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Donors and domestic politics: Political influences on foreign aid effort☆

Dustin Tingley

Politics Department, Princeton University, 130 Corwin Hall, Princeton, Princeton, NJ 08540, United States

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ABSTRACT

The vast majority of scholarship on foreign aid looks at either the effectiveness of foreign aid or why particular countries receive aid from particular donors. This paper takes a different approach: what are the domestic sources of support for foreign aid? Specifically, how does the donor's domestic political and economic environment influence 'aid effort'? This paper uses a time-series cross-sectional data set to analyze the influence of changes in political and economic variables. As governments become more conservative, their aid effort is likely to fall. Domestic political variables appear to influence aid effort, but only for aid to low income countries and multilaterals while aid effort to middle income countries in unaffected. This suggests that models solely emphasizing donor economic and international strategic interests as determinants of donor aid policy may be mis-specified. These results also suggest sources of aid volatility that might influence recipient growth prospects.

1. Introduction

Foreign aid is an important but variable source of income for developing countries. Part of that variation stems for fluctuating levels of donor aid effort (the percentage of its GDP a donor decides to allocate to foreign aid). What influences these decisions to change aid effort? While public opinion surveys show large differences in support for aid across a liberal–conservative political spectrum, evidence that the ideological position of political parties in government influences aid effort is mixed at best. These mixed results are surprising as they suggest a minor role for domestic politics in explaining aid policy. This paper provides new evidence that party liberal–conservative positions influence aid effort.

The literatures on aid effectiveness and allocation frequently highlight the role of politics in explaining aid allocation (Alesina & Dollar, 2000; Boone, 1996; Burnside & Dollar, 2000; Clemens, Radelet, & Bhavnani, 2004; Maizels & Nissanke, 1984; McKinlay & Little, 1977). But the political variables employed in these literatures typically focus on relationships between the donor and recipient country. Domestic political variables in the donor country are absent from these analyses and the role of politics is cast at the international level. Other scholars stress the influence of domestic politics in donors on aid policy (Fleck & Kilby, 2001, 2006; Irwin, 2000; Lancaster, 2007; Milner & Tingley, 2010; Noel & Therien, 1995; O'Keefe & Nielson, 2006; O'Leary, 1967; Rieselbach, 1966; Ruttan, 1996; Therien & Noel, 2000). This literature suggests that political parties and domestic political institutions play an important part in shaping foreign aid policy.

This paper investigates the role of domestic political variables in determining aid effort. While the focus of the paper is establishing the role of domestic politics, the upshot of the analysis is a better understanding of factors that could influence both aid effectiveness and aid allocation. Discussions about aid effectiveness would benefit from a firmer understanding of donor domestic politics. For instance, changes in the power of donor political parties might lead to changes in foreign aid priority and hence aid volatility, which has been linked to negative growth effects (Arellano, Bulíř, Laneb, & Lipschitz, 2009; Bulir & Hamann, 2003; Bulir & Lane, 2002; Eifert & Gelb, 2005; Lensink & Morrissey, 2000). Likewise, domestic political factors can also influence the motivation for giving aid and hence the characteristics of preferred recipients (Fleck & Kilby, 2006). Results in this paper suggest that support for aid to countries with various levels of development differs across the types of domestic political actors influential in government.

The analyses presented below focus on the influence of political party ideology on foreign aid effort. Here political ideology is the liberal–conservative orientation of political parties and the governments they compose. Do governments that become more liberal become more likely to increase their foreign aid effort? I

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E-mail address: dtingley@princeton.edu.

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conceptualize liberal/conservatism in terms of views on the role of government in the economy. I also examine other political variables, such as the influence of welfare state institutions (Noel & Therien, 1995; Therien & Noel, 2000) and economic variables that may influence aid flows, such as the trade position and economic health of the country. This analysis dovetails with a range of work in comparative political economy that stresses the role played by political parties and their ideological orientation in shaping foreign economic policies (Bearce, 2003; Boix, 1998; Garrett, 1998).

A second contribution is the analysis of within-country changes in foreign aid effort using time series cross-sectional data. Most previous cross-sectional studies on aid effort have only analyzed cross-sectional variation at a handful of 'snapshots' in time. This analysis examines more closely the within-country dynamics that change aid effort. A third contribution is that I break aid out by different categories (e.g., low-income versus high-income developing countries) and channel (bilateral versus multilateral). The influence of domestic political and economic factors may be more salient for one type of aid, and looking only at aggregate aid would obscure this relationship.

The results suggest that as governments become more conservative their foreign aid efforts are likely to fall. This relationship is statistically significant in many, though not all, models, and provides new evidence about the relationship between political ideology and foreign aid over time. This effect is most significant in aid to poorer developing countries; aid to countries with higher levels of income appears relatively unaffected by changes in the ideological orientation of parties in donor countries. Year to year changes in welfare state institutions, a commonly cited source of donor aid policy, have little effect on foreign aid policy within a country but remain an important explanation of broader trends.

2. Literature review

The literature on the role of donor country politics in foreign aid allocation decisions is relatively small and predominantly in political science. The vast majority of donor country empirical analysis has considered *between* country differences at snap shots in time. The existing literature offers little systematic empirical support for the perhaps "conventional" wisdom that as governments become more conservative they decrease foreign aid effort.

