which includes humanitarian aid, subsistence aid, military aid, bribery, prestige aid, and development aid. Here, humanitarian aid would fall under the altruism category, military and prestige aid under patronage, bribery under persuasion, and development aid under assistance. Not all foreign aid is alike, at least in terms of purpose. Donors use foreign aid as a carrot for states, but the purpose differs given the strategic situation and relationship between the donor and recipient.

An important feature of the model presented here is that it does not assume that the expected or even desired result of foreign aid is a change in the policies of the recipient. When the recipient is in a strategically advantageous position and it has similar preferences to the donor, we should not expect to see any changes out of the recipient. Of the four purposes of foreign aid, only persuasion lends itself directly as a means of changing the relations between donors and recipients, while only assistance intends to change conditions within recipient countries. Given the dubious relationship between economic aid and changing relations between the U.S. and Egypt and Israel described above, the focus here is on aid as a means of attempting to change conditions within recipient states. Economic aid should in general fit within the assistance category of aid, so we should expect strategically unimportant states to be selected as recipients. Moreover, because these states do not offer a great deal of potential strategic benefits to the U.S., we should not expect to see any difference among friends, those with similar expressed foreign policy preferences, and nonfriends.

Hypothesis 1 Strategically unimportant states are more likely to receive economic aid.

Hypothesis 2 Foreign policy similarity should have no significant effect on the likelihood of receiving economic aid.

In sum, these two hypotheses indicate that U.S. economic aid should, in fact, not be used for strategic purposes, but rather it should be applied for humanitarian reasons. The following hypotheses are based on the characteristics of recipients that make them deserving of economic aid, in order to determine which states should be selected to receive aid. First, societies affected by conflict are generally in need of external assistance due to the crippling effects on government services, private industries and firms, and infrastructure. Moreover, given the contagion effect of war, bordering states fighting violent conflicts pose a threat to internal security (Beardsley 2011; Buhaug and Gleditsch 2008), leading governments to work to insulate their societies from the causes of rebellion (Braithwaite 2010), work that can be greatly supplemented by external assistance from a hegemon interested in maintaining international peace and stability.

Hypothesis 3 States threatened by internal or nearby conflict are more likely to receive economic aid.

The internal characteristics that determine whether a country deserves economic assistance are based on its political and economic profile. The separating line between these two qualities in terms of determining qualifying aid recipients is very fine at best. Half a century ago, when U.S. foreign aid policy and programs were in their infant stages, Morgenthau (1962, 305–306) pointed out that economic aid, intended to support economic development, necessarily disrupts the economic, and with it the political, *status quo* distribution of power, leading to resistance by the regime: "Given this likely resistance of the ruling group to economic development, foreign aid requires drastic political change as a necessary condition for its success. Foreign aid must go hand in hand with political change, either voluntarily induced from within or brought about through pressure from without." Moreover, the sources

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of economic underdevelopment tend to be political: "Overcoming severe underdevelopment requires an assault on rent seeking, clientelism, injustice, and bad governance—in other words, sweeping political reforms" (Diamond 2008, 61). This would lead donors interested in maintaining international stability to seek recipients that need economic assistance yet also have political systems that are likely to willingly accept it. An important though understated quality of recipient states is their ability to absorb and effectively use foreign aid. States with weak political and legal institutions, inadequate infrastructure, and a relatively high number of individual donor states should fare much worse in converting aid into benefits for either donor or recipient (Feeny and de Silva 2012). More capable recipients would be characterized by the ability to absorb minor shocks to the economic and political *status quo*. Democracies, because they distribute political power more evenly than non democracies, should be more likely to receive aid.

Hypothesis 4 Poorer and more democratic countries are more likely to receive economic aid.

The hypotheses listed so far deal only with being selected to receive aid. The question remains of what drives the amount allocated to each recipient. If the same logic drives both selection for aid and amount allocated to each recipient, then we could simply regenerate each hypothesis and rephrase each one in terms of an accordingly positive or negative effect on the amount; in fact, this does seem fitting for the last three hypotheses. This does not seem to hold for the first two hypotheses, however. Among states selected for receiving economic aid, because these states typically offer little strategic benefit, we should not expect to see any difference based upon this factor; we should, however, expect the U.S. to support their friends with greater levels of assistance. It is unreasonable to expect the U.S. to be completely altruistic just because it is not focusing on pressing strategic interests in terms of their foreign aid giving.

Hypothesis 5 Strategic importance should have no significant effect on the amount of economic aid allocated; however,

Hypothesis 6 The more similar a recipient's foreign policy preferences are to the U.S., the more economic aid will be allocated to it.

Hypothesis 7 States threatened by internal or nearby conflict will be allocated more economic aid.

Hypothesis 8 The poorer or more democratic a recipient, the more economic aid will be allocated to it.

In sum, these hypotheses are indicative of a general expectation that the U.S. selects recipients and allocates economic aid to countries that both need and deserve assistance. Strategic importance and friendliness, when considered together, should not be driving considerations in the application of foreign aid as a foreign policy tool, except in the case of allocating more aid to states with similar foreign policy preferences to the U.S., which can be seen as an additional signal of deserving aid.

2.4 Design

I use a pooled, cross-sectional time-series design on data for 190 possible recipient countries from 1950 to 2000.[19] Each observation represents one country-year, so that Canada in 1950 is one observation, Canada in 1951 is another, and Cuba in 1950 is yet another. This produces 7,788 observations. Data for each variable are included for each country-year observation.

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[19]State system data are from the Correlates of War Project (2011). New states are added to the system each year, while some states are removed due to consolidation. The number of countries in the data in 1950 is 85; in 1960, 132; in 1989, 168; in 1991, 186. The temporal domain is dictated by data availability: GDP data (Gleditsch 2008) are limited to 1950 and after, whereas the COW alliance data (Gibler and Sarkees 2004), used to create the alliance portfolio similarity measure, are limited to 2000 and prior.

2.4.1 Dependent variables

The data include two dependent variables, as is common with recent foreign aid studies (Demirel-Pegg and Moskowitz 2009). The first represents the initial decision of whether to allocate aid to a country in a given year or not. It is an indicator coded 1 if any economic aid was allocated to the country in that year ($n = 5,074$, or 68.2% of the cases), and 0 otherwise. The reach of U.S. economic aid across the world has varied over time, as indicated in Figure 2.2a, which plots the percentage of the countries of the world receiving U.S. aid each year. Economic aid was available to the largest percentage of states in the early Cold War era, topping out at nearly 80 percent of all states. During the 1960s the addition of new independent states depressed the figure, but a renewed commitment to aid began in the 1980s. Following the setback in the mid-1990s described above, the portion of countries receiving economic aid has steadily risen in the new millennium.

The second dependent variable is the total amount of U.S. economic aid committed to each country for each year, in constant 2010 U.S. dollars.[20] These data are reported in the USAID (2012) *Greenbook*. The figure ranges to as much as \$7.3 billion (allocated to the United Kingdom in 1950). Using the actual amounts of aid presents several issues, however. The existence of outliers, namely Egypt and Israel, skews results toward these two recipients and producing a non-normal distribution in the dependent variable, violating a critical assumption of ordinary least squares regression. Moreover, due to yearly changes in the total amount of economic aid allocated (see figure 2.2b), changes in allocations to individual countries may be caused by U.S. budgetary factors rather than a factor inherent to the recipient. In order to mitigate these issues, the dependent variable used is the natural logarithm of the percentage of the yearly total allocation to each recipient, or $\ln\left(\frac{100*aid_{it}}{aid_t}\right)$, where i is the recipient country and t is the year (see Clist 2011, 1726 for a discussion of alternative dependent variables including the one used here). Using the percentage of

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[20]Using inflation-adjusted constant figures allows for comparing monetary values across time.
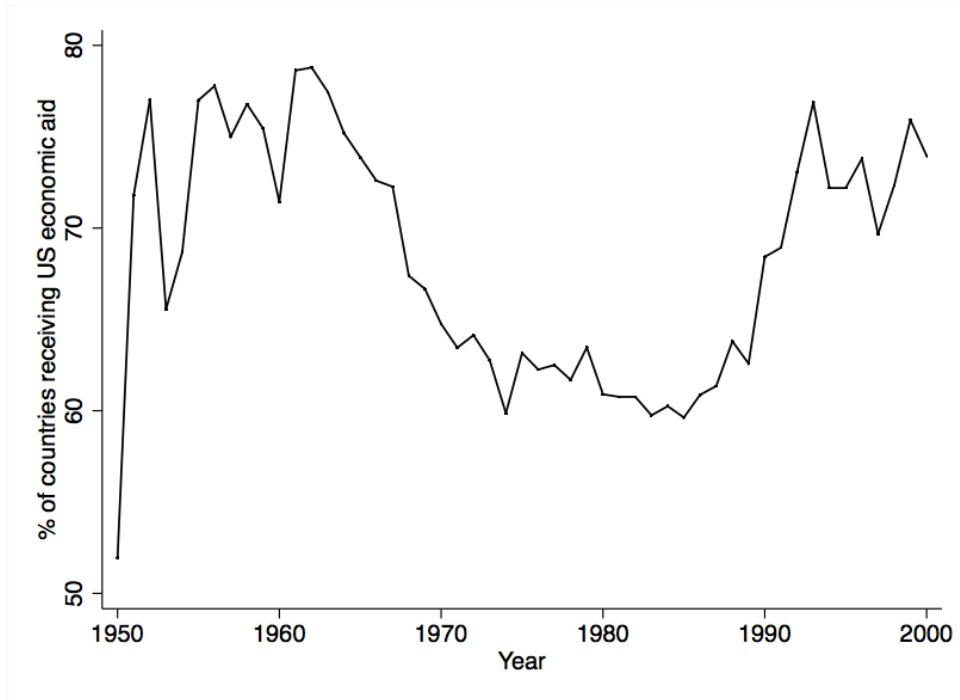
(a) Percentage of countries receiving U.S. economic aid
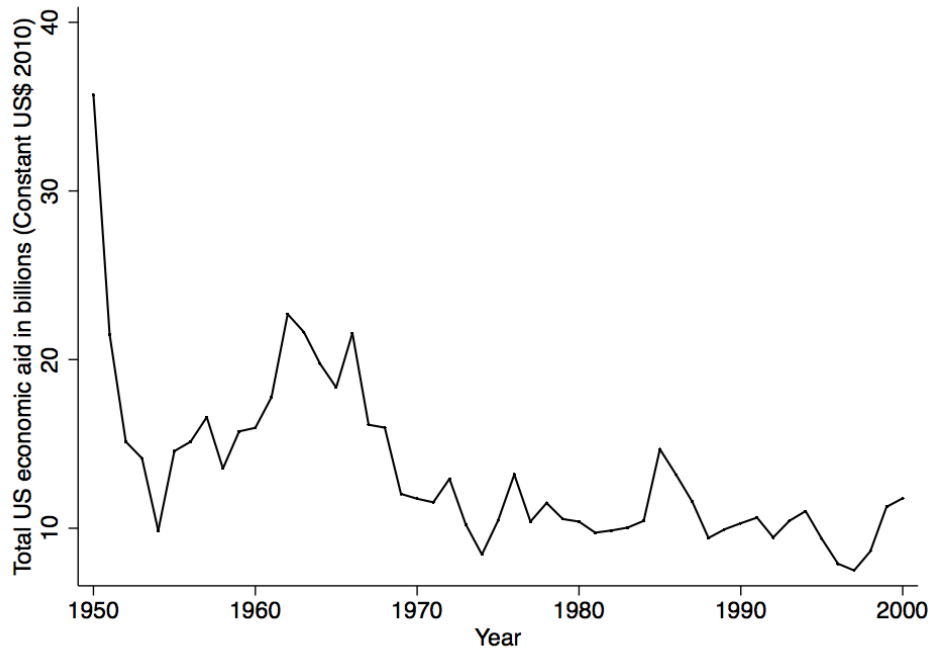
(b) Total U.S. economic aid

Figure 2.2: U.S. economic aid, 1950–2000

Table 2.3: Summary statistics, 1950–2000

Variable	Mean	Standard deviation	Range
Strategic importance	0.199	0.306	$-0.574 - 0.911$
Foreign policy similarity	0.079	0.402	$-0.714 - 1$
Interstate conflict	0.039	0.193	$0 - 1$
Intrastate conflict	0.197	0.398	$0 - 1$
Conflict in neighbor	0.197	0.398	$0 - 1$
GDP per capita (natural log)	8.202	1.108	$5.139 - 11.343$
Population (natural log)	8.434	2.067	$2.079 - 14.049$
Democracy	-0.450	7.495	$-10 - 10$
Transition in political system	0.019	0.136	$0 - 1$
Total trade (millions of current U.S.$)	3.493	17.441	$0 - 398.259$
Distance (thousands of miles)	5.409	2.273	$0 - 10.171$

yearly total allocation mitigates the effect of yearly changes in the U.S. foreign aid budget, while taking the natural logarithm smooths the effects of outliers and produces a normally-distributed dependent variable.

2.4.2 Independent variables

In order to test the hypotheses generated above, I use a selection of independent variables that measure the concepts as closely as possible based upon general consensus in the literature. All non-fixed independent variables[21] are lagged one year to reflect the likely case that the decision to allocate aid to a country this year is in the main dependent on conditions from last year. This method also makes inferences about temporal causality more valid since one year's aid allocation could affect that year's values on several of the variables. Table 2.3 presents summary statistics for the independent variables.

Strategic importance As indicated in the discussion above, the similarity of countries' alliance portfolios represents strategic links between countries. Alliance patterns expose security concerns among countries regardless of any mutual affinity or shared vision of international order. The similarity of each country's alliance portfolio with that of the U.S. is used

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[21]Distance and region do not vary within countries, so these variables are not lagged. Moreover, temporal controls are not lagged.

to measure strategic importance. Those with more similar portfolios are more strategically important in terms of economic aid.[22]

Alliance portfolio similarity is measured here according to the method described by Bueno de Mesquita and Lalman (1992, 286–292). For each pair comprising the U.S. and another country, a four-by-four matrix is compiled, indicating the countries that each has either a defense pact, neutrality pact, entente, or no alliance. Because of the benefits of the S score over the τ_b measure of correlation, S scores are used (Signorino and Ritter 1999). Moreover, because of the hegemonic role the United States plays during the timeframe of this analysis, the global correlation is used here. Also, to account for the differences in strategic importance among stronger and weaker countries, each country-year's S score is weighted based on the national capabilities of that country-year. The alliance portfolio similarity data were compiled using the EUGene program (Bennett and Stam 2000).

Foreign policy similarity Whereas alliance portfolio similarity indicates strategic importance, similarity of voting in the United Nations General Assembly proxies foreign policy preferences similarity. This similarity is measured using the Affinity index (Gartzke 2006) "Since the cost a nation incurs for revealing preferences in the General Assembly are modest relative to the costs of engaging in disputes," Gartzke (1998, 15) argues, "the affinity index is roughly indicative of the underlying preference ordering states have over the policy spectrum." Previous studies have used the percentage of votes in which the donor and recipient voted the same (Alesina and Dollar 2000; Hoeffler and Outram 2011);[23] however, the Affinity index offers a more nuanced approach to the similarity among countries' preferences. Abstentions are included in the calculations, so that voting to abstain when the U.S. abstains is counted the same as voting in favor of a resolution when the U.S. does.

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[22]This does not mean that those countries with dissimilar portfolios are unimportant; in fact, they may represent the gravest threats. However, within the scope of foreign aid giving, we would expect these to be the least likely candidates for economic assistance if indeed assistance has strategic motives.

[23]Fleck and Kilby (2006) use Gartzke's (2006) Affinity index.

Proximity to conflict Conflict data are taken from the Major Episodes of Political Violence database hosted by the Center for Systemic Peace (Marshall 2010). These data include measures of the intensity of interstate and civil conflict experienced by individual countries in each year, as well as these values for neighboring countries. Three indicator variables were created. The first is coded 1 if a country fought in an interstate conflict in a given year ($n = 246$, or 3.87% of the data) and 0 otherwise. The second is coded 1 if a country fought in an intrastate conflict in a given year ($n = 1,253$, or 19.71% of the data) and 0 otherwise. The third is coded 1 if a neighboring state fought either an interstate or an intrastate conflict ($n = 3,112$, or 48.96% of the data) and 0 otherwise.

Economic wealth Economic wealth is a proxy for development and therefore recipient need. This is operationalized as gross domestic product per capita, or each citizen's share of the total economic production of a country. Higher values indicate greater levels of wealth, and lower values indicate greater levels of need. Because GDP per capita tends to be heavily skewed toward 0, a normal distribution is created by taking the natural logarithm. These data come from the Expanded Trade and GDP Data by Gleditsch (2002).[24]

Regime type A common measure of regime type is the Polity scale (Marshall, Jaggers and Gurr 2010). It ranges from -10, representing a completely autocratic system, to $+10$, a complete democracy. In addition to measuring the restrictiveness and openness of a political system, the Polity data also include whether a country experienced a significant transition in its regime (Jaggers and Gurr 1995). An additional variable is coded 1 if the country experienced such a transition in a given year ($n = 120$, or 1.88% of the data) and 0 otherwise. Following the Polity coding rules, years of transition are coded as the average of the pre- and post-transition scores. If a transition lasts for more than one year, the change is split over the years, so that a four-point shift over two years would result in a two-point shift in the first year and a two-point shift in the second year. This method avoids losing information by

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[24]These data are available from Gleditsch (2008).

instituting the alternative coding scheme, which calls for coding transition years as missing values.

Population Population data are used to control for the size of countries. Larger populations require greater levels of economic and social support. The Expanded Trade and GDP Data by Gleditsch (2002) includes annual population data. In order to produce coefficient estimates of a scale similar to those of other variables and to produce a normally-distributed variable, the natural logarithm of population in millions is used.

Trade Trade ties may condition the importance of the recipient to the donor's economy, making economic aid and greater aid contributions more likely. The sum of U.S. exports to and imports from each country, measured in millions of current U.S. dollars, is included.[25] The trade data were compiled using the EUGene program (Bennett and Stam 2000).

Distance States that are closer to or further from the U.S. can pose different strategic and economic opportunities and risks. Moreover, humanitarian and economic concerns near to home may carry more weight among the U.S. population and therefore their elected representatives. The effect of distance may independently affect which countries receive aid and how much. The analysis includes the great circle distance, in thousands of miles, between the U.S. and each state according to the EUGene program (Bennett and Stam 2000).

Region Each region of the world comprises unique strategic characteristics as well as levels of economic need and development. Countries are coded as either in Europe, the Middle East, Africa, Asia, or the Americas according to the EUGene program (Bennett and Stam 2000). Indicators are included in the analysis for each region; the indicator for the Americas is omitted as the reference category.

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[25]The two main sources of trade data, the Correlates of War Project (Barbieri, Keshk and Pollins 2009) and the Expanded Trade and GDP Data by Gleditsch (2002), both provide these figures only in current, and not constant, figures.