Noel and Therien (1995) correlate separately by year donor aid effort with various measures of government policy/political orientation in 1965, 1970, 1975, 1980, 1985, and 1988. They test a partisanship hypothesis but find no significant link between partisan orientation and foreign aid effort. Instead, they argue that strong welfare state institutions best explain foreign aid spending patterns.

Therien and Noel (2000) re-analyze the partisanship hypothesis using between-country differences from two 'snapshots' in time: 1980 and 1991. They argue that the effects of partisanship are only cumulative which year-by-year measures of partisanship would not capture. They also argue that the influence of partisanship is indirect, operating through other policies like social-democratic welfare state institutions and social spending. Hence we should not see direct changes in foreign aid budgets as parties with different ideological orientations move into government. Their argument seems to imply little within country changes in aid effort, as they see any changes in welfare state institutions to be incredibly slow (p. 155) and use a constant measure of welfare state institutions for both years in their sample. Breuning (1995) and Imbeau (1989) also use between-country analyses and find mixed results on the relationship between ideology and foreign aid budgets.

Several recent papers that use similar data panels as this paper also find little influence of political ideology. Round and Odedokun (2004) find a relationship between "pro-poor" policies in the donor and subsequent aid budgets, but no influence of a discretized ideology score [−2,2] taken by adding ideological classifications of the executive and legislative branches (Beck, Clarke, Groof, Keefer, & Walsh, 2000). Lundsgaarde, Breunig, & Prakash (2007) focus on the influence of imports from developing countries, but simultaneously enter several party controls such as a cumulative left government measure. They report no significant relationships with this party variable. Chong and Gradstein (2008) find mixed results using a dummy variable for whether the party in control of the executive is coded as "left-wing".

Flipping the perhaps conventional wisdom on its head, Moss and Goldstein use commitments to Africa from the United States to suggest that Republicans in fact may be more generous than Democrats (Goldstein & Moss, 2005; Moss, 2007). Republican administrations in their sample give more aid than all Democrat administrations. Goldstein and Moss review several possibilities for why this might be the case: Republican Congresses tend to be less divided than Democratic Congresses or because "Republicans may in general be better able to articulate foreign policy objectives and make the link to specific instruments, such as foreign aid" (Goldstein & Moss, 2005, p. 1298). They go on to document the rising support for foreign aid within the Bush II administration. Thus, at least for the case of US aid to Africa in recent years, the conventional wisdom may go the wrong way.

Fleck and Kilby (2006) investigate a more nuanced relationship between ideology and foreign aid. They find that during periods of Republican control of the United States Congress, foreign aid programs were driven more by commercial interests. When Democrats control the Presidency and Congress, development concerns govern aid allocation more than when the Congress and/or Presidency are controlled by Republicans. Also, geopolitical interests get more weight with a conservative President. Thus, the relationship between ideology and foreign aid policy may depend on the economic characteristics of recipients. This paper further examines this possibility.

Several of the above studies are perhaps perplexing given work on public opinion about foreign aid and analyses of legislative voting on foreign aid. Lumsdaine (1993, pp. 144, 153) found compelling evidence that foreign aid was responsive to public opinion and that, furthermore, respondents self-identifying as conservative (liberal) were more likely to oppose (support) foreign aid. Similar results are reported by others (Chong & Gradstein, 2008; Milner & Tingley, 2008; Tingley, 2007). Indeed, Philip Converse's classic in American political behavior used the example of opinions over foreign aid to illustrate the salient role of ideology in the preferences of (politically sophisticated) voters (Converse, 1964, p. 31). Finally, liberal–conservative ideology plays a powerful role in determining legislator support or opposition to foreign aid in the US Congress (Fleck & Kilby, 2001; Milner & Tingley, 2010). A number of studies in international political economy demonstrate the important role of ideology and political parties (Broz, 2005).

3. Domestic political influences on donor foreign aid effort

Conceptualizing liberal–conservative ideology as about the role of the government in the economy arrays parties along a single left–right dimension. This is both a common and reasonable assumption, and is pertinent here as foreign aid is fundamentally about the governmental transfer of resources away from taxpayers to some other entity. Foreign aid represents redistribution of resources by government, albeit to recipients who are not vot-

ing constituents. If political parties represent the preferences of people who vote for them, and preferences for foreign aid array along liberal–conservative lines, then representative parties may enact changes in foreign aid policy following their election. These changes may be relatively quick, an assumption others find likely as well.[1] Hence ideological beliefs channeled through an electoral process could lead to important changes in donor foreign aid policy.[2]

Conservative governments should generally oppose foreign aid for several main reasons. First, it represents interference by the government with both the donor and recipient economies. Ceteris paribus, more foreign aid implies higher taxes and any associated efficiency losses. "The voices raised against aid were long those on the right, and they opposed aid specifically because of its similarity to the welfare state: they felt that in a free market, poor countries would do well, and that aid only increased bureaucracy and created big government and dependence. Milton Friedman, P.T. Bauer, the American Enterprise Institute, taxpayer groups, Edward Banfield, and so on opposed aid" (Lumsdaine, 1993, p. 140). Furthermore, survey evidence suggests that conservatives in the US are less likely to believe that foreign economic aid is good for the US economy.[3] Second, foreign aid might crowd out investment opportunities in recipient countries, opportunities that could be fulfilled more efficiently by private actors. "The MDBs (multilateral development banks) duplicate many private sector activities, particularly lending. Many of the MDB loans could be secured from private financial institutions. Indeed, over the last decade, there has been a flood of investment to the developing world. The fact that many World Bank loans could be easily privatized makes the point its lending activities are redundant" (Holmes, January 31, 1995). Thus, many conservatives believe foreign aid is an obstacle to the operation of more efficient markets that may be better equipped to improve the welfare of citizens in both donor and recipient countries (Thorton, 2002).

Liberal governments, on the other hand, should generally be more favorable toward foreign aid. Foreign aid in principle can help fill gaps where market mechanisms fail, such as in public good provision in developing countries. Second, it is consistent with accepting the role of the state in ongoing economic activity and, specifically, the role of the state in pursuing egalitarian outcomes and being actively involved in the economy. Hence irrespective of the 'internationalist' orientation of a government, liberal beliefs about the role of the government in the economy can lead to more support for foreign aid. Because the focus of this paper is on domestic political factors, I focus on a single key hypothesis: *Increases in government conservatism lead to decreases in foreign aid effort* (*foreign aid commitments as a percentage of GDP*).

4. Data

4.1. Dependent variables

The main dependent variable, aid effort, comes from the online OECD/DAC database (aid commitments, Table 3a). I include all OECD/DAC countries except Luxembourg, Greece, Portugal, and Spain, all of which had significantly shorter panels, though my results do not change if they are included. Data availability for the measure of welfare state policies limits the analysis to years 1971–2002, though the effects of parties remains salient if the time series is pushed back to the mid-1960s. The data appendix describes all variables in further detail.

I break foreign aid down by recipient development income classification and channel (multilateral vs. bilateral). Breaking down foreign aid by recipient income classification allows for the possibility that the effects of ideology differ across different types of aid recipients. Milner (2006) suggests that multilateral channels might "lock-in" levels of aid, making this channel especially opposed by conservatives. Survey evidence from the US suggests that if aid is to be given, individuals who are more conservative are more likely to favor bilateral foreign aid.[4] Each of these ways to break down foreign aid has advantages and disadvantages. Making the analysis more fine-grained runs the risk of covering up more general relationships. I focus on the following categories: total aid, multilateral aid, aid to LDC ('Least Developed') and OLIC ('Other Low Income') recipients, and aid to OMIC ('Other Middle Income') and UMIC ('Upper Middle Income') recipients.[5] I operationalize each category as commitments divided by the country's nominal GDP from the World Bank's World Development Indicators and then multiple by 1000 for ease of presentation.

4.2. Independent variables

4.2.1. Ideology

I construct measures of government ideological orientation using a common underlying data source: the Comparative Manifestos Project (CMP) (Budge et al., 2001; Klingemann, Volkens, Bara, Budge, & MacDonald, 2006). The CMP-coded party manifestos for every donor country election on a number of fields, each based on several components. I focus on the economic field because this most directly captures the economic concept of ideology, i.e., the role of the government in the economy, on which this paper focuses. The economic field, for example, scored references to the importance of free enterprise system, market regulation, government facilitation of productivity, demand management, and other ways governments could be involved with the economy.

To construct ideological scores for individual parties at particular points in time I use a procedure similar to that advocated by Gabel and Huber (2000). This procedure extracts the first dimension from a factor analysis of all components of the economic field

[1] In their study of US aid disbursements Fleck and Kilby also note the responsiveness of aid budgets to political changes. "This assumed rapid response (i.e., one-year lag) of US aid disbursements to political changes fits well with the institutional literature on both the Congress and the president" (Fleck & Kilby, 2006, p. 213). For a similar dynamic picture of changes in aid budgets see (Cox & Duffin, 2008).

[2] There are certainly counterarguments to this logic. A variety of forces can motivate policy making on aid and overwhelm preferences based on ideological beliefs about the government and economy. For example religious beliefs may motivate decision-makers (Busby, 2007). And it might be that while governments that are more liberal favor redistribution, they would prefer resources to remain within the country. And conservative governments might tend to be more active in foreign policy, and thus are keen on using foreign aid for geopolitical purposes. The empirical tests that follow provide a needed investigation of the effects of partisan ideology.

[3] In 1975, 1979, and 1982 the Chicago Council series on American Foreign Policy and Public Opinion asked "Do you feel that foreign economic aid to other countries generally helps our economy at home? (Yes/No)". Pooling these surveys together for the General Public surveys and estimating probit models with this question as a dependent variable and a measure of ideology (along with standard demographic controls) yields a negative and significant coefficient on ideology ($p < .05$). Furthermore, analogous regressions for the Elite sample also generated a negative and statistically significant coefficient for Ideology. In 2008, the author fielded a similar survey and replicated these results. Hence it appears that both amongst the general public and elites, more conservative individuals are less likely to see economic aid as being good for the US economy (all results available from author).