2.4.3 Estimation method

I adopt a common two-step quantitative approach to foreign aid allocation, splitting the decision to allocate aid to country and the amount allocated into two separate questions. Because determining the amount allocated is contingent upon the prior decision of selecting which countries should receive aid, simply regressing the amount of economic aid allocated on the independent variables would produce an omitted-variable problem due to the non-random selection process (Heckman 1979). The analysis is split into two stages: the first uses a probit model of the decision whether to allocate aid to a country or not, using the indicator dependent variable; the second stage uses ordinary least squares to model the effects of the independent variables on the amount allocated to only the selected recipients, taking into account the selection bias. Because the errors of the two stages are likely to be correlated, the inverse Mills ratio is generated from the probit model and included in the OLS model as an independent variable, so that in the second stage independent variables have a linear direct effect on the amount allocated and a nonlinear indirect effect through the inclusion of the selection effect. This produces consistent coefficient estimates by normalizing the mean of the errors to zero (Heckman 1976).

The two-stage approach can produce imprecise estimates if all variables from the first stage are included in the second stage; thus, the OLS model is restricted by omitting the political system transition variable. While transitions may indicate which countries are in need of assistance, once selected, it should not be expected to bear any significant effect independent of the remaining variables on the amount allocated.

Finally, because in the first stage the data are pooled time series and the dependent variable is a binary indicator, autocorrelation may cause biased and inefficient estimates. In order to control for the effects of temporal independence, many researchers apply the Beck, Katz and Tucker (1998) method of using a count variable, indicating the number of

years since the last year the country was allocated aid, as well as spline variables. However, this model has come under recent scrutiny due to the lack of analysis on splines due to the complicated nature of their calculation. An alternative method involves using the square and cube of the count variable, which are easily produced and readily analyzed in terms of the effect of time (Carter and Signorino 2010). These variables are included in the selection stage.

2.5 Analysis

Table 2.4 presents the Heckman selection model results for the selection stage. Heckman selection models report a ρ statistic, which is the the correlation coefficient between the unobserved factors that determine selection for receiving aid and the unobserved factors that determine the amount of aid allocated. The statistic is significant, and a Wald χ^2 test indicates that the null hypothesis that $\rho = 0$ can be rejected. This indicates that unobserved factors leading to selection do affect the amount allocated, justifying the use of the Heckman selection model, because simply estimating the amount allocated without controlling for selection would lead to biased parameter estimates. This follows with the general quantitative research approach to foreign aid allocation over the last decade (see Demirel-Pegg and Moskowitz 2009, 189–191 for a discussion of the use of the Heckman selection model in studies of foreign aid allocation).

Beginning with the selection models, we see that U.S. economic aid is strategic, though not in ways previously discussed. The more dissimilar the alliance portfolio between the U.S. and another country is, the more likely it is to receive U.S. economic aid, and this finding holds when controlling for foreign policy similarity. These findings support Hypotheses 1 and 2. In other words, economic aid is not given to strategically important recipients, which conforms to the bottom cells of Table 2.2. One possible explanation is that economic aid is used to induce recipients to realign themselves toward a more similar alliance portfolio.

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Table 2.4: Selection stage: Likelihood of receiving U.S. economic aid, 1950–2000

Variable	Model 1a	Model 2a	Model 3a
Strategic Importance	-0.227*	—	-0.257*
	(0.114)		(0.126)
Foreign policy similarity	—	-0.052	0.003
		(0.076)	(0.081)
Interstate conflict	-0.199	-0.262*	-0.222*
	(0.123)	(0.126)	(0.127)
Intrastate conflict	0.158*	0.168*	0.164*
	(0.081)	(0.083)	(0.084)
Conflict in neighbor	0.185***	0.181***	0.162**
	(0.059)	(0.060)	(0.061)
GDP per capita (natural log)	-0.249***	-0.293***	-0.256***
	(0.041)	(0.040)	(0.042)
Population (natural log)	0.017	-0.009	0.005
	(0.022)	(0.022)	(0.022)
Democracy	0.016***	0.015***	0.017***
	(0.004)	(0.004)	(0.005)
Transition in political system	0.411**	0.382*	0.411*
	(0.218)	(0.227)	(0.227)
Total trade	-0.003	0.0003	-0.003
	(0.002)	(0.001)	(0.002)
Distance	0.001	0.007	0.001
	(0.025)	(0.025)	(0.026)
Constant	3.874***	4.343***	4.065***
	(0.422)	(0.429)	(0.442)
ρ	-0.623***	-0.601***	-0.634***
	(0.044)	(0.051)	(0.089)
$\chi^2(1)$ of $\rho \neq 0$	123.62***	100.07***	108.370***
Number of obs.	6132	6106	5815
Number of censored obs.	1714	1581	1535
Wald χ^2(13,13,14)	818.20***	968.82***	899.82***
Log likelihood	-10436.84	-10563.14	-9953.04

*$p < .05$; **$p < .01$; ***$p < .001$. Standard errors in parentheses. All significance tests are two-tailed. Time variables and region indicators are suppressed.

This seems unlikely, however, for the security benefits of one's allies should be worth more to the recipient than the economic aid, especially given that aid is available from sources other than the U.S.

The strategic use of economic aid appears to be more influenced by conflict than by alliance or foreign policy similarity. Countries fighting international wars are less likely to be selected for aid, whereas those fighting civil wars are more likely to receive aid, as are those

with conflicts along their border. The U.S. is less likely to support states that present security threats to other states, whereas it does support governments fighting against rebellions. The U.S. also uses aid to support states that may be experiencing the effects of nearby conflicts, such as spillover or refugees, which supports the findings of Balla and Reinhardt (2008). This supports Hypothesis 3 and reflects the role of the U.S. as a hegemon and its efforts to maintain international stability through economic means as well as military uses of force.

The remainder of the selection models indicate that domestic factors of recipient countries also influence their likelihood of receiving aid in expected ways. The significant and negative coefficient of gross domestic product indicates that poorer countries are more likely to receive economic aid, supporting Hypothesis 4. The U.S. is more likely to offer aid to more democratic countries as well, supporting Hypothesis 5, although those experiencing transitions in their political systems are more likely to be selected as well. Population, trade, and distance from the U.S. do not have significant effects of being selected for aid. In order to save space, the time and region variables are omitted from the table. European, Asian, African, and Middle Eastern countries are less likely to receive economic aid than are North and South American countries. The time variables are all significant in all three models at the one-tenth of one percent level, indicating that the longer a country goes without receiving U.S. economic aid, the less likely it is to receive aid.

Having selected which countries receive aid, the question then turns to how much economic aid should be allocated to each country. The allocation models in Table 2.5 show the effects of the independent variables on the relative amounts each country was allocated. Because the dependent variable is the natural logarithm of each recipient's percentage of the total amount allocated for each year, the coefficients indicate the effect on the relative level of allocated aid. In models 1b and 2b, which include only the strategic importance variable and the foreign policy similarity variable respectively, the coefficient for each is positive

Table 2.5: Allocation stage: Amount of U.S. economic aid received, 1950–2000

Variable	Model 1b	Model 2b	Model 3b
Strategic importance	0.336*	—	-0.001
	(0.169)		(0.175)
Foreign policy similarity	—	0.412***	0.342***
		(0.081)	(0.085)
Interstate conflict	-0.018	0.259	0.214
	(0.158)	(0.158)	(0.159)
Intrastate conflict	0.341***	0.374***	0.343***
	(0.080)	(0.078)	(0.079)
Conflict in neighbor	0.100	0.164**	0.160**
	(0.065)	(0.063)	(0.065)
GDP per capita (natural log)	-0.449***	-0.507***	-0.452***
	(0.050)	(0.048)	(0.050)
Population (natural log)	0.365***	0.420***	0.412***
	(0.025)	(0.025)	(0.026)
Democracy	0.031***	0.031***	0.031***
	(0.005)	(0.005)	(0.005)
Total trade	-0.019***	-0.009***	-0.017***
	(0.003)	(0.002)	(0.003)
Distance	-0.112***	-0.108***	-0.114***
	(0.025)	(0.024)	(0.024)
Constant	-1.012*	-0.990*	-1.343**
	(0.502)	(0.493)	(0.509)
λ	-1.277***	-1.207***	-1.265***
	(0.097)	(0.108)	(0.101)
Number of obs.	4418	4525	4280

$^*p < .05$; $^{**}p < .01$; $^{***}p < .001$. Standard errors in parentheses. All significance tests are two-tailed. Region indicators are suppressed.

and significant, indicating that both strategically important and friendly countries receive a greater share of U.S. aid; however, as model 3b indicates, when both variables are included, strategic importance is no longer significant, but friendship still produces greater shares of economic aid. This indicates that while less strategically important countries are selected for aid, as indicated above, friends receive a greater share of economic aid, supporting Hypotheses 6 and 7. This places U.S. foreign aid squarely in bottom left, or *Assistance*, cell of Table 2.2. This finding presents a more complicated understanding of the relationship between strategic interest, foreign policy friendship, and economic aid. While friends are not

more likely to be selected as aid recipients, they do receive a greater share of U.S. economic aid.

Aside from strategic importance and foreign policy similarity as strategic variables, allocation again appears to follow some strategic logic as well, like in the selection stage. States experiencing civil wars and countries with neighbors engaged in conflicts can expect greater shares of aid, supporting Hypothesis 8. Among countries selected for aid, poorer countries and democracies receive greater shares—supporting Hypotheses 9 and 10—indicating that U.S. economic aid is going to the ones that both need and deserve it more. Countries that trade more with the U.S. are allocated less aid; this could be the result of higher levels of development producing greater levels of trade, thus mitigating the need for aid in favor of investment. Countries that are closer to the U.S. receive more aid. Among the suppressed region variables, European, Middle Eastern, and Asian countries receive greater shares and African countries receive smaller shares of aid than North and South American countries. Finally, the selection stage produces the inverse Mills ratio λ, which is included as regressor in the allocation stage models. The significant and negative coefficient of λ indicates that unobserved factors that make selection for economic aid more likely tend to be associated with lower allocated aid.

Altogether the findings from Tables 2.4 and 2.5 indicate that U.S. economic aid is directed toward deserving countries. Poor democracies that are threatened by violent conflict, both within the country and on the border, are selected to receive aid, and the poorer, larger, and more democratic they are, the more aid they can receive. This further supports the notion that economic aid is meant for assistance, as conceived within the model presented in Table 2.2. Selection for aid does not depend on a level of strategic interest for the U.S., although those who vote similarly with the U.S. in the UNGA can expect greater amounts of aid.

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Table 2.6: U.S. military aid, 1950–2000

Variable	Selection stage	Allocation stage
Strategic importance	0.970***	2.616***
	(0.093)	(0.241)
Foreign policy similarity	-0.371***	2.175***
	(0.050)	(0.128)
Interstate conflict	-0.210*	0.459*
	(0.095)	(0.237)
Intrastate conflict	-0.131***	0.817***
	(0.050)	(0.122)
Conflict in neighbor	0.170***	0.281**
	(0.039)	(0.095)
GDP per capita (natural log)	0.056*	0.140*
	(0.027)	(0.073)
Population (natural log)	0.076***	0.280***
	(0.015)	(0.039)
Democracy	0.022***	-0.034***
	(0.003)	(0.008)
Transition in political system	0.255**	
	(0.109)	—
Total trade	-0.004***	0.006*
	(0.001)	(0.003)
Distance	-0.044**	0.248***
	(0.015)	(0.038)
Constant	-0.885*	-8.659***
	(0.276)	(0.750)
λ		-2.113***
	—	(0.105)
ρ	-0.784***	
	(0.025)	—
$\chi^2(1)$ of $\rho \neq 0$	178.91***	—
Number of obs.	5815	3169
Number of censored obs.	—	2646
Wald $\chi^2(14)$	—	1514.45***
Log likelihood	—	-10216.89

$^*p < .05$; $^{**}p < .01$; $^{***}p < .001$. Standard errors in parentheses. All significance tests are two-tailed. Time variables and region indicators are suppressed.

2.5.1 Do strategic interest and friendship matter?

Perhaps an explanation for the findings here that strategic interests have little if any effect on economic aid is inherent in the variables themselves, whether through operationalization— the variables do not actually measure the concept they are supposed to measure—or estimation—

including both terms does in fact introduce multicollinearity, reducing their impact and statistical significance. A possible test of these claims would be to test them against a different dependent variable, one that has a similar logic as economic aid but would generate different hypotheses. Military aid, which would fit these criteria, offer an opportunity to compare the model, used here to predict economic aid, against a dependent variable that would be heavily influenced by strategic considerations. Military aid can either be used to support allies, boosting U.S. position in a strategically key region, or to persuade noncommitted countries toward favorable policies (Morgenthau 1962, 303). Either way, recipients of military aid should represent strategic interests of the U.S.

Table 2.6 replicates the model 3 from Tables 2.4 and 2.5, replacing U.S. economic aid with U.S. military aid.[26] There are several interesting differences between the coefficients for the variables between economic aid and military aid. First, in the selection stage, the coefficient of alliance portfolio similarity is significant and positive, indicating that strategically important countries are more likely to be selected for military aid. Moreover, in the allocation stage, the more strategically important a country is, the more military aid it receives. However, friendlier countries are less likely to be selected for military aid, but among those selected, those with more similar foreign policy preferences get more aid. Both coefficients are significant in both the selection stage and allocation stage models for military aid.

2.5.2 Substantive effects

Unfortunately the Heckman selection model does not permit straightforward interpretation of coefficients of variables included in the selection stage in the outcome models due to the nonlinear selection process. Including the $\beta\lambda$ term in the regression equation introduces the nonlinear selection stage model into the allocation stage model, thereby not permitting linear interpretation of the substantive effects of the coefficients. In other words, in the

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[26]Military aid data are from the USAID (2012) *Greenbook*; these data are further described below.

Table 2.7: Substantive effect of foreign policy similarity on U.S. aid received, 1950–2000

Variable	Context	Percentage change in economic aid	Percentage change in military aid
Strategic importance	$-1 \rightarrow 1$	−20.28	+239183.13
Foreign policy similarity	$-1 \rightarrow 1$	+98.73	+3004.06
Conflict	International	+11.38	+20.45
	Civil	+51.44	+91.79
	Bordering	+26.22	+63.69
Regime	Autocracy $\rightarrow$ Anocracy	+34.93	−4.36
	Autocracy $\rightarrow$ Democracy	+93.74	−11.12
Economic development	Very low	+241.24	−37.67
	Low	+87.06	−21.06
	High	−47.75	+26.43
	Very high	−73.36	+59.54
Population	Small	−82.40	−79.63
	Large	+468.18	+367.99

The marginal effects figures for Table 2.7 are calculated based on model 3b in Table 2.5. Regions are comparisons to North and South America. For calculations in Table 2.7, autocracy, anocracy, and democracy are represented as the fixed values -7.95, -0.30, and 9.10 on the Polity scale. These figures represent the mean Polity values in the dataset for observations with Polity scores that fall within the commonly accepted ranges of -10 to -7 for autocracy, -6 to 6 for anocracy, and 7 to 10 for democracy. Very high, high, low, and very low economic development are defined by adding and subtracting one or two standard deviations to the mean value from the data (mean = 8.23, or $3,757; very low = 6.00, or $401; low = 7.11, or $1,228; high = 9.35, or $11,493; very high = 10.47, or $35,158). The mean population is about 4.6 million; a small state is two standard deviations below that, or 72,318; a large state is two standard deviations above that, or 295 million. All other continuous regressors are set to their respective mean values, and indicators are set to zero.

allocation stage, which includes the $\beta\lambda$ term, a unit change in x_{it} not only has a direct effect on y_{it} through the βx_{it} term, but also an indirect effect through changing the probability of being selected through the $\beta\lambda$ term. Because of this complication, Table 2.7 presents the conditional substantive effects of the critical independent variables. Military aid figures from Table 2.6 are included for comparison.

The percentage changes in aid offer a means of comparing the relative effect of each of the variables. The largest relative changes are for states with large populations—about 300 million people, or the size of the Soviet Union—and for very poor countries—those with

GDP per capita of about $400. Either switching from a completely dissimilar set of foreign policy preferences to voting in line with the U.S. in the UN General Assembly, or reforming from an autocratic regime to a democratic one, should nearly double a recipient's expected allocation.

For the sake of comparing the strategic importance of economic and military aid, the far right column of Table 2.7 presents the change in military aid allocation resulting from the same shifts in the independent variables. By shifting from a completely oppositional alliance portfolio to one exactly like the U.S., a recipient can expect nearly 2,400-fold increase in its military aid allocation, and by completely shifting its UN General Assembly voting it could increase its allocation 30-fold. The strategic interests that drive benefits to recipients in the form of military aid simply do not drive economic aid. Moreover, whereas economic development and despotic government reduce economic aid, they seemingly attract military aid.

2.5.3 Robustness tests

Three methodological issues potentially arise in the analysis presented above. The first is the measurement of the dependent variable, the allocation of foreign aid, which also include two subissues: estimator choice and the inclusion or exclusion of outliers. The second is the choice of the alliance portfolio similarity measure instead of an indicator of a bilateral alliance with the U.S. The third is the use of gross domestic product. Each of these are handled in the tables that follow.

The results presented in Tables 2.8, 2.9, and 2.10 are fixed effects ordinary least squares regressions of aid allocated on the independent variables. These models do not take any selection effect into account. Brandt and Schneider (2004) in genreal criticize the application of selection models throughout political science, focusing on poorly identified selection stages that lead to biased results and misinterpretations. Although selection models have become

Table 2.8: Robustness tests for U.S. aid allocation

Variables	1	2	3	4	5
Strategic importance	-0.07	-0.19		0.24	
	(0.25)	(0.18)		(0.22)	
Foreign policy similarity	0.17	0.03	0.03	0.06	0.05
	(0.09)	(0.07)	(0.07)	(0.07)	(0.07)
Interstate conflict	0.09	0.09	0.08	0.02	0.02
	(0.14)	(0.10)	(0.10)	(0.10)	(0.10)
Intrastate conflict	0.12	0.08	0.08	0.13*	0.13*
	(0.08)	(0.06)	(0.06)	(0.06)	(0.06)
Conflict in neighbor	0.09	0.02	0.03	0.04	0.04
	(0.07)	(0.05)	(0.05)	(0.05)	(0.05)
GDP per capita (natural log)	-0.85***	-0.43***	-0.44***		
	(0.09)	(0.07)	(0.07)		
Population (natural log)	0.69***	0.09	0.09	-0.05	-0.04
	(0.11)	(0.08)	(0.08)	(0.09)	(0.09)
Democracy	0.02***	0.02***	0.02***	0.01	0.01
	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Total trade	0.00	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Percent of U.S. aid (natural log)		0.60***	0.60***	0.61***	0.61***
		(0.01)	(0.01)	(0.01)	(0.01)
U.S. ally			-0.24		-0.07
			(0.13)		(0.15)
Relative political capacity				0.04	0.05
				(0.06)	(0.06)
Constant	-1.23	1.97*	2.10**	-0.32	-0.29
	(1.05)	(0.78)	(0.78)	(0.77)	(0.78)
R^2	0.12	0.64	0.63	0.69	0.70
Number of obs.	4,282	4,121	4,121	3,362	3,362

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
All variables are lagged one year. Figures in parentheses are standard errors. All significance tests are one-tailed.

standard for aid allocation research, the results presented in this section bypass the selection stage and consider only the allocation of aid.[27]

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[27]For studies that use a two-stage approach, see Balla and Reinhardt (2008); Berthélemy (2006); Clist (2011); Demirel-Pegg and Moskowitz (2009); Lai (2003); Neumayer (2003). Tingley (2010) uses first-order period differences, so that the dependent variables is the amount of change in a donor's allocation from one year to the next. Fleck and Kilby (2010) find that there is no dependence between the selection and allocation stages and present results from both selection and fixed effects allocation models; similarly, Hoeffler and Outram (2011) choose to model allocation without selection but only after first finding no dependence between the selection and allocation stages.