[4] A 2008 YouGov/Polimetrix survey conducted by the author and Helen Milner asked "Would you prefer that the U.S. give aid directly to a country or give aid to an international organization (such as the World Bank or IMF) which then would give it to the country?" Respondent ideology was a significant predictor of response, including controlling for wide range of potential confounding variables. Full results available from author.

[5] Reporting for LDC/OLIC and LMIC/UMIC aid did not occur for several countries in several years and so sample sizes are slightly different.

of the CMP data set. Then regression scores are calculated that place each party along the factor, after which rescaling permits us to place governments onto a 0–10 scale, with higher values representing more conservative governments. Hence, this index of ideology is continuous, focuses on the role of government in the economy, is based on stated policy positions of the parties, and allows for changes over time. I also tested measures based on the 'international' field of the CMP data. This measure was not significantly related to aid effort. I also examine the influence of a measure than included all fields of the CMP data, which Gabel and Huber (2000) advocate. The results are robust to using this 'Vanilla' measure.

Given the individual party scores, how should we aggregate these to the country level? I use two techniques. First, I construct a single partisanship score for each group of parties responsible for executive control of the government, *IdeoGov*. To do this I identify each party that was part of the government and then weight their ideology score by the percentage of votes they received relative to the total votes received by all parties in government. I then add up the weighted score from each party within government to obtain a government ideology score.[6] A second variable, *IdeoAll*, calculates the vote-weighted average of all party ideological scores in an election. Thus, while the government might be composed of a subset of parties, aid budgets could still be influenced by the ideological positions of parties outside of the government, and indeed the ideological composition of the government as a whole.[7]

Finally, I also consider changes in the cumulative effect of the percentage of cabinet seats occupied by right parties, and likewise for left parties. Therien and Noel (2000) argue that these cumulative measures have an indirect effect on foreign aid. I include these measures (*LTCABCUM* and *RTCABCUM*) from Huber, Ragin, Stephens, Brady, & Beckfield (2004). For example, while right parties are part of the government the *RTCAMCUM* score is increasing. Noel and Therien (2000) argue that the presence of parties in government can have long lasting effects, even after their departure, a logic derived from the historical institutionalism literature (Pierson, 1996).

4.3. Control variables

4.3.1. Welfare state institutions

Therien and Noel argue that the influence of political parties is only cumulative and operates indirectly through welfare state institutions (2000). According to this argument, aid effort is likely to be higher in countries that have established resilient systems of redistribution. However, Therien and Noel's empirical analysis does not test whether *changes* in a country's welfare programs also lead to changes in aid effort. Although Therien and Noel argue that welfare institutions are relatively fixed, recent scholarship disputes this and finds that the earlier measures are deceptively static (Allan & Scruggs, 2004). To address this issue I use a dynamic measure of welfare state institutions. I analyze *changes* in state welfare institutions by including the time varying '*generosity*' measure calculated by Scruggs (2006). This measure begins in the early 1970s and is a comprehensive documentation of welfare state institutions in OECD countries. Higher scores on the *generosity* measure indicate more comprehensive welfare state institutions. Including other measures, such as government spending as a percentage of GDP on government programs, do not change the results reported below. The *generosity* might relate directly to the liberal/conservative ideological variable I am interested in, though some have argued that this party effect has become small or non-existent (Pierson, 1996). This claim remains debated, with some recent support for the role of parties (Allan & Scruggs, 2004). Hence including a welfare state measure provides a harder test for the party ideology variables.

4.3.2. International economic position

A common theme in the aid allocation and growth literatures is that economic characteristics of recipient countries can influence aid patterns due to the use of aid to impact the economic policies of recipients, especially the openness of the recipient economy to international trade (Alesina & Dollar, 2000; Heron, 2008; McKinlay & Little, 1978). Countries that rely more on trade may see foreign aid as a useful tool to promote trade and hence increase their aid effort. There are a number of ways to measure a country's trade position in the international economy. I use a measure of how exposed a country is to trade, *Openness*, which is measured as (Exports + Imports)/GDP. Other measures, for example ones that focus on export orientation (Exports/(Exports + Imports)) or measures that only take into account trade with the subset of countries in a particular aid recipient category produce similar results.

4.3.3. Economic health

Do country changes in domestic economic circumstances generate changes in the percentage of GDP given to foreign aid? With a diffuse constituency and uncertain benefits, foreign aid may be viewed as an expendable item and subject to cuts under more difficult economic circumstances. Indeed, numerous speeches made in the United States Congress illustrate the stark trade-off between continuing foreign aid and domestic spending during tough economic times (e.g., Congressional Record, June 28, 1995). While these arguments may mask underlying motivations and dispositions, they all point to a relationship between a country's economic circumstances and its foreign aid policy. Existing evidence suggests that aid is not pro-cyclical from the donor's perspective (Pallage & Robe, 2001). I measure the economic health with the real GDP growth rate, *GDPGrowth*. The predicted coefficient for this variable is positive.

4.3.4. Cold war

Foreign aid can serve a number of different purposes for donors. If, as many have argued, aid can be used for geopolitical purposes, then the structure of the international system may influence foreign aid commitment patterns. The period I consider includes both a pre and post-Cold War era. To control for differences in aid effort patterns during the two eras I include a dummy variable equal to 1 if the year is less than 1991 and 0 otherwise.

5. Statistical models and analysis

I constructed a time-series cross-sectional data set with observations at the country-year level for the sample covered by the OECD/DAC. In order to analyze within country changes I estimate models in first differences. Donors must decide aid effort levels and these levels can either be increased, decreased, or kept the same. I argue above that changes in government ideology bring in decision-makers with different preferences over foreign aid. These changes lead to changes in aid budgets, which could happen quite quickly (Fleck & Kilby, 2006, p. 213). Barring more complicated lag struc-

[6] I determined parties in government using Woldendorp, Keman, and Budge (2000) and various issues of the Political Data Yearbook, published by the *European Journal of Political Research*.

[7] A third approach would be to identify the party of the cabinet minister in charge of foreign aid. Unfortunately, the most comprehensive source of information on cabinet positions does not break out the relevant development cooperation ministries (Woldendorp et al., 2000).

tures for effects,[8] first differences is a straightforward estimation strategy and also eliminates any unobserved unit-specific effects that are fixed over time. The first differences specification leads to a regression equation of the form[9]:

$$\Delta y_{it} = \beta_{ideo}\Delta Ideo_{it} + \Delta x_{it}\beta + \Delta u_{it}$$

This estimating equation differences all explanatory variables. I also include an interaction between the Cold War and time, which in a first differenced model amounts to a dummy variable for whether the period of the panel was during the Cold War. This allows for different time trends pre and post-Cold War in terms of levels. As the *GDPGrowth* variable is already differenced I enter this directly into the model. First differencing the data in this setting has some drawbacks. While it picks up on the sequencing of changes we cannot be sure that changes in government ideology leads immediately to changes in foreign aid budgets. Furthermore, aid commitment data are aggregated at the annual level, which obscures finer level temporal variation that might be helpful in identifying the effect of variables of interest. An alternative strategy is to estimate fixed-effects models which consider deviations from within-country means and relax the assumption that changes in independent variables are independent of changes in residuals. Specifying a fixed-effects model is equivalent to a model where the variables have been time demeaned, and hence we have[10]:

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

A fixed effect model might pickup the influence of variables that are not immediate and hence not picked up in the differenced equation. If the two methods differ in their results then we should be concerned about the strict exogeneity assumption. Insofar as both methods lead to similar results we can be more confident in the estimates (Wooldridge, 2002, p. 284). Of course, it is possible that common trends in the data due only to correlations but not causal relationships can lead to spurious results, but there is no clear theoretical reason to expect such a relationship here. Each model was estimated using OLS and robust standard errors clustered at the country level. Following the operationalization of the key ideological variables, the paper's key prediction is that $\beta_{\text{ideo}} < 0$.

6. Results

Tables 1 and 2 present OLS results from the estimations in first differences with standard errors clustered by country. The results are supportive of the theory that changes in the ideological orientation of political parties influence changes in aid effort. Year to year changes in the measures of economic ideology correlate significantly with changes in aid effort. As governing parties became more economically conservative there tended to be declines in aid effort for overall, multilateral, and LDC/OLIC aid effort. This relationship was not significant for aid to LMIC/UMIC countries. In each model the measure of ideology that included all parties weighted by their vote share, *IdeoAll*, tended to have a stronger effect. Changes in the cumulative proportion of right party cabinet positions also

Table 1
Total and multilateral aid; first differences, OLS with SE clustered by country.

	Total: 1	2	3	4	5	6	Multi: 1	2	3	4	5	6
D.IdeoGovt	−0.437+ [0.238]	−0.439+ [0.235]					−0.321* [0.130]	−0.323* [0.125]				
D.IdeoAll			−1.056* [0.369]	−1.054** [0.361]					−0.781* [0.287]	−0.777* [0.286]		
D.RTCABCUM					−0.336+ [0.164]						−0.182+ [0.095]	
D.LTCABCUM						0.181 [0.226]						0.088 [0.127]
D.Generosity		0.022 [0.104]		0.008 [0.101]	0.012 [0.101]	0.015 [0.101]		0.027 [0.060]		0.017 [0.058]	0.011 [0.060]	0.012 [0.060]
J.Openness	−0.004 [0.025]	−0.004 [0.025]	0.001 [0.026]	0.001 [0.026]	0.008 [0.025]	0.010 [0.025]	0.001 [0.016]	0.001 [0.016]	0.005 [0.015]	0.005 [0.015]	0.008 [0.015]	0.009 [0.015]
GDPGrowth	5.469 [4.508]	5.457 [4.550]	5.516 [4.653]	5.511 [4.700]	4.946 [4.849]	5.148 [4.893]	4.162 [2.583]	4.148 [2.600]	4.198 [2.721]	4.188 [2.742]	3.502 [2.725]	3.615 [2.749]
ColdWar	0.228* [0.097]	0.217* [0.091]	0.249* [0.091]	0.245* [0.092]	0.328* [0.122]	0.311* [0.126]	0.163* [0.064]	0.178* [0.064]	0.178* [0.065]	0.170* [0.064]	0.209* [0.065]	0.200* [0.076]
Constant	−0.223+ [0.110]	−0.220+ [0.117]	0.237+ [0.113]	0.236+ [0.120]	−0.215 [0.164]	−0.387+ [0.207]	−0.186* [0.073]	−0.183* [0.113]	−0.197* [0.113]	−0.194* [0.113]	−0.167 [0.096]	−0.257* [0.109]
Observations	548	548	548	548	512	512	548	548	548	548	512	512
R^2	0.009	0.009	0.012	0.012	0.008	0.006	0.013	0.014	0.019	0.019	0.010	0.008

Standard errors in brackets [].