Table 2.9: Robustness tests for U.S. aid allocation

Variables	1	2	3	4
Strategic importance	3.33***	0.82*		
	(0.58)	(0.40)		
Foreign policy similarity	0.75**	0.29	0.78***	0.31
	(0.23)	(0.16)	(0.23)	(0.16)
Interstate conflict	-0.11	0.05	-0.03	0.06
	(0.36)	(0.25)	(0.36)	(0.25)
Intrastate conflict	-0.20	0.00	-0.18	0.01
	(0.21)	(0.14)	(0.21)	(0.14)
Conflict in neighbor	0.06	-0.04	0.11	-0.02
	(0.17)	(0.12)	(0.17)	(0.12)
GDP per capita (natural log)	-2.56***	-0.63***	-2.44***	-0.60***
	(0.22)	(0.15)	(0.22)	(0.15)
Population (natural log)	0.17	-0.25	0.23	-0.24
	(0.27)	(0.18)	(0.27)	(0.19)
Democracy	0.14***	0.06***	0.15***	0.06***
	(0.02)	(0.01)	(0.02)	(0.01)
Total trade	-0.00	0.00	-0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)
U.S. aid (natural log)		0.70***		0.70***
		(0.01)		(0.01)
U.S. ally			1.31**	0.09
			(0.45)	(0.31)
Constant	30.99***	11.01***	29.64***	10.74***
	(2.69)	(1.88)	(2.70)	(1.88)
R^2	0.24	0.82	0.24	0.82
Number of obs.	5,709	5,703	5,709	5,703

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

All variables are lagged one year. Figures in parentheses are standard errors. All significance tests are one-tailed.

The dependent variable in Table 2.8 is the same as used above in Table 2.5, the natural log of the percentage of each recipient's share of the total U.S. economic aid allocation for each year. The dependent variable in Tables 2.9 and 2.10 are simply the natural logarithm of the total amount of each recipient's allocation for each year, and Egypt and Israel are omitted as outliers. Thus, the results in Table 2.8 follow the recommendation of Clist (2011), whereas Tables 2.9 and 2.10 simply omit the two countries that receive the lion's share of U.S. aid.

Table 2.10: Robustness tests for U.S. aid allocation

Variables	1	2	3	4
Strategic importance	0.01	-0.46		
	(0.69)	(0.51)		
Foreign policy similarity	0.19	-0.00	0.17	0.00
	(0.23)	(0.17)	(0.23)	(0.17)
Interstate conflict	-0.73*	-0.02	-0.69	-0.02
	(0.35)	(0.26)	(0.35)	(0.26)
Intrastate conflict	0.15	0.06	0.15	0.06
	(0.20)	(0.15)	(0.20)	(0.15)
Conflict in neighbor	-0.12	-0.12	-0.12	-0.12
	(0.17)	(0.13)	(0.17)	(0.13)
Relative political capacity	-0.87***	-0.39**	-0.88***	-0.40**
	(0.19)	(0.14)	(0.19)	(0.14)
Population (natural log)	-0.98***	-0.48*	-0.96***	-0.48*
	(0.27)	(0.20)	(0.27)	(0.20)
Democracy	0.02	0.01	0.02	0.01
	(0.02)	(0.01)	(0.02)	(0.01)
Total trade	-0.00	0.00	-0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)
U.S. aid (natural log)		0.65***		0.65***
		(0.01)		(0.01)
U.S. ally			0.75	0.15
			(0.48)	(0.35)
Constant	22.44***	9.29***	22.03***	9.16***
	(2.42)	(1.80)	(2.43)	(1.81)
R^2	0.01	0.81	0.01	0.81
Number of obs.	4,471	4,471	4,471	4,471

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
All variables are lagged one year. Figures in parentheses are standard errors. All significance tests are one-tailed.

Focusing on Table 2.8, two important observations can be made. In general, gross domestic product and political regime type are still important indicators of aid allocation, according to Models 1, 2, and 3, even when the lagged values of the dependent variable are included. Poor democracies receive more aid according to these models. In Models 4 and 5, GDP is is replace with relative political capacity, which is not significant in either model, although regime type is not significant in these models either.[28] Models 3 and 5 replace the strategic importance variable with a binary indicator coded 1 if the recipient had a formal alliance with the U.S. and 0 if not; this variable is not significant in either model.

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[28]See Chapter 3 for a discussion of relative political capacity.

In Table 2.9, which omits Egypt and Israel, strategic importance and foreign policy similarity are both significant in Model 1, and the alliance indicator and foreign policy similarity are significant in Model 3, both of which do not include the lagged dependent variable. Strategic importance, foreign policy similarity, and the alliance indicator are not significant above the 0.01 level when the lagged dependent variable is included in Models 2 and 4. In all four models, however, GDP and regime type are significant, indicating that poor democracies receive more aid when prior allocation is taken into account. The models in Table 2.10 replace GDP with relative political capacity, which is significant in all four models. Interestingly, population becomes significant as well in all four models, although in the opposite direction from the models in Table 2.5.

Overall, the results in these additional analyses continue to support the main findings that U.S. economic aid is allocated in greater amounts to countries that are poorer. These results hold regardless of estimator choice and the related issues of coding of the dependent variable and inclusion of outliers.

2.5.4 A U-shaped strategic relationship?

One possible explanation of the lack of results for the strategic variables included here is that the relationship may not be linear. It may be that the U.S. does not offer its enemies aid, but it also does not offer its strongest allies aid either because they do not need aid for various reasons. The results in Table 2.11 are from models that consider whether there is a quadratic, rather than linear, relationship between the two strategic variables and U.S. aid allocation.

Models 1a and 2a use the natural logarithm of each country's yearly percentage share of U.S. foreign aid as the dependent variable, and these models include Egypt and Israel. Models 1b and 2b use the natural logarithm of the total amount of aid allocated to each country in each year; these models omit Egypt and Israel as outliers. Models 1a and 1b include the

Table 2.11: U-shaped effects of strategic importance and UNGA voting on U.S. aid allocation

Variables	1a	1b	2a	2b
Strategic importance	1.83***	6.69***		
	(0.33)	(0.65)		
SI squared	-5.01***	-10.63***		
	(0.61)	(1.23)		
Interstate conflict	-0.02	-0.58	-0.02	-0.02
	(0.14)	(0.36)	(0.14)	(0.36)
Intrastate conflict	0.11	-0.35	0.11	-0.18
	(0.08)	(0.21)	(0.08)	(0.20)
Conflict in neighbor	0.10	0.23	0.10	0.04
	(0.07)	(0.17)	(0.07)	(0.17)
GDP per capita (natural log)	-1.08***	-3.77***	-1.08***	-2.36***
	(0.09)	(0.20)	(0.09)	(0.21)
Population (natural log)	0.57***	-0.01	0.57***	0.44
	(0.10)	(0.23)	(0.10)	(0.26)
Democracy	0.02***	0.13***	0.02***	0.16***
	(0.01)	(0.02)	(0.01)	(0.01)
Total trade	-0.00	-0.00	-0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)
Foreign policy similarity			1.83***	1.00***
			(0.33)	(0.26)
FPS squared			-5.01***	-0.61
			(0.61)	(0.39)
Constant	1.81*	42.98***	1.81*	27.82***
	(0.86)	(2.20)	(0.86)	(2.60)
R^2	0.08	0.33	0.08	0.22
Number of obs.	4,420	6,023	4,420	5,996

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
All variables are lagged one year. Figures in parentheses are standard errors. All significance tests are one-tailed.

strategic importance variable based on alliance portfolio similarity and a quadratic term. Models 2a and 2b include the foreign policy portfolio similarity variable based on UNGA voting and, again, a quadratic term. The results of each model, with the exception of 2b, indicate that there is an inverse-U relationship—based on the significant and negative signs of the quadratic terms and the positive and significant signs of the linear terms—between these strategic variables and aid allocation. More aid is given to countries that are neither strong allies nor sworn enemies. Only in Model 2b, which includes the foreign policy portfolio variables and omits Egypt and Israel, does not show evidence of such a quadratic relationship,

Table 2.12: The effects of U.S. troops stationed abroad on aid allocation

Variables	1	2	3	4
U.S. troops	0.01***	0.00*	0.06***	0.02***
	(0.00)	(0.00)	(0.01)	(0.00)
Interstate conflict	0.09	0.17	-0.54	-0.03
	(0.14)	(0.10)	(0.36)	(0.24)
Intrastate conflict	0.18*	0.09	-0.26	-0.05
	(0.07)	(0.05)	(0.20)	(0.14)
Conflict in neighbor	0.04	-0.01	0.17	0.01
	(0.07)	(0.05)	(0.17)	(0.11)
GDP per capita (natural log)	-1.19***	-0.47***	-2.92***	-0.82***
	(0.08)	(0.06)	(0.19)	(0.13)
Population (natural log)	0.51***	0.00	0.21	-0.20
	(0.09)	(0.06)	(0.22)	(0.15)
Democracy	0.01*	0.01**	0.17***	0.06***
	(0.01)	(0.00)	(0.01)	(0.01)
Total trade	0.00	0.00	0.01***	0.01***
	(0.00)	(0.00)	(0.00)	(0.00)
U.S. aid (natural log)		0.63***		0.71***
		(0.01)		(0.01)
Constant	2.98***	3.08***	34.23***	12.19***
	(0.79)	(0.56)	(2.03)	(1.41)
R^2	0.10	0.65	0.21	0.81
Number of obs.	4,744	4,552	6,307	6,299

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

All variables are lagged one year. Figures in parentheses are standard errors. All significance tests are one-tailed.

although there is still evidence of a linear relationship. However, in all four models, GDP per capita continues to be significant and negative.

2.5.5 An alternative measure of strategic interests

The focus in this paper on strategic interests has included two measures of policy similarity with the U.S. These in effect measure how closely the foreign policies, whether in terms of alliance commitments or UNGA voting, of recipients match with that of the U.S. This puts the onus of strategic interest on the recipient. The U.S., however, can show strategic interest in a certain country through its own activities, such as military intervention (Fordham 2008) or establishing military bases abroad (Harkavy 1989).

The results presented in Table 2.12 reconsider U.S. strategic interests by including the number of U.S. troops (in thousands) deployed in each country (Kane 2004).[29] Models 1 and 2 use the natural logarithm of each country's yearly percentage share of U.S. foreign aid as the dependent variable, and these models include Egypt and Israel. Models 3 and 4 use the natural logarithm of the total amount of aid allocated to each country in each year; these models omit Egypt and Israel as outliers. Models 2 and 4 include the lagged dependent variable as an independent variable. These results show that countries that host more U.S. troops do receive more aid; however, GDP per capita continues to be significant and has the same sign as in the previous models.

2.5.6   Are allies different?

The U.S. and the North Atlantic Treaty Organization allies are tied together in a web of mutual defense pacts that may be conflating the results for the strategic importance variable, which measures alliance portfolio similarity. The results presented in Table 2.13 omit these alliance partners from the analysis. Models 1, 2, and 3 use the natural logarithm of each country's yearly percentage share of U.S. foreign aid as the dependent variable, and these models include Egypt and Israel. Models 4, 5, and 6 use the natural logarithm of the total amount of aid allocated to each country in each year; these models omit Egypt and Israel as outliers. Models 2, 3, 5 and 6 include the lagged dependent variable as an independent variable.

The strategic importance variable is significant in Models 4 and 5, which omit Egypt and Israel, and foreign policy similarity is also significant in Model 4, both having positive signs. The alliance variable included in Models 3 and 6 is not significant. The coefficient of GDP per capita is significant and negative in all the models except for Models 5 and 6, which

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[29]The dataset includes figures compiled from standard sources including the U.S. Department of Defense and Central Intelligence Agency. The data are available at `http://www.heritage.org/research/reports/2004/10/global-us-troop-deployment-1950-2003`.

Table 2.13: U.S. aid allocation omitting NATO allies

Variables	1	2	3	4	5	6
Strategic importance	0.32	0.02		3.71***	1.26**	
	(0.27)	(0.20)		(0.60)	(0.43)	
Foreign policy similarity	0.18*	0.05	0.05	0.83***	0.31	0.32*
	(0.09)	(0.07)	(0.07)	(0.22)	(0.16)	(0.16)
Interstate conflict	-0.07	-0.02	-0.03	-1.78***	-0.53*	-0.49
	(0.14)	(0.11)	(0.11)	(0.37)	(0.27)	(0.27)
Intrastate conflict	0.18*	0.10	0.10	0.14	0.04	0.06
	(0.08)	(0.06)	(0.06)	(0.21)	(0.15)	(0.15)
Conflict in neighbor	0.11	0.04	0.04	-0.04	-0.08	-0.06
	(0.07)	(0.05)	(0.05)	(0.17)	(0.12)	(0.12)
GDP per capita (natural log)	-0.68***	-0.40***	-0.41***	-1.07***	-0.33*	-0.26
	(0.09)	(0.07)	(0.07)	(0.22)	(0.16)	(0.16)
Population (natural log)	0.67***	0.12	0.12	-0.16	-0.33	-0.31
	(0.11)	(0.08)	(0.08)	(0.26)	(0.18)	(0.18)
Democracy	0.02***	0.01**	0.01***	0.17***	0.07***	0.07***
	(0.01)	(0.00)	(0.00)	(0.02)	(0.01)	(0.01)
Total trade	0.00	0.00	0.00	-0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)
U.S. aid (natural log)		0.59***	0.59***		0.67***	0.67***
		(0.01)	(0.01)		(0.01)	(0.01)
U.S. ally			-0.19			0.32
			(0.14)			(0.32)
Constant	-2.46*	1.39	1.50	22.86***	9.88***	9.28***
	(1.02)	(0.77)	(0.77)	(2.57)	(1.86)	(1.85)
R^2	0.13	0.65	0.64	0.14	0.79	0.79
Number of obs.	4,084	3,939	3,939	5,116	5,112	5,112

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
All variables are lagged one year. Figures in parentheses are standard errors. All significance tests are one-tailed.

omit Egypt and Israel. This indicates that when these two outliers as well as NATO allies are excluded from the analysis, and the previous year's allocation is controlled for, GDP per capita is no longer a significant predictor of aid allocation. Democracy and the previous year's allocation are left as the only significant factors in the model. The relatively high R^2 of Models 2, 3, 5, and 6 appear to be driven by the inclusion of the lagged dependent variable, however, and not the other independent variables, and the estimated coefficients of these variables are substantially reduced, indicating the lagged dependent variables may be causing statistical problems (Achen 2000).

2.6   Conclusion

Despite the ongoing criticism that U.S. economic aid favors U.S. strategic interests, the results shown here indicate that U.S. assistance is directed toward countries that need it the most: poor, democratic countries that are experiencing internal or nearby violence. These findings also further indicate the need for theoretical approaches to foreign aid giving. Beginning with a conceptual analysis of strategic importance as conceived in the earlier literature, these results indicate the utility of the model presented in Table 2.2. While the U.S. does support it friends with greater levels of aid, friends are not more likely to be selected for aid in the first place, and selection does not hinge on strategic importance. In short, U.S. economic aid does serve humanitarian needs.

This is not to say that U.S. aid is not affected by the geostrategic landscape. The end of the Cold War ushered in a new commitment to supporting democratic transitions, and the War on Terror has rejuvenated interest in this goal. Whether the effects of the September 11, 2001, attacks have led Americans to oppose economic assistance for Arab countries experiencing transitions in recent years remains to be seen, while the jury remains out on the effects of counterterrorism aid—included in economic aid packages—on reducing the threats of organized terror both at home and abroad (Bandyopadhyay, Sandlery and Younas 2011).

That U.S. aid is directed toward poor, struggling countries indicates a certain pattern in aid allocation that ties in with other political phenomena. Poverty, measured by low GDP per capita, indicates weak states, which are prone to insurgency and ensuing civil conflict (Fearon and Laitin 2003). As the global hegemon, the U.S. seeks to maintain international stability; the gravest threats to peace and order over the past couple decades have been abject poverty, political instability, civil violence, and terrorism. By targeting countries that show the warning signs of these outcomes, the U.S. appears to be acting as a hegemon should

by preventing the breakdown of international order, supporting the view that more powerful countries take on more responsibility for the international system (Waltz 1979).

The effects of the Great Recession on Americans' commitment to supporting economic development and humanitarian causes abroad remain to be seen. Although foreign aid remains at or even below the meager one percent level of the U.S. federal budget, lean times make even this modest portion one of the first targets of opposition assaults on government spending. An unemployed American is a far greater liability to a Congressman or Senator than an oppressed, malnourished person in a far-off land. While the results here do not indicate whether U.S. aid is effective at reducing the strife and hardship faced by many of the world's citizens, it is evident that U.S. aid does target those places where it is needed most.

Chapter 3. Funding Failure: U.S. Foreign Aid and State Capacity

> *Exploring state-society relationships in the taxation domain perhaps helps provide us with an agenda for the study of (effective) state formation in the South that is more relevant and productive than the agenda derived from ideas that are globally dominant both in the academy and outside.*
>
> Moore 2004, 313

3.1 Introduction

In the 2013 State of the Union address, President Barack Obama reiterated a common theme in United States foreign aid policy: "We also know that progress in the most impoverished parts of our world enriches us all," he said, "not only because it creates new markets, more stable order in certain regions of the world, but also because its the right thing to do." The moral argument notwithstanding, the statement concerns the relationship between foreign support for economic development and political stability, a relationship at the heart of the analysis of the effectiveness of foreign aid.

Based on the results from the previous chapter, which indicate that U.S. aid is directed towards poor countries that show the warning signs of insurgency, this chapter focuses on the effectiveness of U.S. aid in strengthening recipient countries' institutions. While much of the aid effectiveness literature has focused on economic growth, the emphasis here is on political development. Previous studies have focused on democratization and conflict as indicators of stability, but this project takes a much more basic view of the state and its primary function: raising revenue. In fact, aid should have a more direct effect on this most basic feature of the modern state as the effect of nontax revenues on political and economic outcomes is still relatively little understood (see Ahmed 2012; Smith 2008).