[8] E.g., one might estimate an error correction model.

[9] Where $\Delta y_{i,t} = y_{i,t} - y_{i,t-1}$, etc. The crucial assumptions for consistency is that time period by time period changes in explanatory variables are independent of the error terms (which are normally distributed with mean 0 and variance σ^2), $E(\Delta \mathbf{x}_{i,t}\ \Delta u_{i,t}) = 0$ and $E(\Delta Ideo_{i,t}\ \Delta u_{i,t}) = 0$, the standard strict exogeneity assumption $E(u_{i,t}|\mathbf{x}_i) = 0$, and a rank condition that rules out time constant explanatory variables.

[10] Consistency in fixed effects models requires the strict exogeneity assumption is also met. The relative efficiency of the two approaches depends on whether the error terms are serially uncorrelated or follow a random walk. Below I estimate the fixed-effects model with a lagged dependent variable. Allowing the residual to follow an AR1 process yields similar results.

Table 2
Aid by income category; first differences, OLS with SE clustered by country.

	LDC/OLIC 1	2	3	4	5	6	LMIC/OMIC 1	2	3	4	5	6
D.IdeoGovt	−0.174^{+} [0.085]	−0.176* [0.081]					−0.007 [0.075]	−0.005 [0.075]				
D.IdeoAll			−0.451** [0.106]	−0.446** [0.103]					−0.040 [0.112]	−0.045 [0.114]		
D.RTCABCUM					−0.146* [0.057]						−0.025 [0.040]	
D.LTCABCUM						0.044 [0.085]						0.041 [0.041]
D.Generosity		0.027 [0.039]		0.021 [0.038]	0.023 [0.038]	0.025 [0.038]		−0.023 [0.015]		−0.023 [0.015]	−0.026 [0.015]	−0.026 [0.015]
D.Openness	−0.002 [0.012]	−0.002 [0.012]	−0.000 [0.012]	−0.000 [0.012]	0.002 [0.012]	0.002 [0.012]	−0.002 [0.006]	−0.002 [0.006]	−0.002 [0.006]	−0.002 [0.006]	−0.002 [0.006]	−0.002 [0.006]
GDPGrowth	1.214 [1.194]	1.204 [1.200]	1.223 [1.228]	1.213 [1.239]	1.219 [1.285]	1.298 [1.290]	2.496* [1.104]	2.510* [1.115]	2.496* [1.119]	2.519* [1.131]	2.448^{+} [1.196]	2.449^{+} [1.196]
ColdWar	0.078^{+} [0.042]	0.065^{+} [0.035]	0.087^{+} [0.041]	0.076* [0.035]	0.105* [0.047]	0.096^{+} [0.029]	0.027 [0.035]	0.038 [0.047]	0.028 [0.026]	0.040 [0.029]	0.048 [0.041]	0.048 [0.029]
Constant	−0.065* [0.029]	−0.062^{+} [0.030]	−0.070* [0.031]	−0.067^{+} [0.032]	−0.057 [0.049]	−0.118^{+} [0.038]	−0.084* [0.038]	−0.087* [0.038]	−0.084* [0.038]	−0.087* [0.038]	−0.085^{+} [0.056]	−0.108^{+} [0.052]
Observations	541	541	541	541	505	505	531	531	531	531	495	495
R^2	0.008	0.010	0.014	0.015	0.009	0.006	0.006	0.007	0.006	0.007	0.007	0.008

Standard errors in brackets [].
$^{+}$ $p < 0.10$.
* $p < 0.05$.
** $p < 0.01$.

significantly correlates with declines in aid effort for all except the LMIC/UMIC models. Conversely, the coefficient on cumulative percentage of left party cabinet positions was positive but insignificant in each model. Together these results suggest strong support for the role of partisan ideology in changing aid effort. Instead of operating indirectly and only in some cumulative fashion (as suggested by some in the literature), changes appear to be direct and follow closely in time.

While estimating the effect of changes in the independent variables directly on changes in the dependent variable follow the theory more closely, fixed-effects estimation may identify other relationships because it does not impose the rigid dynamic structure of first differencing on the data. This also gives a robustness check as the two procedures make different assumptions about the serial behavior of the error terms. Tables 3 and 4 report results from a fixed effects OLS model with a lagged dependent variable to account for contemporaneous correlation and robust standard errors clustered by country.[11]

The party ideology variables again were negative and significant in the total, multilateral, and LDC/OLIC models. These variables were also negative in the LMIC/UMIC model, but only barely significant in one model that used the overall ideological measure (*IdeoAll*). As with the first difference models there was no significant influence of these party variables on aid to LMIC/UMIC countries. The only cumulative partisan measure that was significant was the left party score for aid to LMIC/UMIC countries. The balance of evidence suggests a tight relationship between partisan ideology and aid to LDC/OLIC countries and multilateral institutions, but a weak relationship between partisan ideology and aid to LMIC/UMIC countries.