The next section reviews the aid effectiveness literature. This large and growing body of knowledge has centered on a few themes, especially the effect of aid on economic growth, but also on conflict and democratization. A much smaller and newer portion of the literature has begun to focus on taxation. A measure of tax efficiency unique to this literature, relative political extraction (Kugler and Tammen 2012), is introduced and applied. The following section explains the research design used to test hypotheses derived relating foreign aid to tax efficiency. The statistical results and an illustrative case study are analyzed in the next section, and the paper ends with a concluding section.

3.2 Review

The analysis of the effects of foreign aid on recipient countries, which has developed over the last decade-and-a-half, is a relatively new research program. Critics point to the continuing lack of economic growth, social services, and political reform among the vast majority of recipient countries despite trillions of dollars of aid given over the past five decades under strict, complex rubrics of investment and development (Easterly 2001; 2006). At best, cross-country evidence shows that aid has had little if any effect on growth in recipient countries (Rajan and Subramanian 2008).[30] Indeed, the pessimist's view is that aid is intended not to reduce poverty or encourage development but rather to allow donor-friendly regimes to stay in power by providing private benefits to their domestic supporters (Bueno de Mesquita and Smith 2011).

Despite the case against aid, supporters push for greater levels of and even more intricate planning (Sachs 2005). When aid is joined by growth-supporting domestic policies, such as budget surplus, low inflation, and trade openness, aid has a positive effect on growth, but this effect is marginalized by bad economic policies (Burnside and Dollar 2000)[31]; Radelet,

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[30]Roodman (2007) argues that the results of the regression analyses of aid and growth he replicates are fragile and highly sensitive to selection of control variables, how aid is measured, how outliers are treated, and sample sizes.

[31]See the rebuttal by Easterly, Levine and Roodman (2004) and the reply from Burnside and Dollar (2004).

Clemens and Bhavnani (2006) refine this conclusion, showing that aid works better in countries with good economic policies and also point to Mozambique, Uganda, Sierra Leone, and other cases where aid fostered growth despite recent civil wars and institutional breakdown.

Focusing on economic growth has produced mixed results at best (Doucouliagos and Paldam 2009), which also poorly interpret the path of causality: Do economic policies generate growth, or do political institutions drive economic policies and thus growth (Acemoglu et al. 2003)? The congruent question for aid researchers would be the following: Should good policies attract higher levels of aid, or should aid produce policy reform? In between the delivery of aid and the outcome of growth are several steps of institutional design and development, policy reform, and technological adaptation. In short, aid provides an environment in which "good policies" become possible or at least more likely. Good policies do not exist *sui generis*; in fact, efficient economic policies may not be politically feasible, especially in weakly institutionalized states (Acemoglu 2003). Thus, efforts to consider the effects of aid on the political system have come to the forefront.

3.2.1 Unearned income and political development

Political economists in recent years have begun focusing on the potential negative effects of unearned national income such as natural resource rents and foreign aid. In nondemocratic systems, unearned resources tend to be distributed to elites within the leadership circle as opposed to distributed as public goods (Smith 2008; Svensson 2000). These autocratic governments can use unearned foreign income to allay revolutionary threats and prolong their rule (Ahmed 2012). While all forms of unearned income are lumped together in these analyses, aid has separate effects from natural resource rents, which are randomly distributed and not tied to purpose-driven expectations (Bermeo 2013; Collier 2006).[32] The focus here is on how foreign aid specifically, as a tool of foreign policy, affects political development in

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[32]Cf. Morrison (2009), who finds no difference of effect among sources of nontax revenue, including natural resource rents and foreign aid, on regime stability for both democracies and autocracies.

recipient countries. In turning the discussion of aid effectiveness toward political outcomes, the question then facing the aid effectiveness researcher is how political development should be operationalized.

Research on political development in the last two decades has focused primarily on the outbreak of state failure, spurred by the apparent spate of government collapses, civil conflicts, and genocides at the end of the Cold War; thus, the breakdown of the state's monopoly on the use of violence—in the form of a revolution, civil war, or coup—is the typical indicator of state failure (Goldstone et al. 2010; Howard 2008; King and Zeng 2001).[33] While some researchers have found that foreign aid is intended to produce economic development, which should be stabilizing in the long-run (Collier and Hoeffler 2002), others have found the opposite relationship: foreign aid produces incentives for rent-seeking government challengers to rebel (Sollenberg 2012). Moreover, negative aid shocks lead to lower levels of domestic revenues, which disturbs the bargaining equilibrium between the recipient government and challengers, leading to predatory behavior and armed conflict (Bates 2008; Nielsen et al. 2011). Aid can foster development in post-conflict countries so long as the recipient does not present a strategic benefit to the donor and the recipient lacks additional sources of revenue, such as resource rents (Girod 2012); unfortunately, in many cases conflict is the result of weak institutions and competition over rents (Fearon 2005). Thus it remains unknown whether aid in fact has any direct effect on the likelihood of violent conflict within recipient countries.

Research on the effects of aid on democracy and democratization has also produced mixed results. Whether aid can even generate democratization is in doubt, since more foreign aid provides kleptocratic rulers with more resources to buy off potential challengers and remain in power (Acemoglu, Verdier and Robinson 2004), which in turn further reduces the benefit of

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[33]Not only do failed states experience violence, but they, and their populations, are consumed by violence:"*Failed* states are tense, deeply conflicted, dangerous, and contested bitterly by warring factions" (Rotberg 2004, 5, original emphasis).

aid to the public (Bueno de Mesquita and Smith 2007; 2009). Foreign aid in general has been shown to have a negative effect on democratic institutions in recipient countries (Djankov, Montalvo and Reynal-Querol 2008; Knack 2004). Callaway and Matthews (2008) report both U.S. economic and military aid produce lower levels of respect for security rights (based on Amnesty International country reports) and subsistence rights (using the Physical Quality of Life Index[34]); specifically, U.S. economic aid severely depresses subsistence rights, while U.S. military aid dramatically reduces respect for security rights among countries allied with the U.S.. High levels of unearned funds from natural resources and foreign aid should reduce the desire for democratization because of a diminished push for redistributional economic policies, whereas low levels of unearned revenues spent on the poor, such as aid projects that bypass recipient governments, alleviates the need for democratization (Morrison 2007).

Aid has been shown to offer some limited political benefits however. Aid from democracies correlates with democratization in recipient countries in the post-Cold War era (Bermeo 2011; Dunning 2004), and higher levels of democracy aid do help regimes democratize by insulating them from potential violent challengers (Finkel, Pérez-Liñán and Seligson 2007; Savun and Tirone 2011). Aid helps democratic leaders remain in power in the short-term (Kono and Montinolo 2009) and immediately after after taking office (Licht 2010). Even under democracy though, the political system can generate economic institutions favoring an elite if incentives drive the elites to invest in *de facto* political power, such as lobbying, bribery, and corruption, thus negating any positive link between political institutional liberalization and economic growth (Acemoglu and Robinson 2008). This expectation is supported by Bjørnskov (2010), who finds that, among relatively democratic recipients, aid leads to more skewed income distributions favoring the wealthy. Finally, dictators will ac-

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[34]The Physical Quality of Life Index is a single measure that combines data on infant mortality, life expectancy, and literacy (Morris 1979).

cept aid conditioned on democratization so long as they expect to be elected to a leadership position in the new regime (Wright 2009).

Development economists of the middle twentieth century hypothesized that industrialization in former colonial states would convert rural, unskilled labor into urbanized, skilled work forces (Chandra 2008). Foreign aid was and remains intended to offer developing countries the means to industrialize by providing funding for infrastructure, institution building, and technical development. These are, however, long-term political goals, and politicians, particularly in weakly institutionalized states, focus on short-term, private gains as opposed to long-term public goods; moreover, the political power of these leaders is often a product of economic power existing under the *status quo*. While the initial target of aid was economic growth, evidenced by rising GDP, a more nuanced conceptualization of development has grown in importance recently such that broad indicators of social development, such as the Human Development Index, which takes health and education into account, are now more commonly used to asses aid effectiveness (Chandra 2008). Callaway and Matthews (2008, 71*n.14*) caution, however, that the HDI combines means of development (wealth) with ends (education and health). Instead, a focus on a concept that is prior to both economic growth and social welfare, that is, state capacity, is in order. While the ultimate aim of foreign aid may be to induce economic development, political development must come first. Whether aid should in fact produce political development is still at issue, for "political leaders' impatience for the swift delivery of goods and services can impede the slower process of the development of government capacity. That capacity is crucial to the long-term interests of governments and especially to the sustainability of development programs" (Manor 2007, 16).

Focusing on the relationship between aid and state capacity must come prior to other political outcomes. Increasing levels of state capacity produce higher levels of development, regardless of regime type (Hanson 2012). The question here then becomes what measure

of state capacity is appropriate. Although many conceptualizations and measures of state capacity are available (Hendrix 2010; Kocher 2010), the most basic quality of the state is its ability to generate revenue: "State building has multiple meanings, but at its most fundamental, it involves state penetration of society to extract resources from it...Indeed, taxation, extractive capacity, underlies all other state capacities. For a government to perform the political tasks it targets, it has to be able to mobilize sufficient resources and use them to achieve these goals" (Wang 2001, 229). Improvements in tax administration, measured as the ratio of expected tax revenue based on regression analysis to actual tax revenue, produce higher levels of state capacity, measured as bureaucratic quality (Prichard and Leonard 2010). Just as gross domestic product measures the performance of any economy, regardless of its structure, location, relative size, or past or present performance, political extraction does the same for any political system (Kugler and Tammen 2012). As expected, economically weak states do a poor job of collecting tax revenues (Teera and Hudson 2004), but there is no difference between the tax-collecting abilities of democracies and autocracies (Cheibub 1998), and higher levels of relative political extraction lead to higher levels of individual-level trust in the political system (Hutchinson and Johnson 2011); thus, regardless of subjective metrics of the quality of the political system, tax efficiency is an indicator of political efficacy.

3.2.2 Foreign aid and political extraction

If autonomous political capacity is a direct product of a stable domestic revenue generating system, then the target of analysis should be tax efficiency.[35] As the OECD (2010, 13) notes, "the role of taxation in developing a responsive and accountable government and for expanding state capacity is often overlooked." Reforming tax policies in order to generate levels of domestic revenues that are able to fund social services while also promoting individ-

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[35]I use the term *tax efficiency* here to differentiate the concept from *tax effort* that is used widely in the aid effectiveness literature. Tax effort is the proportion of economic product the government receives as tax revenue (the ratio of taxes to gross domestic product), whereas tax efficiency is the residual of actual tax revenue to expected tax revenue (described below).

ual consumption and investment is a leading goal of economic advisors. "Taxation is integral to strengthening the effective functioning of the state and to the social contract between governments and citizens," a report by the IMF, OECD, UN, and World Bank (2011, 8) states. "By encouraging dialogue between states and their citizens, the taxation process is central to more effective and accountable states." A United Nations Economic and Social Council report echoes the same message: "One of the most promising ways to promote reform is to intensify stakeholder dialogue and advocacy that permits citizens and civil society groups to play a greater role in shaping policies and institutions" (UN ECOSOC 2011, 2). Widening the tax base and establishing a fair and efficient revenue collecting bureaucracy, combined with effective social services funded by domestic revenues, will generate legitimacy for the political order.

There are, however, limits to this idea. "Domestic revenues," the same report states," "need to be raised in an economically efficient manner that does not impose undue burdens on investment and economic growth" (UN ECOSOC 2011, 6); moreover, governments in weakly institutionalized states that set tax levels too low have no incentive to not engage in predatory behavior, while citizens of states that set tax rates too high have no incentive to pay (Bates, Greif and Singh 2002; Bates 2008). This correlates with the weak state/limited government balance discussed by Acemoglu (2005), in which an excessively strong ruler overtaxes, stifling economic productivity and investment, whereas a weak ruler struggles to tax, leading to underinvestment in public goods.

Foreign aid grants given after 1985, when the effects of donor and lender conditionality begun in the early 1980s had taken hold, show a positive relationship with tax-to-GDP ratios in recipient countries (Clist and Morrissey 2011). Revenues that come from non-tax sources, however, such as resource rents or foreign aid, offset the need for governments to raise domestic revenues, reducing incentives to develop efficient tax-raising bureaucracies

and effective social services (Knack 2009).[36] In developing countries aid revenues are applied to immediate consumption expenditures and budget shortfalls while offsetting the need to generate tax revenue (Boone 1996); thus, aid furthers aid dependence while reducing investment in the public sector (Feeny and McGillivray 2010). Aid allocations can offset recipient governments' budget appropriations toward social services and economic development, and the money can be rerouted to unproductive expenditures and tax reductions (Feyzioglu, Swaroop and Zhu 1998); therefore, aid not only leads to increased spending but also decreased revenue generation (Remmer 2004). Unfortunately, although foreign aid offsets the need to raise domestic revenues, it does not diminish the necessity of developing an effective tax system: "The importance of taxation is increased, not reduced, when countries receive large volumes of external assistance," an OECD report states. "One reason for this is that *aid can inadvertently undermine the foundations of a tax-based bargain between the state and its citizens*" (OECD 2008, 13, original emphasis).[37]

The importance of the subject at hand to aid researchers, donors, and recipients alike cannot be overstated. Tax administration represents far more than the funding of government activities. Taxation, and the resulting level of social services provided by the regime, indicate the result of ongoing state and society relations and bargaining (Moore 2008). States serve their sources of income: regardless of regime type and level of development, the more revenue states raise from lower-income groups, the more social services they provide, whereas the more they raise from the wealthy, the more they protect property rights (Timmons 2005).[38]

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[36]Eubank (2012) points to Somaliland as an example of the development of a political system dependent on domestic revenues due to its ineligibility to receive foreign aid.

[37]Also see Bevan (2006).

[38]This could explain why Ross (2004*a*) finds that greater representation follows not when taxes increase, but rather when taxes relative to the amount of government spending, or in other words, the price of public services, increases.

From this discussion simple hypotheses relating foreign aid to tax efficiency are generated. The approach taken here is the cynical view, which is preponderant in the literature: foreign aid, both economic and military, produces less efficient tax systems:

Hypothesis 1a The more economic aid a country receives, the less efficient its tax administration will be.

Hypothesis 1b The more military aid a country receives, the less efficient its tax administration will be.

The source of the aid has also been shown to have an important interactive effect on aid effectiveness (Bearce and Tirone 2010; Bermeo 2011; Dunning 2004; Kilby and Dreher 2010). The strategic relationship between donor and recipient plays an important role in recipient leaders' expectations of conditionality requirements and future aid allocations; thus, we would expect allies to use aid less efficiently in terms of long-term development goals:

Hypothesis 2a Economic aid to allies will lead to less efficient tax administrations than economic aid to non-allies.

Hypothesis 2b Military aid to allies will lead to less efficient tax administrations than military aid to non-allies.

Aside from the formal declaration of strategic interests codified in an alliance treaty, we should also expect to see differences in the effectiveness of aid during the Cold War and post-Cold War eras (Dunning 2004).

3.3   Design

3.3.1   Dependent variable

The dependent variable used to measure political development is relative political extraction (RPE), a measure of tax efficiency (Arbetman-Rabinowitz and Johnson 2007; Kugler

and Tammen 2012). RPE is the ratio of actual to expected tax revenue. Expected taxation is the estimated tax-to-GDP amount calculated by regressing the actual tax ratio on nontax revenue sources, including the ratio of mining, agricultural, crude oil, and export rents to GDP. A similar measure of tax efficiency is used by Prichard and Leonard (2010).

The measure allows for objectively comparing how efficient political systems are without taking institutions, social welfare, respect for human rights, and other subjective indicators into account: "Government extraction assesses the extractive efficiency of government given levels of productivity, but does not indicate whether the government choices are optimal or if they are supported by the majority of the population. In other words, political extraction is an agnostic measure of performance that does not reflect democratic principles, optimal allocations, or lack of coercion" (Kugler and Tammen 2012, 14). The measure also generates an easily comparable variable across both space and time, avoiding many of the pitfalls associated with more basic measures of tax effort (see Lieberman 2002).

The decision to choose a specific measure of state capacity is not one to be taken lightly; over a dozen popular measures exist, each with merit (Hendrix 2010). First, focusing on taxation rather than government revenues paints a clearer picture of the long-term efficacy of the governing institutions, for regimes dependent on revenues derived primarily from resource rents or other nontax sources are subject to destabilizing revenue crises (Snyder and Bhavnani 2005). Second, using a measure of efficiency, as opposed to effort, is a better metric of the effectiveness of aid—as well as nearly any other input—in creating stable, well-functioning political systems, for "governments that perform effectively will be able to implement policy and pursue their political and economic goals while preserving political stability" (Kugler and Tammen 2012, 13). Finally, the correlates of political stability—infant mortality, regime type, wealth, conflict—are symptoms, not causes, of political performance. While analyses of the effects of these variables may advance an empirical understanding of political stability, we are left with little if any theoretical explanation.

3.3.2 Independent and control variables

In order to test the hypotheses generated above, I use a selection of independent variables that measure the concepts as closely as possible based upon general consensus in the literature. All non-fixed independent and control variables[39] are lagged one year.

Foreign aid The primary independent variable of interest is the total amount of U.S. economic and military aid committed to each country for each year, in constant 2010 U.S. dollars.[40] These data are reported in the USAID (2012) *Greenbook* (see figure 3.1). The figures range to as much as $4.9 billion for economic aid (allocated to the India in 1966) and nearly $10.3 billion to Israel in 1979. Using the actual amounts of aid presents several issues, however. The existence of outliers, namely Egypt and Israel, skews results toward these two recipients. In order to mitigate this issue, the natural logarithm of the yearly allocation to each recipient is used.

Alliance Formal alliances indicate explicit security interests between alliance members. This variable is coded one if the recipient country had either a defense pact, neutrality agreement, or entente with the United States in the given year, according to the Correlates of War formal alliance database, version 3.03, and zero if not (Gibler 2009). The data were accessed with the EUGene program (Bennett and Stam 2000).

Proximity to conflict Conflict data are taken from the Major Episodes of Political Violence database hosted by the Center for Systemic Peace (Marshall 2010). These data include measures of the intensity of interstate and civil conflict experienced by individual countries in each year, as well as these values for neighboring countries. Three indicator variables were created. The first is coded 1 if a country fought in an interstate conflict in a given year ($n = 246$, or 3.87% of the data) and 0 otherwise. The second is coded 1 if a country fought in an intrastate conflict in a given year ($n = 1,253$, or 19.71% of the data) and 0 otherwise.

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[39]Region does not vary within countries, so it is not lagged. Moreover, temporal controls are not lagged.
[40]Using inflation-adjusted constant figures allows for comparing monetary values across time.
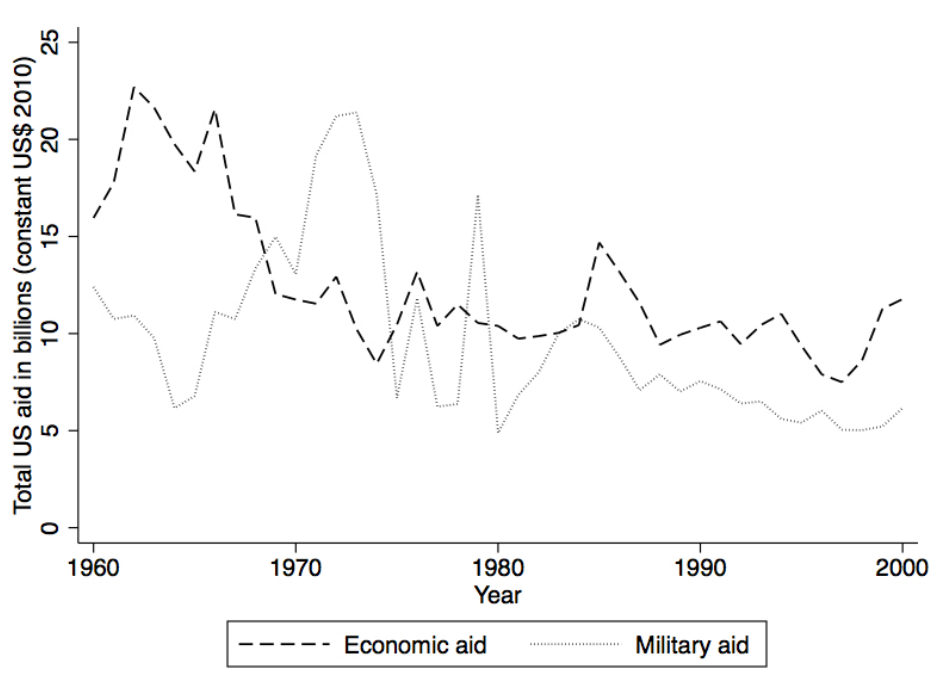
Figure 3.1: Total U.S. economic and military aid per year, 1960–2000

The third is coded 1 if a neighboring state fought either an interstate or an intrastate conflict ($n = 3,112$, or 48.96% of the data) and 0 otherwise.

Economic wealth Economic wealth is a proxy for development and therefore recipient need. This is operationalized as gross domestic product per capita, or each citizen's share of the total economic production of a country. Higher values indicate greater levels of wealth, and lower values indicate greater levels of need. Because GDP per capita tends to be heavily skewed toward 0, a normal distribution is created by taking the natural logarithm. These data come from the Expanded Trade and GDP Data by Gleditsch (2002).[41]

Regime type A common measure of regime type is the Polity scale (Marshall, Jaggers and Gurr 2010). It ranges from -10, representing a completely autocratic system, to $+10$, a complete democracy. In addition to measuring the restrictiveness and openness of a political system, the Polity data also include whether a country experienced a significant transition

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[41]These data are available from Gleditsch (2008).

in its regime (Jaggers and Gurr 1995). Following the Polity coding rules, years of transition are coded as the average of the pre- and post-transition scores. If a transition lasts for more than one year, the change is split over the years, so that a four-point shift over two years would result in a two-point shift in the first year and a two-point shift in the second year. This method avoids losing information by instituting the alternative coding scheme, which calls for coding transition years as missing values.

Population Population data are used to control for the size of countries. Larger populations require greater levels of economic and social support. The Expanded Trade and GDP Data by Gleditsch (2002) includes annual population data. In order to produce coefficient estimates of a scale similar to those of other variables and to produce a normally-distributed variable, the natural logarithm of population in millions is used.

Trade Trade ties may condition the importance of the recipient to the donor's economy, making economic aid and greater aid contributions more likely. The sum of U.S. exports to and imports from each country, measured in millions of current U.S. dollars, is included.[42] The trade data were compiled using the EUGene program (Bennett and Stam 2000).

Region Each region of the world comprises unique strategic characteristics as well as levels of economic need and development. Countries are coded as either in Europe, the Middle East, Africa, Asia, or the Americas according to the EUGene program (Bennett and Stam 2000). Indicators are included in the analysis for each region; the indicator for the Americas is omitted as the reference category.

3.4 Analysis

The dataset used for the following statistical analysis includes data on as many as 202 possible recipient countries over a 41-year period, from 1960 to 2000. The dependent variable

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[42]The two main sources of trade data, the Correlates of War Project (Barbieri, Keshk and Pollins 2009) and the Expanded Trade and GDP Data by Gleditsch (2002), both provide these figures only in current, and not constant, figures.

is continuous, so ordinary least squares regression is the appropriate statistical technique. Available data for this variable, however, are highly skewed toward more developed countries and toward more recent years, so the data are not missing at random. Listwise deletion, the default method of handling missing data applied by Stata, would produce results biased against earlier time periods and, more importantly, less developed countries. In order to account for the missingness, a two-stage Heckman selection model is applied (Heckman 1976; 1979). The first stage regresses a binary indicator, which takes a positive value if the RPE data are available and zero if not, on the set of control variables and one instrumental variable using a probit model.[43] The second stage uses OLS and regresses the actual value of the dependent variable on the independent and control variables, as well as an estimated selection coefficient, λ, which is the product of the adjusted standard error of the second stage model and the correlation coefficient between the error terms of the two stages.

The statistical results are supplemented by a detailed case study of an illustrative case, Liberia under Samuel "Sergeant" Doe.

3.4.1 Panel results

The results of the second stage of the Heckman selection model are reported in Table 3.1.[44] The first two columns report results of models where the sample was limited to the Cold War years of 1960 to 1990. The third and fourth columns display results of models of the post-Cold War era of 1991 to 2000. The final two columns report results from the entire sample, 1960 to 2000. The first, third, and fifth columns report results where only U.S. economic aid was included, while the second, fourth, and sixth columns report results where both economic and military aid were included in the model. According to the Wald

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[43]The instrumental variable used here is whether or not there was a political transition in the recipient country according to the Polity IV dataset (Marshall and Jaggers 2005).

[44]The results for the first stage, which do not include the foreign aid or alliance variables, are omitted to save space.

Table 3.1: OLS Estimates of Effects of US Aid on Relative Political Capacity

DV: Relative Political Extraction	Cold War 1960–1990		Post-Cold War 1991–2000		Entire Sample 1960–2000	
	(1)	(2)	(3)	(4)	(5)	(6)
Log of US Economic Aid	0.003*	0.003*	0.015***	0.010***	0.006***	0.005***
	(0.002)	(0.002)	(0.003)	(0.003)	(0.001)	(0.002)
Log of US Military Aid	—	-0.001	—	0.010***	—	0.002
	—	(0.002)	—	(0.002)	—	(0.001)
US Ally	0.020	0.073*	0.143*	0.198***	0.063*	0.109***
	(0.038)	(0.040)	(0.063)	(0.065)	(0.031)	(0.033)
Log of Economic Aid×Ally	-0.015***	-0.010***	-0.013**	-0.006	-0.015***	-0.010***
	(0.002)	(0.003)	(0.005)	(0.005)	(0.002)	(0.002)
Log of Military Aid×Ally	—	-0.008**	—	-0.014***	—	-0.009***
	—	(0.003)	—	(0.004)	—	(0.002)
Interstate Conflict	-0.048	-0.051	-0.181*	-0.201**	-0.058	-0.060
	(0.040)	(0.041)	(0.087)	(0.087)	(0.037)	(0.037)
Intrastate Conflict	0.007	0.004	0.024	0.047	0.008	0.007
	(0.025)	(0.025)	(0.031)	(0.031)	(0.020)	(0.020)
Conflict in Bordering State	-0.002	0.003	0.021	0.026	-0.006	-0.004
	(0.019)	(0.019)	(0.027)	(0.027)	(0.016)	(0.016)
Log of GDP per Capita	0.115***	0.115***	0.108***	0.102***	0.099***	0.096***
	(0.019)	(0.019)	(0.018)	(0.018)	(0.014)	(0.014)
Log of Total Population	0.034***	0.035***	0.007	0.006	0.023***	0.023***
	(0.007)	(0.007)	(0.011)	(0.011)	(0.006)	(0.006)
Polity	0.005***	0.005***	0.010***	0.009***	0.005***	0.005***
	(0.001)	(0.001)	(0.003)	(0.003)	(0.001)	(0.001)
Total Trade with US	-0.004***	-0.004	-0.001	-0.001	-0.002***	-0.002***
	(0.001)	(0.001)	(0.0004)	(0.0004)	(0.0003)	(0.0004)
Region						
Europe	-0.211***	-0.177***	0.101	0.103	-0.110***	-0.084**
	(0.041)	(0.041)	(0.064)	(0.064)	(0.033)	(0.034)
Middle East	0.026	0.066	0.203**	0.189**	0.040	0.067*
	(0.042)	(0.043)	(0.080)	(0.079)	(0.037)	(0.037)
Africa	0.126*	0.164**	0.260***	0.255***	0.121**	0.150**
	(0.062)	(0.063)	(0.079)	(0.079)	(0.050)	(0.050)
Asia	-0.188***	-0.153***	-0.066	-0.066	-0.178***	-0.156***
	(0.037)	(0.038)	(0.065)	(0.064)	(0.031)	(0.032)
λ	0.162**	0.179***	0.093	0.117**	0.098	0.125**
	(0.058)	(0.058)	(0.082)	(0.050)	(0.081)	(0.050)
Constant	-0.238	-0.292	-0.377*	-0.102	-0.344	-0.104
	(0.229)	(0.229)	(0.228)	(0.174)	(0.227)	(0.175)
Uncensored obs.	3242		1416		4658	
Wald $\chi^2(14,16)$	200.68***	220.54***	160.26***	183.25***	258.70***	279.36***
ρ	0.355	0.391	0.224	0.237	0.262	0.279

$^*p < .05$; $^{**}p < .01$; $^{***}p < .001$. Standard errors in parentheses. All significance tests are two-tailed.

χ^2 statistics reported with each Heckman selection model, all six models offer significant predictive advantages.

The models include the constitutive terms of the natural log of economic aid, the natural log of military aid, and whether the recipient was allied with the U.S.; also included are are interaction terms between the two kinds of aid and whether the country was allied with the U.S.. The foreign aid, alliance, and interaction terms were not included in the selection model, so their coefficients can be interpreted directly. These results can be analyzed by comparing two hypothetical cases: one in which the recipient is allied with the U.S., and another in which there is no alliance. In all six models, economic aid is significant and positive; therefore, when the recipient is not a U.S. ally, economic aid is positively related to the relative level of political extraction. The significance of the relationship is slightly less certain, and the magnitude of the coefficient is slightly smaller, during the Cold War years.

Among U.S. allies during the Cold War, however, the relationship is complicated. The coefficient of the interaction term is significant and negative, indicating that higher levels of aid produce lower estimates of relative political extraction among allies. The coefficient is greater in the negative direction than the coefficient of economic aid, and and the coefficient of the alliance indicator is not significant. For the Cold War era, economic aid given to non-allies had a moderately positive effect on the development of political capacity, while aid given to allies generally contributed to weaker political systems.

These relationships between economic aid and political extraction hold for the most part when military aid is included in the model. During the Cold War military aid further decreased political extraction among allies but had no significant effect in non-allies. In the decade following the Cold War U.S. allies had significantly higher levels of political extraction, though military aid continued to produce a net negative effect.

These results provide three novel findings pertinent to the aid effectiveness literature. First, while economic aid considered in isolation has a positive effect on the development

of domestic revenue collecting ability of the recipient, the actual effect is conditional on the political relationship between the recipient and the donor. In fact, during the Cold War, increasing levels of economic aid are associated with lower levels of extraction than expected among U.S. allies. Nonaligned states benefitted from higher levels of economic aid during both the Cold War and post-Cold War periods.

The second novel finding is that military aid plays a critical role in examining the effects of unearned foreign income. International relations scholars assume security is the primary function and goal of the state, and national defense represents a substantial factor in political development and any national budget. Offsetting this expense with external funding, especially in the context of the donor's explicit strategic concerns, provides little if any incentive to the recipient to invest in domestic revenue generation. Nonallies however do not appear to fall into this trap when the military aid is not backed by an expressed security arrangement, although the effects of increasing or decreasing levels of military aid during the Cold War had a negligible effect on changing relative political extraction among non-allies during the Cold War. This partially challenges the following from the OECD (2008, 18) "The availability of external military support, especially in heavily aid dependent countries, may further reduce the need for states to tackle difficult tax reforms and to mobilise internal political support for change." Military aid may in fact provide nonallies with essential security support needed to develop.

The third novel finding is the different effects of aid and alliance status during and after the Cold War. Among U.S. allies, economic aid had a negative effect on relative political extraction during the Cold War; however, the effect is positive in the ten years following the fall of the Soviet Union. This mirrors similar findings that positive effects of foreign aid on political development are limited to the post-Cold War era; for example, while aid had no effect on levels of democracy in sub-Saharan states prior to 1987, aid promoted democracy

in the same countries after that year (Dunning 2004).[45] Similarly, while aid had no effect on GDP per capita during the Cold War, there is evidence in the post-Cold War era of a significant and positive relationship (Headey 2008).

In sum, the results bear substantially on the hypotheses derived above. Hypothesis 1a is rejected, as the effect of economic aid across all periods is significant and positive. Hypothesis 1b is rejected outright during the post-Cold War era, as the effect is significant and positive; however, the effect of military aid is not significant during the Cold War or in the combined sample. Hypothesis 2a is rejected in the post-Cold War era: economic aid has a positive effect on development in the post-Cold War era; however, economic aid to allies during the Cold War had a severe negative effect. Economic aid to nonallies has has a positive effect both during and after the Cold War. Hypothesis 2b is supported: military aid to allies has a severe negative effect during both the Cold War and post-Cold War eras.

3.4.2   Case study: Samuel Doe's Liberia

In April of 1980 Samuel Kanyon Doe, a master sergeant in the Armed Forces of Liberia, became head of the Liberian state when he killed the current president, William R. Tolbert, Jr., as he slept. Although born in Liberia, Tolbert was the grandson of a former slave from South Carolina. He was the last Americo-Liberian leader of the country. In the first months of his rule, Doe and his supporters rounded up and executed dozens of Tolbert's ministers and supporters, eliminating virtually anyone connected with the deposed regime.

Doe and his cadre ran the country roughshod for a decade. Having set up Liberia as a tax haven, his regime was completely dependent on foreign aid from the United States, which substantially increased—and amassed to about $500 million, twice as much as the previous two decades combined—during his tenure (see Figure 3.2). During this time Liberia's tax efficiency plummeted, and tax levels fell below predicted levels.

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[45]This modifies an earlier finding that foreign aid had a net positive effect on level of democracy from 1975 to 1997 (Goldsmith 2001).
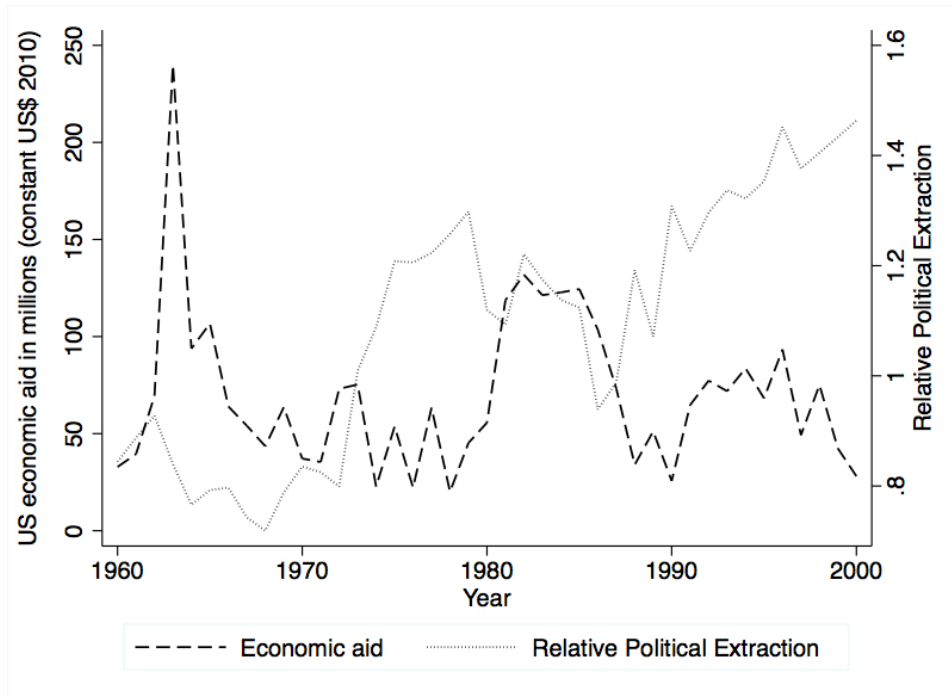
Figure 3.2: U.S. economic aid per year to Liberia, 1960–2000

Although Liberia did not have a formal alliance with the U.S. at the time according to the Correlates of War dataset, the U.S. did have substantial assets and facilities in Liberia, and Washington had explicit security interests in Doe's regime. Doe severed Liberia's ties with the Soviet Union and staunchly supported anticommunist efforts in Africa and the Middle East, especially Libya and Iran. According to a senior U.S. official, "We were getting fabulous support from him on international issues. . . All our interests were impeccably protected by Doe" (see Meredith 2005, 555).

Doe rewrote the constitution and won a rigged election in 1985, and his forces put down a substantial coup attempt later that year. By the late 1980s, however, with the winding down of U.S.-Soviet tension and the nearing of the end of the Cold War, the U.S. had much less need for Liberia, and Doe had become increasingly oppressive and hostile toward his own people. Eventually, the supply of U.S. foreign aid dwindled, and so did Doe's outlook.

In 1990, as U.S. aid reached its lowest level, former Doe ally Charles Taylor led his forces from Côte d'Ivoire. Doe was captured, tortured, and killed by rebel leader Prince Johnson.

Although the story of Samuel Doe is particularly telling, the relationship between tax efficiency and foreign aid, and the resulting effects on political stability, holds throughout the history of Liberia. As Figure 3.2 indicates, tax efficiency in Liberia was at its lowest point after aid peaked in 1963 at nearly $240 million. As aid dropped, tax efficiency climbed throughout the 1970s until Doe's coup. After Taylor took power, tax efficiency again rose throughout the 1990s.

3.5 Conclusion

The relationship between foreign aid and development is a complicated one. Donor interests, recipient goals, multiple conceptualizations, and complex interactions militate against deriving any concrete conclusions; however, these results have moved us toward a better understanding of how aid can affect the most basic characteristic and function of the modern state.

To summarize, the essential feature of the state is its ability to raise revenues in order to do all the other functions that states may want to do. Setting tax efficiency as the metric of development cuts to the foundation of political order and is a much more basic conceptualization than others common to the aid effectiveness literature, such as economic growth, civil conflict, and democratization. The finding here is that economic and military aid are fiscal boons to nonallies during the four decades under study here, whereas for U.S. allies these funds have been detrimental, except for economic aid in the decade after the collapse of the Soviet Union. These results partially challenge the pessimistic outlook expressed by Hans Morgenthau (1962, 307): "Thus we arrive at the disconcerting conclusion that successful foreign aid for economic development can be counterproductive if the social and political goal of the giving nation is the recipient's social and political stability."