7. Control variables

Tables 1 and 2 show that changes in welfare institutions have very little effect on changes in aid effort. Coefficients for the *Generosity* variable from the first differences estimation were always positive but only significant for LMIC/UMIC aid. Even taking a direct and time varying measure of welfare institutions (which the literature previously has not done), there appears to be very little dynamic relationship between welfare institutions and foreign aid. Given the results discussed above, changes in party ideology appear to have a more direct influence. The *Generosity* variable was positive and significant in some of the models across each of the aid types in the fixed effects analysis. This was quite different from the first differences section, where this measure of welfare state institutions was never statistically significant. The potential relationship between government ideology and welfare institutions could lead to problematic results when both variables are included.

[11] The use of fixed effects to compare deviations from time means within countries is partially justifiable because there is significant variation in the country level intercepts. An *F*-test rejects the null hypothesis that fixed-effects should not be included. There are several specification issues when working with fixed effects with some degree of persistence in the data. Persistence can be due to correlation between the error terms in periods t and $t+1$, or persistence due to a dynamic causal model where current policy outputs depend on previous policy (Beck & Katz, 1996). While the former might be thought of as a statistical nuisance, the latter is a matter of substance. Durbin–Watson statistics and other measures of autocorrelation suggest that persistence is present in the data. Not accounting for this process can lead to incorrect calculation of standard errors. But including a lagged dependent variable in order to remove the serial correlation in the errors can also introduce bias and inconsistency in the other parameter estimates. The debate on how best to deal with this type of data remains lively (Beck & Katz, 1996; Green, Yeon Kim, & Yoon, 2001; Judson & Owen, 1999; Kristensen & Wawro, 2007). Dynamic panel estimators such as Arellano–Bond are inappropriate here because the consistency of that estimator is based on settings where $i \gg t$.

Table 3
Total and multilateral aid; fixed effects w/ SE clustered by country.

	Total: 1	2	3	4	5	6	Multi: 1	2	3	4	5	6
L.total	0.589** [0.045]	0.612** [0.042]	0.612** [0.045]	0.612** [0.042]	0.572** [0.047]	0.576** [0.042]						
L.multi							0.554** [0.036]	0.576** [0.037]	0.549** [0.037]	0.575** [0.036]	0.561** [0.036]	0.549** [0.036]
IdeoGovt	−0.392** [0.135]	−0.305+ [0.148]					−0.237* [0.083]	−0.188+ [0.091]				
IdeoAll			−0.779** [0.263]	−0.538+ [0.294]					−0.543* [0.197]	−0.399+ [0.203]		
RT CAB CUM					−0.068 [0.042]						−0.030 [0.025]	
LTCABCUM						0.055 [0.051]						0.014 [0.033]
Generosity	0.100* [0.046]		0.112* [0.048]		0.124* [0.056]	0.080 [0.050]	0.056* [0.027]		0.066* [0.028]		0.054 [0.033]	0.037 [0.028]
Openness	−0.006 [0.014]	0.001 [0.015]	−0.004 [0.013]	0.003 [0.014]	−0.017 [0.016]	−0.019 [0.018]	−0.002 [0.007]	0.002 [0.018]	−0.000 [0.007]	0.003 [0.007]	−0.005 [0.018]	−0.005 [0.009]
GDPGrowth	−1.462 [2.874]	−3.033 [3.005]	−0.336 [2.970]	−2.319 [3.081]	1.008 [3.362]	0.454 [3.435]	−1.028 [1.903]	−1.863 [1.922]	−0.313 [1.938]	−1.427 [1.956]	−0.201 [3.081]	−0.405 [2.183]
ColdWar	0.553* [0.212]	0.477* [0.200]	0.563* [0.200]	0.483* [0.201]	0.290 [0.291]	0.832** [0.249]	0.525** [0.154]	0.474** [0.142]	0.563* [0.156]	0.472** [0.139]	0.397+ [0.199]	0.588** [0.172]
Constant	3.714+ [1.774]	5.404** [1.478]	5.387* [2.080]	6.530** [1.922]	2.616+ [1.426]	2.032 [1.448]	2.119+ [1.043]	3.090** [0.815]	3.462* [1.354]	4.156** [1.266]	1.432+ [0.769]	1.214 [0.803]
Observations	562	562	562	562	526	526	562	562	562	562	526	526
R^2	0.429	0.422	0.431	0.423	0.417	0.415	0.413	0.407	0.417	0.409	0.410	0.408

Standard errors in brackets [].

Table 4
Aid by income category; fixed effects w/ SE clustered by country.