There is a limit, however, to the argument that increasing revenues will produce increasing developmental returns. An important question resulting from this analysis is what political economic effects will result from more efficient tax systems in developing countries. Higher levels of tax revenues will necessarily lead to lower levels of private consumption, which may slow economic growth in terms of GDP (Lofgren and Diaz-Bonilla 2008). Also, weak states provide low levels of public goods because gaining the necessary resources may spark competition among elites over those resources, thus reducing the incentive of leaders to both provide goods and raise the necessary funds to pay for them (Oechslin 2010). A question for future study is what forms of aid best promote political development. Whereas providing budget support reduces the incentive to raise domestic revenues, subsidizing technology adoption, which bypasses the government budget entirely, reduces the price of future costs relative to current consumption rates, increasing the value of current investments for future productivity (Oechslin 2010). Economic aid must be used in ways that promote administrative reform and efficiency while not negating those goals; moreover, military aid should provide for secure, stable states insulated from violent challengers who militate against these efforts. In short, we must cautiously approach statements, like that of President Obama in the introduction, assuming automatic positive effects of aid.

Chapter 4. COINing a Country: Reconstruction and Relief amid Insurgency

4.1 Introduction

Amid more than ten years of fighting, the United States has spent more than \$90 billion in aid to Afghanistan,[46] with about one-sixth of that figure coming from the US State Department's Agency for International Development (USAID) (Stevenson 2013). Much of the rest of the figure comes from the US military via the Department of Defense. The U.S. military is now far more responsible for relief and reconstruction in occupied zones than ever before. According to one report, "Between 2002 and 2005 USAID's share of US [official development assistance] decreased from 50% to 39%, and the Department of Defense's increased from 6% to 22%. As standing armies adjust to fight today's wars, their use of 'hearts and minds' strategies is more likely to grow than shrink." (Walker and Pepper 2007, 33). The military is filling the role of a substantial, if not the primary, source of development, reconstruction, and relief aid in conflict zones in which it is engaged, particularly Afghanistan.

Given the lessons of history, the motivation to rebuild Afghanistan is both moral and practical. Preventing the country from falling backwards, as it had after the 1989 Soviet withdrawal, is a real security issue for the West, as the events of 11 September 2001 attest (Weinbaum 2007). Integrating development and construction projects with counterinsurgency efforts can go a long way in preventing the collapse of the Kabul government and the rise of a new militant regime. Given these goals, it is particularly important to understand the relationship between aid and counterinsurgency. The effects of aid during conflict are relatively little understood, particularly in contrast to conventional military means of

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[46]This figure includes the costs of providing security for reconstruction and relief efforts.

combatting insurgents. The analysis that follows considers aid during insurgency as one of several strategic choices available to counterinsurgent forces.

The previous chapters have shown that U.S. aid is targeted to countries that show the early warning signs of insurgency and how aid affects the prospects for political development. This chapter looks specifically at a significant case of how aid operates once insurgency has been initiated. Overall, while the focus in the U.S. may be on the amount of money spent in aid, the results here indicate the benefits of aid rely more on the number of ongoing projects at any given place and time than on the actual amount of money being spent. In terms of military strategy, counterinsurgent forces benefit most from insurgent-initiated violence and detaining live insurgents as opposed to killing them.

The next section briefly reviews the evaluation of insurgency and counterinsurgency, specifically regarding Taliban's reprisal in Afghanistan beginning in 2003. As the mission of the Western forces shifted from intervention to counterinsurgency, reconstruction and relief became a substantial strategy for the pro-government forces. The next section develops a set of analytical hypotheses derived from several basic counterinsurgency strategies including the shift toward using money as a weapon against insurgents. The remainder of the paper details the data and methods used to assess the hypotheses and the statistical analyses performed. The final section presents resulting conclusions.

4.2 Evaluating counterinsurgency in Afghanistan

After initial sweeping success in the first year or so of Operation Enduring Freedom, U.S. and coalition forces faced a resurgent Taliban-led insurgency against the Karzai government beginning in 2003. U.S.-led efforts to counter insurgencies in Afghanistan, as well as Iraq, which conjured memories and lessons from Vietnam, produced a revived interest in understanding insurgency and counterinsurgency (Kilcullen 2010; 2011; Nagl 2005; Ucko 2009).[47]

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[47]Unfortunately, as Gompert and Gordon (2008, 76) point out, "the U.S. government tends to come to grips with insurgencies only after they become threatening. Consequently, there is little high-level bureaucratic

Qualitative analyses feature personal accounts of visits to Afghanistan and interviews with leaders, locals, military personnel, aid workers, and others involved (Chandrasekaran 2012; Giustozzi 2008; Jones 2008; 2009; Rashid 2008). These accounts, characteristically critical and suggestive, paint protraits of the situation on the ground based on personal narratives and interpretations; however, they offer little in the way of systematic analysis of the progress of the insurgency and counterinsurgency efforts in Afghansitan.

The release of the classified *Afghan War Diary* on 25 July 2010 allowed researchers an unprecedented detailed view of the conflict, at least from the U.S. side (WikiLeaks 2010). The data include more than 75,000 event records covering 2004–2009, including casualty and wounded counts for friendly, Afghan security, and insurgent forces as well as civilians, and specific classification of event types as well as qualitative descriptions of each event. Quantitative analyses of the conflict in Afghanistan soon followed (O'Loughlin et al. 2010; Sobek and Wells 2012; Zammit-Mangion et al. 2012).[48] These studies provide a view of the evolution of the conflict, including temporal and geographic trends in violence; however, despite a few non-combat classification types of events, there is little beyond records of violence to assess the broader efforts to develop the Afghan state despite concurrent efforts by U.S. and coalition forces to pursue development (Rabasa et al. 2011). Focusing exclusively on the military engagements in Afghanistan ignores the complex counterinsurgency effort that includes developing the Afghan state. "The primary objetive of an COIN operation," according to the U.S. Army (2007, 37), "is to foster development of effective governance by a

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and congressional interest in civil COIN before a violent insurgency has erupted. Yet, once violence has begun, civil COIN becomes hazardous and difficult. The net result, conspicuous in Iraq and Afghanistan, is that civil COIN is not vigorously pursued when it could be, under permissive conditions, and cannot be vigorously pursued when it must be, under nonpermissive conditions."

[48]O'Loughlin et al. (2010) compare the data of the WikiLeaks Afghan War Diary to the Armed Conflict Location Event Data (ACLED) data project and find that although the ACLED data contains a fraction of the observations of WikiLeaks data, the datasets provide similar coverage for the years 2008–2009. Additionally, Hultman (2012) uses the UCDP Georeferenced Event Dataset.

legitimate government. Counterinsurgents achieve this objective by the balanced application of both military and nonmilitary means."

Researchers have focused on the effects of development aid in preventing or generating civil conflict (Collier and Hoeffler 2002; Nielsen et al. 2011; Savun and Tirone 2011; Smith 2008; Sollenberg 2012; van de Walle 2004; Wells 2013) as well as its role in post-conflict societies (Collier and Hoeffler 2004; Girod 2012). The fog of war, or the complications of assessment due to conflict, make analysis during conflict particularly difficult; thus, there has been relatively little work done on the effects of aid during conflict (cf. Findley et al. 2011; Oliker et al. 2004). We do know in the case of Afghanistan that US and coalition forces have pursued parallel security and development efforts; however, the "deteriorating security situation in 2003–2005 helped undermine the value and effectiveness of economic aid" (Rabasa et al. 2011, 220), but whether things have improved or not since that period is in question.

The military is a substantial, if not the dominant, source of aid in the country and "is already substantially engaged in the development realm beyond stability efforts, and it is likely that it will continue conducting development-like projects in Afghanistan and perhaps around the globe for years to come" (Johnson, Ramachandran and Walz 2012, 84). The coalition effort to relieve and rebuild Afghanistan comprises provincial reconstructions teams (PRTs), which are small units of about 100 military, civilian, aid, advisory, and local personnel charged with executing reconstruction projects (see Figure 4.1 for locations of PRTs in Afghanistan). The bulk of funds available to these PRTs come from the Commander's Emergency Relief Program (CERP): PRT commanders can approve projects spending amounts up to $25,000, while amounts up to $200,000 require approval by a regional commander. PRTs focus on immediate-term projects (those that can be completed in about a month, with occasional longer-term projects lasting up to four months) such as digging wells, replairing schools, and setting up medical clinics. Between 2002 and 2011, more than
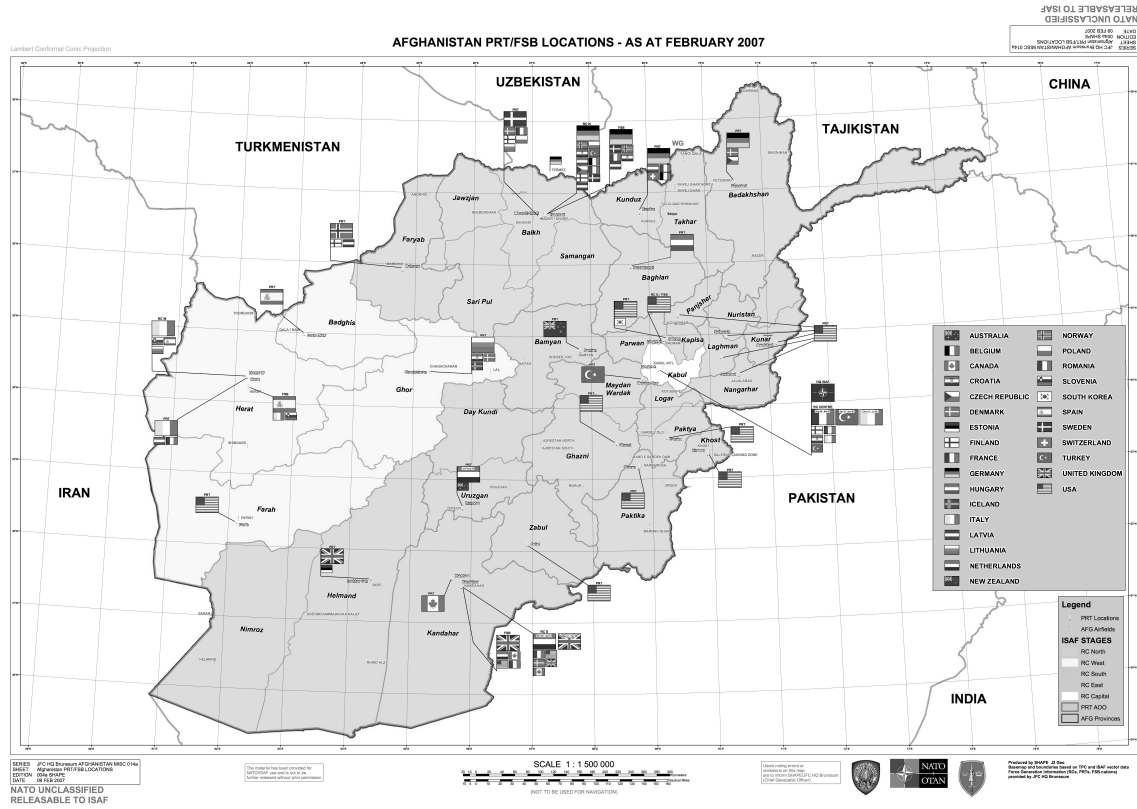
Figure 4.1: Provincial reconstruction teams in Afghanistan (as of February 2007)

Available at `http://publicintelligence.net/isaf-afghanistan-prtfsb-locations-map-october-2007/`

$60 billion was appropriated for relief and reconstruction in Afghanistan, and more than half of those funds were allocated via the Department of Defense; CERP funding alone now accounts for about 5 percent of Afghanistan's total gross domestic product (Johnson, Ramachandran and Walz 2012). Civil-military activities, such as the reconstruction and relief efforts carried out by provincial reconstruction teams, form an essential component of not only of counterinsurgency but of the development of Afghanistan in general (Borders 2004; Jones 2008).

PRTs have faced several criticisms, however. First is the dominance of the military in their operations, both in terms of personnel as well as scope and range of activities. They are often so dominated by military personnel that Afghans have come to equate military

combat forces with the reconstruction units: "the PRT has come to mean military presence in the area, even though the PRT is among the most innocuous and defensively oriented units in the country" (Morgan 2007, 33). They also operate in relatively secure locations so as to minimize threat to their civilian members, making it difficult for aid and relief workers to truly have the effect they desire: "Because reconstruction and transformation are (1) antithetical to insurgency, (2) soft targets, and (3) usually involve foreigners, they are in the crosshairs of insurgents... The natural reaction is to conduct civil COIN where it is safe to do so, which means virtually writing off those areas where it could do the most material and political good" (Gompert and Gordon 2008, 120). Even when PRTs do have a clear opportunity to promote development, their differentiated set of operating protocols can prevent them from taking action. PRTs are distinct from other military units in that they have more restricted rules of engagement. A US colonel in charge of a PRT in Helmand province "watched convoys of opium travelling past his camp every morning but did not have orders to stop them. His rules of engagement stated that if he discovered drug shipments he *could* destroy them, but there was no order saying he *must* destroy them or that he *must* interdict drug convoys (Rashid 2008, 325, original emphasis).

Second, there is a disconnect between PRTs and Afghans and their needs. By 2007, NATO operated PRTs in nearly every province, but "they were too small to be effective, too cut off from the people because of the PRTs' own security concerns, while their quick-impact projects made no dent in the rebuilding of infrastructure that was desperately needed to get the economy moving and to provide jobs for people" (Rashid 2008, 372). A general lack of awareness of the social power dynamics throughout the country caused serious probelms early on. When coalition forces realized the limitations of the Kabul government in the periphery, they began assuming more responsibility, but this ran aground of locals' perceptions as "foreign personnel made decisions about employment of force or funds based on beliefs about what ought to work, rather than real experience"; for example, Afghan villagers

refrained from using a bridge built by the local provincial reconstruction team until a group of religious elders were convened and preached to the community that using the bridge was not a sin (Rabasa et al. 2011, 233). Responses from interviews and focus groups of Afghans in three insecure provinces—Helmand and Uruzgan in the south and Paktia in the east— and two secure provinces—Balkh and Faryab, both in the north—and Kabul indicate that "not only were projects not winning people over to the government side, but perceptions of the misuse and abuse of aid resources were in many cases fueling the growing distrust of the government, creating enemies, or at least generating skepticism regarding the role of the government and aid agencies" (Fishstein and Wilder 2011, 3). Respondents claimed that projects fell short both in terms of quality and quanitity, and developers were seen to be "creating problems in order to solve them" amid conflicts over locations of projects and hiring of laborers. In short, projects tended to exacerbate inequalities among groups rather than unify communities and the country. The lack of effectiveness is further challenged by Taliban countermeasures against aid projects, which, combined with a general distrust of Westerners' motives, particularly in the southern provinces, led Afghans to resist such projects or even hand over aid materials, including cash, to Taliban forces (Giustozzi 2008, 194).

Third, humanitarian groups claim that projects serve political and military, not humanitarian or development, goals. In fact, PRTs were never intended to serve purely humanitarian needs, as in the early stages "senior planners of the PRT deployment were quick to indicate their primary focus as agents of reconstruction, security, and support for government authority, in other words, a focus on distinctly non-humanitarian activities" (Costy 2004, 160). However, civilian assistance organizations are particularly critical of military relief and reconstruction efforts. While ISAF forces operated under UN-endorsed peacekeeping mandates, US forces under OEF had no such mandate to provide humanitarian relief. This led some civilian NGOs to distance themselves from OEF forces; moreover, these NGOs claim pre-

cious capabilities were wasted by inefficient OEF efforts to build schools, hospitals, and wells (Oliker et al. 2004, 89–90). Claims by NGOs of inefficient uses of funds and time to produce half-baked projects became all-to-common, leading to counterclaims of areas of opportunity: "CERP projects are often criticized for building schools without teachers or clinics without nurses. Perhaps these criticisms also identify space for collaboration, where the comparative advantage of CERP and USAID can be used to provide development assistance in conflict situations" (Johnson, Ramachandran and Walz 2012, 89). However, there are claims of heavy handed bullying of USAID by the Department of Defense and CIA. USAID was prohibited from operating in Afghanistan, which did not follow the precedent of previous U.S. interventions. Andrew Natsios, administrator of USAID from 2001–2006, focused on rebuilding the Afghan agricultural sector, as the vast majority of Afghans were dependent on farming and most farmland was poorly or not irrigated; however, he was overruled by the Pentagon and CIA, which demanded that all funds be directed toward supporting local warlords in the fight against Al Qaeda and the Taliban. US projects shifted toward "quick-impact projects" such as digging a well or repairing a broken-down school, which, instead of showing Afghans that reconstruction was progressing, "invariably only helped the local warlord or commander the CIA was supporting" (Rashid 2008, 174–176).

The annecdotal evidence against PRTs is damning, particularly in light of the continual threat of the Taliban-led insurgency despite the billions of dollars spent on development projects. However, there is a need for a systematic analysis of the effects of aid spending on counterinsurgency goals. While a certain aid project may have been rejected or left incomplete in a certain village, this does not mean that aid has had no overall effect. Considering aid within the broader context of an ongoing insurgency requires a general approach to counterinsurgency as well as a broad-coverage observational research design.

4.3 Counterinsurgency strategies in Afghanistan

Counterisurgency has been summed as a battle over the hearts and minds of the population (Findley and Young 2007). Insurgents rely on both the active and tacit support of the population for a range of activities, from recrutiment to direct supplies of logistical, fiscal, and physical support to intelligence gathering (Kilcullen 2011, 4), a lesson known all-too-well by history's most famous insurgents (Guevara 1998; Zedong 2000). According to the U.S. military's textbook on counterinsurgency, "Victory is achieved when the populace consents to the government's legitimacy and stops actively and passively supporting the insurgency" (U.S. Army 2007, 6). Thus, analyses of counterinsurgency seek to explain the decision of civilians to support either insurgent or government forces. In the case of counterinsurgency, particularly in a weak state, the explained variable is the acknowledgment of pro-government forces as the legitimate authority.

4.3.1 Grassroots counterinsurgency

According to Mao, "because guerilla warfare basically derives from the masses and is supported by them, it can neither exist nor flourish if it separates itself from their sympathies and cooperation" (Zedong 2000, 44); Che argues that "intensive popular work must be undertaken to explain the motives of the revolution, its ends, and to spread the incontrovertible truth that victory of the enemy against the people is finally impossible" (Guevara 1998, 16). The primary responsibility of insurgent and counterinsurgent forces alike is to convince the population that their side is right. Collaboration should reinforce the case of the beneficiary side; thus, we should expect that, as witnesses will take the physical display of collaboration as evidence of the tide of battle, collaboration should breed collaboration (Sobek and Wells 2012).

Hypothesis 1a Collaboration will lead to more collaboration.

Since the early days of the war, psychological operations have been a primary component of U.S. strategy; however, early efforts suffered from significant flaws in execution. Images of pallets of crates of food being dropped into Afghan villages became an iconic symbol of early efforts to win hearts and minds. The drops were criticized, however, for several reasons, chief among them that the food was not targetted at the hungry, the landings were inaccurate, and the yelow food containers resembled yellow cluster bombs being dropped in other parts of the country.[49] The typical method of counter-insurgency in the early years, which involved quickly entering and occupying a village, rounding up and interrogating the men, arresting a few suspicious ones, and then proceeding with hearts-and-minds efforts, was "compromised by the aggressive entry into the village and by the fact that the troops would soon withdraw, leaving the village to its fate" (Giustozzi 2008, 191).

As the war has progressed, US PSYOPs have become more nuanced, including flyers and radio messages targeted against the Taliban, as well as direct meetings with locals. In a comprehensive report on US PSYOPs in Afghanistan, propaganda efforts that positively portrayed coalition forces were judged as effective in the first five years of the conflict, but they received mixed reviews in the latter half of the decade, while messages negatively portraying Al Qaeda and the Taliban became more effective in the second half of the decade; offers of monetary rewards for the capture of Al Qaeda and Taliban leders were not effective, whereas rewards for turning in weapons was effective; and illiteracy inhibits print media from being an effective means of pushing messages, though countering Taliban propaganda over the radio has been effective. The most successful PSYOPs efforts included face-to-face communication, especially meetings with *jirgas*, or local councils of elders, and key leaders

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[49]Kate Clark, the BBC coorespondent in Kabul from 1999–2002—she was the only foreign reporter in Afghanistn under Taliban rule—writes, "The food drops were purely a propaganda exercise; the rations could not feed anyone beyond a day and were not targeted to those who were hungry, a fact that aid agencies fiercely pointed out. The exercise also backfired when US PSYOPs (psychological operations) had to broadcast a radio warning to Afghans cautioning them against confusing food rations in their yellow bags with yellow-colored cluster bombs" (Clark 2004, 90).

(Munoz 2012). Meetings are particularly important in COIN doctrine because they develop ties between the population and counterinsurgent forces and they encourage locals to take a stake in the success of the government (U.S. Army 2007).

Hypothesis 1b Meetings with locals will lead to more collaboration.

4.3.2 Harbingers of war

Political legitimacy rests on maintaining security and order. Violence, although a distinct concept, is a natural, and perhaps the most significant, product of conflict (Kalyvas 2006, 19-23). If the goals of insurgency and counterinsurgency are to gain the support of the noncombatant population, then it is in both sides' interests to distance the population from violent encounters so as to make a case for legitimacy. Counterinsurgent-initiated violence, even if it leads to the defeat of the enemy, "frightens or harms the local population, or makes people feel unsafe," which necessarily means "there is next to no chance that [counterinsurgent forces] will gain their support" (Kilcullen 2011, 4). In fact, aggresive repression as a COIN strategy does little to prevent the spread of conflict to nonviolent areas and actually intensifies fighting in contested areas (Paul, Clarke and Grill 2010; Toft and Zhukov 2012).

Hypothesis 2a Insurgent-initiated violence will lead to more collaboration.

Hypothesis 2a Coalition/Afghan security forces-initiated violence will lead to less collaboration.

4.3.3 Casualties of war

Violence in conflict unfortunately leads to loss of life. While counterinsurgent forces should seek to minimize losses, they must also be willing to face the enemy. As the saying goes, ships are safest at harbor, but that is not where ships are meant to be; the U.S. Army (2007, 48) similarly explains that "Ultimate success in COIN is gained by protecting the

populace, not the COIN force. If military forces remain in their compounds, they lose touch with the people, appear to be running scared, and cede the initiative to the insurgents." Assuming that counterinsurgent forces are well trained and run, and would not therefore unnecessarily put themselves at risk, losses should show a willingness to confront the enemy and protect the population, further supporting the legitimacy of the pro-government forces.

Counterinsurgent forces should also be careful when it comes to inflicting losses on the insurgent side, however. Higher levels of collateral civilian deaths result from higher levels of pro-government deaths but not from higher levels of insurgent deaths, indicating a resort to indiscriminate violence when the battle turns against pro-government forces (Hultman 2012). This is particularly troublesome for counterinsurgents because "indisriminate violence is of limited value since it decreases the opportunity costs of collaboration with the rival actor" (Kalyvas 2006, 144). Counterinsurgency experts and manuals agree that protecting civilian noncombatants should be the primary goal, even higher than defeating the enemy (Kilcullen 2011; U.S. Army 2007). There should be a direct relationship between combatant casualties, whether insurgent or counterinsurgent, and collaboration and an inverse relationship between civilian casualties and collaboration.

Hypothesis 3a Coalition casualties will lead to more collaboration.

Hypothesis 3b Afghan security forces casualties will lead to more collaboration.

Hypothesis 3c Insurgent casualties will lead to more collaboration.

Hypothesis 3d Detaining insurgents will lead to more collaboration.

Hypothesis 3e Civilian casualties will lead to less collaboration.

4.3.4 Winning hearts and minds

An essential COIN strategy has focused on using relief, reconstruction, and development projects to win the hearts and minds of the population. This has been the ultimate goal of

provincial reconstruction teams and the Commanders Emergency Response Program. The standard operating procedure governing CERP in Afghanistan, titled "Money as a Weapon System" (U.S. Forces Afghanistan 2012), lays out how commanders can use money to defeat insurgents. It is imperative to understand the utility of money as a counterinsurgency strategy given the amount of money already spent on relief and development in Afghanistan.

Hypothesis 4a More reconstruction and relief projects will lead to more collaboration.

Hypothesis 4b More money spent on reconstruction and relief projects will lead to more collaboration.

These four strategies—appealing to the population, keeping violence away from civilians, managing loss of life, and winning hearts and minds—represent a comprehensive approach to gaining legitimacy for pro-government forces and mitigating the threat of the insurgents. In sum, controlling the course of the war in a given area at a given time should affect the likelihood of collaboration (Kalyvas 2006). Engaging the population, whether in the form of accepting collaboration, atending meetings with local leaders, or investing in relief and development, and protecting civilians from violence should encourage collaboration.

4.4 Design

The data used in the analysis to test the above hypotheses are drawn from two combined datasets: the *Afghan War Diary* (WikiLeaks 2010) and a dataset containing CERP spending in Afghanistan (Public Intelligence 2010). These datasets and the variables within them are explained below.

4.4.1 The *Afghan War Diary*

Hypotheses 1, 2, and 3 are tested using data from the *Afghan War Diary*, which offers a substantial opportunity not only to assess the course of the war during the six years of coverage (O'Loughlin et al. 2010), but the analysis has produced verified, accurate predictions

of conflict escalation in 2010 (Zammit-Mangion et al. 2012). Each report includes the date of the event as well as latitude and longitude. The original *Afghan War Diary* file contained 76,912 observations; however, 997 of those records either had missing location data or were geolocated outside the borders of Afghanistan. These records were omitted, leaving 75,915 unique observations. The location data were used to code each report into one of the 34 provinces of Afghanistan.

Each report is coded as one of 147 unique event categories.[50] Three categories are particularly suitable for measuring Afghans' collaboration with U.S. and coalition forces. There are a total of 914 cases coded as collaboration. The following report, one of 806 cases categorized as a "Turn In," describes how an Afghan "local national" (LN) pointed out a cache of weapons and materiel to troops of the 2nd Battalion of the 35th Infantry Regiment:[51]

> (S//REL GCTF) TF BRONCO: 2-35 INF REPORTS CACHE 70K NE QALAT. SALT FOLLOWS: S- 1X AK47, 1X PKM, 2X SHOTGUNS, 3X AUDIO CAS- SETTES, AND IED MAKING MATERIALS, A- CACHE, L- VIC 42S UB 501 071, T- 1320Z. CACHE WAS SERVICEABLE. CACHE WAS POINTED OUT BY LN. ANA TOOK THE WEAPONS AND THE IED MATERIALS WILL BE DESTROYED. NFI

The "Turn In" category also includes cases of Afghans handing materiel over to local authorities who then reported the findings to military units, such as in the following example, where the police in Gelen (a small village between Kabul and Kandahar) received an IED from a local national and turned it over to troops of Task Force Thunder:[52]

> (S//REL GCTF) TF THUNDER REPORTS IED TURNED IN. SALT FOL- LOWS: IED (1X TC 2.4 AT MINE, 1X SPIDER DEVICE, 6X D CELL BAT- TERIES, 1X BLASTING CAP), A- IED BROUGHT TO FOB GHAZNI BY

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[50]There are actually over 160 event categories in the raw data, but many of these are duplicates due to minor differences of capitalization or punctuation. Reasonably identical categories were recoded to be the same. The *Afghan War Diary* can be searched by event category at `http://wikileaks.org/afg/`.

[51]Event report key: 5BC8B858-830F-4EB2-A283-B111EB8FAE64.

[52]Event report key: 1009085.

GELAN POLICE, L- POLICE FOUND AT 42S UB 78351 14394, 1400Z. SOME-
TIME TODAY AN IED WAS RECOVERED BY THE GELEN POLICE WHO
RECEIVED IT FROM A LN. IT WAS BROUGHT TO FOB GHAZNI. MINE
WILL BE DESTROYED AT A LATER DATE. NFI.

A separate category, "Evidence Turn-in/Received," includes 50 cases where Afghans reported evidence of insurgent activities to local or military authorities, such as in the following example where an Afghan led military personnel to recover found weapons:[53]

> At 0831Z, RC East reported a Weapons Turn-In: FF at FOB Shank coordinated a Weapons Turn-In with a LN. EOD is en route with the LN to destroy the weapons. At 0753Z, EOD conducted a Controlled Detonation of the weapons at FOB Shank. No injuries or damages reported. NFTR. Event closed at 0818Z.

The third category, "ERW/Turn-in," includes 58 cases where explosive remnants of war, such as mines, were turned in, including the following:[54]

> A Local National turned over 20 landmines to Civil Affairs at FOB Salerno North ECP. The team identified, deemed safe to move and transported to the local range where they were disposed of by detonation.

Measuring the success of counterinsurgency with incidents of collaboration is a superior metric because it captures the essence of the battle for popular support while simultaneously avoiding the need to control for other identity-based variables. Whereas other studies have included controls for ethnic distributions within provinces or districts (Hultman 2012; Zammit-Mangion et al. 2012), focusing on occurrences of collaboration over time during a conflict follows the conclusion that "prewar popular preferences may be an inaccurate predictor of the distribution of control during the war" (Kalyvas 2006, 113).[55]

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[53]Event report key: 88126E13-BA49-912A-0E5F74BE4140B1E4.

[54]Event report key: 052AD662-D510-4D5A-AFF1-CF7FB1C03996.

[55]Additionally, the data used to control for population-based variables are based on census data from a single year extrapolated throughout the conflict. Not only does this draw the accuracy of these figures into serious doubt, but the potential lack of variance in the figures, or collinearity with other variables if imputed, may have substantial effects on statistical results.

The report data were collapsed into one observation per province per week, spanning six years from January 2004 to December 2009. Variables were generated for each event categogry, so values represent a count of the events of each category in each province in each week. Missing province-weeks were filled in with zeros. The analyzed dataset comprises 10,608 observations (34 provinces by 312 weeks).

4.4.2 CERP data

Hypotheses 4a and 4b are tested using a dataset contains 19,187 records of CERP projects in Afghanistan downloaded from the US military's Combined Information Data Network Exchange (CIDNE) records, which have been made publicly available by Public Intelligence (2010). Each record includes availabe data on project category, status, location, allocated and spent funds, and start and end dates; unfotunately, only 3273 project records include a nonmissing figure for the amount spent, and 404 of those records show that no money was spent. Fischerkeller (2011) criticizes analysis of CERP data and points out that it is impossible to accurately assess CERP due to the reliance on incomplete datasets limited to unclassified reports and the many confounding factors affecting the influence of individual CERP projects; however, he adds that "If a well-designed statistical model looking at thousands of cases concluded that CERP had been associated with changes in the desired effect in a statistically significant manner, confidence that an effect can be generalized would be warranted" (Fischerkeller 2011, 142). No comparable set of development aid data exists for Afghanistan (or for any other war zone, for that matter), so analyzing the data available represents the best opportunity available to understand the effects of spending during conflict.

CERP projects are divided into sixteen categories.[56] Gompert et al. (2009, 61) define four broad types of civil COIN efforts: indigenous capacity building, economic develop-

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[56]Again, as with the *Afghan War Diary* data, there are actually 22 categories in the raw data, but many of these are duplicates due to minor differences of capitalization or punctuation. Reasonably identical categories were recoded to be the same.

Table 4.1: Civil COIN and CERP project categories

Indigenous capacity building	Economic development	Public-service gap-filling	Emergency and humanitarian relief
Capacity building	Agriculture	Education	Condolence payments
Community development	Commerce and industry	Health	Emergency
Gender	Energy	Security	
Governance	Environment	Water and sanitation	
	Irrigation		
	Transportation		

ment, public-service gap-filling, and emergency humanitarian relief. The sixteen categories of CERP projects are divided into the four categories as listed in Table 4.1.

The distributions of projects and funds spent by NATO region are given in Figure 4.2. The vast majority of projects and funds have gone to the eastern region, which includes many of the provinces that border Pakistan. Interstingly the primary focus there, as well as in the south, has been on economic development projects. In Kabul and the western and northern provinces, the majority of projects involve offering public services. Overall, the data include more than $3.04 billion spent on economic development projects (with more than 90 percent allocated to the eastern provinces), and about another $1 billion divided among capacity building, public services, and humanitarian relief.

As with the *Afghan War Diary* data, the data were collapsed into one observation per province per week. Projects and funds spent are coded as ongoing between the reported start and end dates; thus, each observation includes a count of the number of currently ongoing projects and the total amount spent on those projects (when recorded) in each province-week. Projects and funds are only counted during the start and end dates recorded rather than indefinitely. This is because when reconstruction teams complete projects, or when money is disbursed, they move on to another project, leaving behind completed or ended projects. There is no guarantee that projects or disbursed funds have an effect on present

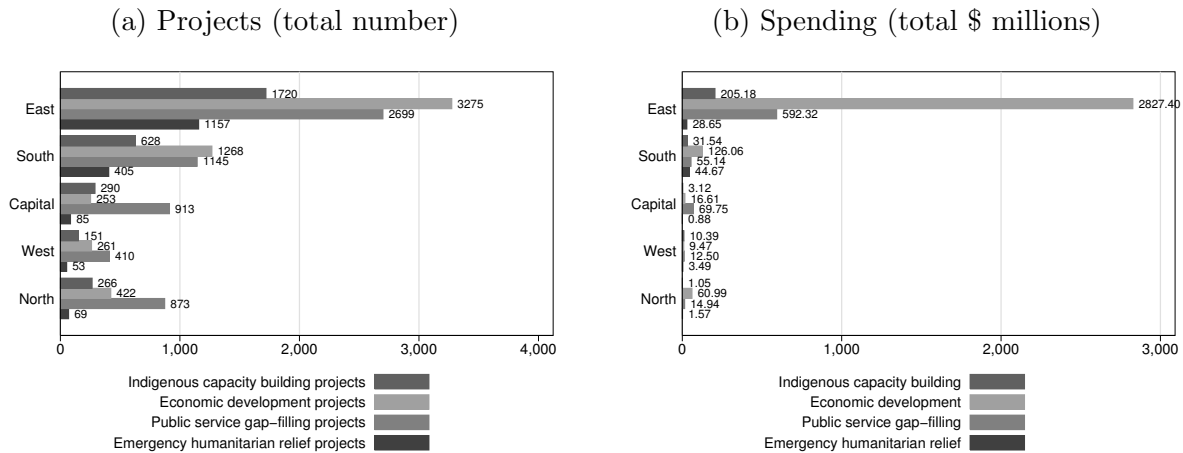(a) Projects (total number) (b) Spending (total $ millions)

Figure 4.2: CERP projects and spending by ISAF region

levels of collaboration beyond the immediate term. This is also true because projects often become soft targets for insurgents.

4.5 Analysis

The dependent variable here is a count of the number of collaborative events per province per week. Statistical analysis of count variables typically employ either a Possion model or negative binomial regression. Poisson assumes that the developnet variable is equidispersed, meaning that the mean and variance are equal; however, the collaboration variable in the data used here is overdispersed ($\bar{x} = 0.07$, $s^2 = 0.12$), so negative binomial regression is appropriate (Hilbe 2011). Fixed effects models are used in order to control for unobserved differences across the provinces (Hausman, Hall and Griliches 1984),[57] and a one week lag of the dependent variable is included in all models to account for any temporal autocorrelation (Beck and Katz 1995; 2011).[58] All other independent variables are lagged one week so as to

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[57]Although the fixed effects negative binomial model used by Stata (the program used here), developed by Hausman, Hall and Griliches (1984), is not, in fact, a true fixed-effects method (Allison and Waterman 2002), the reported problem occurs when time-invariant variables are included in the model. This problem is not present in the analysis presented here, so there should be no irregularities due to estimator or model choices related to the fixed effects option.

[58]Beck and Katz (2011) argue that including a lagged dependent variable does not cause problems for a model (cf. Achen 2000); moreover, Beck and Katz (2011, 342) find that adding a lagged dependent variable in

Table 4.2: Summary statistics

Variables	Mean	Std. Dev.	N
Collabarative events	0.07	0.34	12308
Meetings	0.02	0.27	12308
Enemy initated violent act	2.87	9.10	12308
Friendly initated violent act	0.74	2.51	12308
Friendly killed in action	0.09	0.62	12308
ANSF killed in action	0.30	1.39	12308
Civilians killed in action	0.32	2.05	12308
Enemies killed in action	1.23	6.37	12308
Enemies detained	0.59	2.91	12308
Indigenous capacity building projects	3.30	6.98	12308
Economic development projects	6.67	12.26	12308
Public service gap-filling projects	0.60	3.44	12308
Emergency humanitarian reflief projects	7.19	12.83	12308
Amount (millions) spent on indigenous capacity building	1.18	3.41	7819
Amount (millions) spent on economic development	25.24	67.62	7819
Amount (millions) spent on public service gap-filling	4.67	14.7	7819
Amount (millions) spent on emergency humanitarian reflief	0.03	0.27	7819

CERP figures are total for ongoing projects per province per week.

allow for potential temporal effects. Summary statistics for all variables used are included in Table 4.2.

The results of the models are presented in Table 4.3. All of the models perform significantly better than the constant-only models of the null hypothesis according to the χ^2 statistic.

Incident rate ratios (IRR) are presented in place of coefficients. Incident rate ratios indicate the proportion change in the dependent variable given a one unit increase in the independent variable, simplifying interpretation: values below one indicate a reduction in the expected number of collaborative events iven a one unit increase in an independent variable, and values above one indicate an increase in the expected number of collaborative events iven a one unit increase in an independent variable. The value of the difference between the

a fixed effects model is not problematic as long there is a sufficient number of time periods; they suggest more than 20 is sufficient.

IRR and one is the proprtion of the expected increase or decrease. Statistical significance of IRRs is equal to signficance of the coefficients from which they are derived.

The IRR of the lagged dependent variable is significant and greater than one in all the models, supporting hypothesis 1a. Collaboration in the recent past has a substantial effect on collaboration in the present; based on the results, we should expect anywhere from an additional 20 to an additional 47 percent increase in the number of collaborative events from the previous week in a given province. Meetings have a limited but positive effect on collaboration as well. Model 1 shows that each meeting should contribute to about a 5 percent increase in the number of collaborative events, although this is only significant at the 5 percent level, giving limited support to Hypothesis 1b.

Violence also weighs on collaboration in the models. Each insurgent-initiatied violent event raises the expected number of collaborative events by about one percent; however, this effect could be substantial in the particularly violence-prone eastern ($\bar{x} = 3.05$) and southern ($\bar{x} = 7.74$) provinces. This supports Hypothesis 2a; however, the IRR of friendly-initiatied violence is not significantly different from no effect, so Hypothesis 2b is not supported. The IRRs of pro-goverment forces casualties are greater than one, but they are only significant at the 5 percent level, offering limited support for Hypotheses 3a and 3b. Each insurgent killed in action or detained raises the expected number of collaboration events, and the effect is significant at the 1 percent level, supporting Hypotheses 3c and 3d. Detaining insurgents also has an effect in the full model at the 5 percent significance level. Civilian casualties interestingly do not have a significant effect on collaboration, so Hypothesis 3e is not supported.

The number of ongoing economic development and emergency humanitarian relief projects have significantly positive effects on the expected rate of collaboration.. Each ongoing economic development project raises the expected number of collaborative events by about 3 percent per province per week, and each emergency humanitarian relief project raises the ex-

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pected rate an additional 3 percent. Capacity building and public service gap-filling projects do not have a significant effect. The positive effect of economic development projects appears significant at the 5 percent level in the full model as well. These results offer some support for Hypothesis 4a.

The amount spent on projects appears to matter in different ways, however. Billions of dollars spent on economic development projects apparently do not have any negligible effect on collaboration. The rate of collaboration should rise about 3 percent for every million dollars spent on capacity building projects. Spending on public service gap-filling actually appears to slightly reduce the rate of collaboration. Both of these results appear significant at the 5 percent level in the full model as well. These results actually appear to support the opposite of Hypothesis 4b.

4.6 Conclusion

The release of the *Afghan War Diary* (WikiLeaks 2010), combined with the CERP project data used here (Public Intelligence 2010), offers a unique opportuntiy to assess a comprehensive survey of counterinsurgency strategies in Afghanistan. Of the four examined here—appealing to the population, keeping violence away from civilians, managing loss of life, and winning hearts and minds—each received limited support. The strongest influence on collaboration is prior collaboration. Detaining insurgent combatants also appears to increase the level of collaboration, indicating that bringing in live enemy combatants encourages locals to view pro-government forces as legitimate. Insurgent-initiated violence also promotes collaboration with pro-government forces, as does the number of ongoing economic development and emergency humanitarian relief projects.

The results presented here bring into question whether or not money actually is a weapon. Although the number of ongoing projects appears to increase the rate of collaboration, the actual amount of money spent has a negligible effect. This could mean that, for locals,

seeing more work being done to improve the economic situation of the province, as well as the direct and immediate benefits of emergency relief and condolence payments, has a significant effect, whereas the dollar value of those projects means relatively little. This suggests counterinsurgent forces in Afghanistan and elsewhere should focus on providing projects that produce an improving economic situation while, for the policy makers and public back home, seek more efficient and less expensive uses of funds.

The previous chapters have shown how U.S. aid is directed toward preventing insurgency and promoting the development of political capacity. Our understanding of the effectiveness of aid at winning hearts and minds once an insurgency has initiated is limited, however. In the previous chapter political capacity was measured by tax effectiveness. Unfortunately, there are no readily available data at the temporal and spatial levels examine here. Instead, political capacity has been measured by another basic concept: the legitimacy of the political system among the population. These results indicate that aid during insurgency can demonstrate a commitment to the population by the political system, which is parallel to the implicit social agreement between willing tax-paying citizens and the government. When citizens begin to see government agents and institutions as beneficial and legitimate, the political system has taken root. In short, development can be as important during the course of war as it is after the fighting is ended. In fact, combining military and economic development strategies, as PRTs and CERP do in Afghanistan, could potentially mutually reinforce each other. Displaying a commitment to improving the everyday lives of civilians is as important in conducting effective counterinsurgency as is prosecuting the war against insurgents.

Table 4.3: Effects on collaboration

Variables	1	2	3	4a	4b	Full
Collaboration	1.47***	1.43***	1.46***	1.40***	1.22***	1.20***
	(0.07)	(0.07)	(0.07)	(0.07)	(0.06)	(0.06)
Meetings	1.05*					1.01
	(0.02)					(0.02)
Insurgent violence		1.01***				1.01
		(0.00)				(0.04)
Friendly violence		1.02				0.99
		(0.01)				(0.02)
Friendly KIA			1.07*			1.00
			(0.03)			(0.01)
ASF KIA			1.03*			1.00
			(0.02)			(0.00)
Insurgent KIA			1.01**			1.00
			(0.00)			(0.00)
Insurgents detained			1.02**			1.03*
			(0.01)			(0.01)
Civilian KIA			1.01			1.01
			(0.01)			(0.01)
Cap. Building proj.				1.01		1.00
				(0.01)		(0.01)
Econ. Devel. proj.				1.02***		1.01*
				(0.00)		(0.00)
Pub. Service proj.				1.00		0.99
				(0.00)		(0.00)
Hum. Rel. proj.				1.03**		1.02
				(0.01)		(0.01)
Cap. Building (Spent)					1.03*	1.04*
					(0.01)	(0.01)
Econ. Devel. (Spent)					1.00*	1.00
					(0.00)	(0.00)
Pub. Service (Spent)					0.99**	0.99*
					(0.00)	(0.00)
Hum. Rel. (Spent)					1.17	1.07
					(0.15)	(0.15)
χ^2	86.72***	151.82***	115.96***	217.02***	57.96***	82.71***
Observations	11552	11552	11552	11552	7200	7200

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

All variables are lagged one week. Incidence rate ratios are displayed instead of coefficients, and figures in parentheses are standard errors. All significance tests are one-tailed.

Chapter 5. Conclusion

Amid the federal budget debates in the autumn of 2012, the *New York Times* ran a panel of responses by leaders in the foreign aid community to the following: "Can't afford foreign aid, or can't afford to cut it?"[59] Debates over the federal budget regularly include the 1 percent that is shipped abroad. After half a century and billions of dollars, U.S. assistance to poor countries can certainly be said to have produced mixed results from a development perspective. Underdevelopment, malnutrition, corruption, and civil conflict persist. Two essential questions are raised: who gets U.S. aid and who benefits from U.S. aid?

A substantial literature has developed over the last decade or so examining these questions. A range of theories and opinions, anecdotes and findings, and conclusions and recommendations have followed, but the only firm point is that we still do not know enough about the who, what, why, when, where, and how of U.S. foreign aid. This project has attempted to contribute to that understanding by tracing the process of U.S. foreign aid from the selection of recipient countries, to the amount of aid allocated, to the effects of aid given. While these results are by no means definitive, they do expand on what we know, offer suggestions for the future, and raise new and refocused questions to be explored.

5.1 Summary of findings

Overall this dissertation traces the process of U.S. foreign aid as it relates to the strategic interests of the U.S. and the political development of recipients. Two overriding assumptions have been the uniqueness of the U.S. as a donor given its position as the hegemonic power in the international system over the past six decades and the primary need for developing the political institutions and state capacity, rather than the economies, of recipient countries.

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[59] Available at `http://www.nytimes.com/roomfordebate/2012/08/15/cant-afford-foreign-aid-or-cant-afford-to-cut-it`.

Chapter 1 introduces the topic, guiding research questions, and overall expectations of the dissertation. Chapter 2 begins the tracing of the process of U.S. foreign aid by examining which countries get U.S. aid and how much. Chapter 3 then looks at the effects of U.S. aid on the political development of recipient countries. Chapter 4 takes advantage of unique data to assess the effects of aid on developing state capacity within an insurgency.

Chapter 2 dealt with the first question posited above; that is, who gets U.S. aid? Previous literature indicates that the U.S. strategically allocates foreign aid, supporting its friends and shoring up its strategic interests abroad. A clear conceptual and empirical distinction was drawn between strategic importance, operationalized as alliance portfolio similarity Bueno de Mesquita and Lalman (1992), and friendship, operationalized as foreign policy similarity as indicated by United Nations General Assembly voting patterns (Gartzke 1998; 2000). A model of foreign aid giving was developed and tested that considered the intersection of these two concepts.

The findings supported the hypothesized relationships. U.S. assistance is directed to countries that need it most: those that poor, democratic, and suffering from internal or nearby conflict are more likely to be selected to receive aid, and they receive more aid as conditions worsen. More aid does find its way to countries that share similar foreign policy preferences, but the selection of recipients is not affected by foreign policy similarity. Strategic importance is not a significant factor in either selection or allocation. These findings support an overarching approach to U.S. foreign aid that focuses on assisting deserving countries rather than propping up strategically important regimes.

Comparing the results of economic aid recipient selection and allocation to that of military aid is particularly interesting and telling. While alliance portfolio similarity had a negligible effect on economic aid allocation, military aid recipients that shift from a completely opposing to a completely identical alliance portfolio can expect nearly a 2,400-fold increase in military aid allocation, and completely shifting UN General Assembly voting increases allocation

30-fold. These results indicate that military aid is unquestionably strategically motivated, whereas economic aid is much less so, an important finding in relation to the critical literature (Callaway and Matthews 2008).

Chapter 3 dealt with the second question: who benefits from U.S. aid? Whether aid has any genuine effect on development remains a central question in the foreign aid effectiveness literature. Proponents (Sachs 2005) and critics (Easterly 2001; 2006) alike point to a range of unique cases and push for reforms, while cross-country evidence shows that aid has had little if any effect on economic growth in recipient countries (Rajan and Subramanian 2008). This chapter displays a unique approach here that focused on political rather than economic development. The expected causal path is flipped: political development should provide fertile policy conditions for economic growth (Acemoglu et al. 2003). The focus here is on the relationship between U.S. aid and state capacity, particularly the ability to tax, the most basic function of the state (Prichard and Leonard 2010; Wang 2001). Although international economic institutions have recognized the importance of this relationship (IMF, OECD, UN, and World Bank 2011; OECD 2010; UN ECOSOC 2011), few foreign aid effectiveness researchers have focused on the point (cf. Boone 1996; Clist and Morrissey 2011; Feyzioglu, Swaroop and Zhu 1998; Remmer 2004).

Building on the findings concerning strategic importance of the previous chapter, the results here considered the interactive effects of alliance and both economic and military aid on the ratio of actual to expected tax revenues. Among nonallies aid has generally been good; only military aid received during the Cold War did not have a positive effect on political development. Among allies, however, both economic and military aid had negative effects throughout the Cold War, and only economic aid has had a positive effect in the decade following the end of the Cold War. Samuel Doe's regime in Liberia from 1980 to 1990 provides an illustrative case of these findings. Substantial amounts of U.S. economic aid throughout his decade in office, in return for Doe's support in fighting communism in

Africa and the Middle East, generated a slump in domestic revenue generation in Liberia that reversed course only after aid was greatly reduced when the strategic relationship fizzled.

Chapter 4 focused on a specific case—Afghanistan during the Taliban-led insurgency that began in 2003—to examine the dynamics of U.S. aid and its effect on developing legitimacy, a crucial source of state capacity, during conflict. The analysis took advantage of the release of two unique datasets: the *Afghan War Diary* (WikiLeaks 2010), which provides detailed records of military engagements by U.S. forces in Afghanistan from 2004 to 2009, and records of Commanders Emergency Response Program projects and spending in Afghanistan during the same time period (Public Intelligence 2010). These datasets permit an unprecedented look at not only the dynamics of counterinsurgency but also aid during conflict.

The goal of counterinsurgent forces is to generate support among the population for the government and to ensure the legitimacy of the state. Legitimacy is a critical component of state capacity; states that cannot maintain the allegiance and support of a substantial portion of the population cannot function effectively. Acts of collaboration by Afghan citizens with counterinsurgent forces are taken to be physical displays of allegiance to the Afghan state by the population. Four general counterinsurgency strategies—appealing to the population, keeping violence away from civilians, managing loss of life, and winning hearts and minds—were tested. Each strategy contributed in a limited way to promoting collaboration. Specifically in terms of using money as a weapon against insurgents, the results provided limited support for expecting aid to win the hearts and minds of the people. Although the number of ongoing projects appears to increase the rate of collaboration, the actual amount of money spent has a negligible effect. A higher number of ongoing economic development and emergency humanitarian relief projects is particularly beneficial in generating collaboration, indicating that for the population seeing more work being done has a far more powerful effect than the amount of money going towards the projects.

The three chapters paint a picture of U.S. foreign aid: recipients are selected based on need, and aid is allocated according to a combination of need and foreign policy similarity. Nonallies then apply U.S. aid toward developing the political capacity of the state; however, the case of Liberia illustrates the pernicious effects of aid that is tied to strategic interests. The Afghanistan case further shows that aid works when recipient populations see work being done at the project level; the amounts spent have little influence on effectiveness.

5.2   Policy implications

These results lead to three straightforward policy positions. First, the U.S. should continue giving economic aid, as long as it is to deserving countries. As President Obama stated in the 2013 State of the Union address, assisting developing countries is not just good for the U.S. and recipients morally but also politically as well as economically. Despite criticisms, the U.S. actually does show a positive record of selecting deserving countries: struggling democracies with large, poor populations that are either under the threat of or facing internal conflict. While military aid is certainly strategically motivated, comparing the factors of recipient selection and allocation, there is little evidence that economic aid is similarly motivated (cf. Callaway and Matthews 2008). While without doubt there are potential pernicious effects of aid, the evidence presented here does not indicate that the negative results are based upon selection or allocation criteria.

Second, U.S. aid giving should focus on building political institutions, not expanding markets. Productive, industrialized economies, comprising thriving markets, profitable enterprises, and prosperous workers, cannot exist where political institutions do not provide stable, functioning areas of activity. Aid projects should produce politically stable environments that are inviting to businesses that will contribute to the local economy in socially productive ways.

This point can also be considered from a budgetary standpoint. While Congress and the U.S. public may debate the merits of the 1 percent of the federal budget devoted to foreign aid, the argument should be put into comparative terms with other budget outlays, particularly national defense. Continuing to select deserving recipients that will use aid to develop political institutions is a much more cost effective means of generating and maintaining regional and global security and stability than engaging aggressive military force. While there may still exist rogue regimes that sacrifice the welfare of their populations and pose a constant threat to their neighbors, as tools of U.S. foreign policy, the evidence here indicates aid can be a productive force for international order.

Third, projects, not dollars, matter for recipients in terms of political legitimacy. Aid projects should be quick and fiscally lean rather than large and expensive, or at least a balance should be achieved between a few long-term projects surrounded by several short-term projects. It does appear in this case that quantity trumps quality, but this should not be construed as to be support for cheap gap-filling measures on the fly. (In fact, gap-filling measures were the sole negative influence on collaboration in Afghanistan.) Rather, these projects should indicate a genuine commitment to the improvement of the everyday lives of the citizens of recipient countries.

Foreign aid can certainly be a productive force for good and stability in the international system. Proponents of assistance are losing the battle against those who argue that more bullets and bombs are the formula for national security. While foreign aid is certainly no replacement for a strong national defense, the results presented and conclusions drawn here indicate that aid is a useful tool as well.

5.3 Limitations and future research

The results presented here are helpful in improving our understanding of the utility and dynamics of U.S. foreign aid; however, as with any project, there are limitations, but there

are also opportunities presented. As with any analysis of panel data, the inclusion of more years of coverage would improve analysis. The results presented in Chapters 2 and 3 are temporally restricted to 1950 to 2000. U.S. foreign aid data before 1950 is heavily skewed by Marshall Plan support to a select few European countries, whereas data limitations prevented analysis beyond 2000. In particular, alliance data ended in 2000; however, these data were recently updated (Gibler 2009). Economic data remain limited however (through 2003), so an effective analysis of the War on Terror era remains limited and difficult. As more data become available, the temporal domain and applicability of these results can be improved.

Particularly troublesome here are missing data. The countries that receive aid are particularly ineffective at collecting accurate and verifiable data for economic and social indicators. This was especially an issue in Chapter 3, where advanced statistical measures were necessary in order to model the effects of bias due to missing data. If aid produces more effective political regimes as suggested above, however, this limitation could be resolved over time. In fact, an additional measure of aid effectiveness could be an improvement in the quality of data.

The project also points in the direction of considering the unit of analysis. Chapters 2 and 3 use aggregated data on total aid flows at the country-year level; however, examining the utility and effectiveness of individual projects, as Chapter 4 does, could also provide additional insight at the international system level. Additionally, considering effectiveness at the individual level, through surveys and face-to-face interviews with citizens of recipient countries would substantially improve our understanding of the effects of projects at the ground level. The collaborative events reported in the *Afghan War Diary* include brief descriptions of the event, and many collaborations were done anonymously, but analysis would profit greatly if the opportunity presented itself to examine the motivations for collaborating.

The flip of the analysis done here would be to examine how external aid shaped rebellions. The U.S. and other Western powers are currently providing assistance to antigovernment

forces in Syria. Examining how aid affects the battle against the government and the development of a post-regime state would be very interesting; unfortunately, the opportunity to access quality first-hand data such as those available in the *Afghan War Diary* seems unlikely, but media reports could provide a good rough-cut approach.

The results presented here are both informative and preliminary. Much more work needs to be done that thoroughly dissects and disentangles the factors of political order and the effects of foreign aid. These results and conclusions certainly present important insights as well as potentially fruitful directions for future work.

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Vita

Jeremy L. Wells was born and raised in Hopkinsville, Kentucky. After graduating fourth in his class from University Heights Academy, he attended Berea College in Berea, Kentucky. At Berea he served as editor-in-chief for *The Pinnacle*, the student newspaper; competed all four years on the intercollegiate Speech and Debate Team, serving his senior year as team captain and assistant to coach and Communication Professor Billy Wooten; and in the spring of 2007 he was awarded the Abdul H. Rifai award for best undergraduate paper by the Kentucky Political Science Association and the E. Taylor Parks Award for Excellence in Political Science by Berea College. After graduating from Berea College in May 2007, he attended Louisiana State University. At LSU he taught multiple courses, presented research at several prestigious conferences, coauthored a published journal article, served as the political science department's undergraduate advisor, and earned a Master of Arts degree in August 2010. He expects to complete his Doctor of Philosophy degree in August of 2013. Following graduation, Jeremy, his fiancé Halley, and their Redbone Coonhound Tiberius will move to San Marcos, Texas, where he will take a one-year position teaching international relations in the Department of Political Science at Texas State University.