	LDC/OLIC 1	2	3	4	5	6	LMIC/OMIC 1	2	3	4	5	6
L.LDC OLIC	0.537** [0.069]	0.557** [0.062]	0.557** [0.071]	0.557** [0.062]	0.546** [0.060]	0.552* [0.061]						
L.LMIC UMIC							0.428** [0.054]	0.435** [0.052]	0.435** [0.054]	0.433** [0.052]	0.425** [0.046]	0.388** [0.061]
IdeoGovt	−0.183** [0.051]	−0.155* [0.058]					−0.005 [0.041]	0.007 [0.036]				
IdeoAll			−0.384** [0.108]	−0.299* [0.110]					−0.104+ [0.053]	−0.064 [0.046]		
RT CAB CUM					−0.014 [0.016]						−0.022 [0.013]	
LTCABCUM						−0.008 [0.022]						0.035* [0.016]
Generosity	0.031+ [0.017]		0.037+ [0.018]		0.028 [0.018]	0.025 [0.017]	0.016 [0.012]		0.0 [0.012]		0.028* [0.013]	0.008 [0.010]
Openness	−0.003 [0.007]	−0.001 [0.008]	−0.002 [0.007]	0.000 [0.008]	−0.006 [0.008]	−0.006 [0.008]	−0.005 [0.003]	−0.004 [0.003]	−0.005 [0.003]	−0.004 [0.003]	−0.007+ [0.004]	−0.009+ [0.004]
GDPGrowth	−0.282 [1.205]	−0.771 [1.289]	0.245 [1.241]	−0.422 [1.341]	0.848 [1.421]	0.767 [1.439]	0.338 [1.052]	0.057 [1.439]	0.404 [0.981]	0.037 [1.063]	0.519 [1.052]	0.177 [1.267]
ColdWar	0.374** [0.115]	0.341** [0.104]	0.380** [0.104]	0.342** [0.104]	0.323* [0.139]	0.351 [0.104]	−0.015 [0.070]	−0.025 [0.072]	−0.021 [0.068]	−0.033 [0.072]	−0.131 [0.085]	0.117 [0.074]
Constant	1.171 [0.865]	1.729* [0.734]	2.043* [0.859]	2.451** [0.801]	0.579 [0.801]	0.541 [0.801]	0.610* [0.274]	0.928* [0.332]	1.078** [0.265]	1.327** [0.328]	0.749** [0.249]	0.540+ [0.273]
Observations	555	555	555	555	519	519	545	545	545	545	509	509
R^2	0.436	0.431	0.440	0.433	0.427	0.427	0.201	0.198	0.204	0.199	0.198	0.206

Standard errors in brackets [].
+ $p < 0.10$.
* $p < 0.05$.
** $p < 0.01$.

Thus I report several models that drop the *Generosity* variable and the ideology variables generally became more significant. Given the existing literature's emphasis on welfare institutions over government ideology I also report models that include the *Generosity* variable.

The *GDPGrowth* and *Openness* variables were never significant in the first differences estimates for any type of aid. The fixed effects models estimated positive coefficients on *GDPGrowth* for both recipient income classes, but in these models the influence of *GDPGrowth* was consistently significant only for LMIC/UMIC aid. Across time, periods with above average economic growth correlate with higher aid effort to richer countries, while aid effort to poorer countries appears less dependent on the donor's economic situation. Hence while the null results for economic health on total aid are consistent with previous results (Pallage & Robe, 2001), more research needs to be done linking donor economic performance and aid to particular types of developing countries. Finally, donor openness was generally not a significant factor in determining aid effort.

The *ColdWar* variable captures a structural break in the international system. For the first difference model this variable captures an interaction between time and the Cold War period. This was positive and highly significant in the first difference models for total and multilateral aid and positive but less significant in models with aid split out by income type. The intercept in these models was negative and significant but an *F*-test on the intercept + Cold War was not significant, indicating a downward trend in aid effort in the post-Cold War period. The fixed effects models tell a similar story. The coefficient here was positive and significant for total, multilateral, and LDC/OLIC aid. The coefficient was generally negative but insignificant for LMIC/OLIC aid. Average aid effort during the Cold War was higher, but this difference appears mostly concentrated in aid to multilaterals and poorer developing countries.[12]

7.1. Substantive effects

I now consider the substantive impact of the economic ideology variables for each aid category. To calculate substantive effects I use the following procedure. First, I estimate the first difference model 2 in Tables 1 and 2. Next, I calculate the mean and standard deviation by country for each of the variables in the models. For the differenced variables this represents the average changes in the variables. Then I generated predicted changes in aid effort for each country by using the estimated coefficients, the country specific means, and fixing *ColdWar* to 1.[13] Next, I decreased the change in *GovtIdeo* measure by one standard deviation from the mean level of change for each country while fixing all other variables constant, and once again calculated predicted changes in aid effort. By subtracting this later predicted amount from the former, I obtain a quantity that measures how much aid budgets change when a country's ideology measure changes at an average rate compared to when it changes at in a more *liberal* direction. Finally, I multiply the country specific change in aid effort by the country's mean GDP and divide by 1000 (given the scaling discussed above). The resulting measures represent the increase in aid we should expect if a country's political parties in government changed in an above average liberal direction. Fig. 1 presents these results for total aid for each country. While the substantive impact on commitments/GDP is relatively small, this can still translate into very large sums of money (nearly $750 million increase in total aid from the US) even with relatively small (1 standard deviation) increase in government ideology change.[14] The paper's appendix reports a similar figure using the fixed effect model.

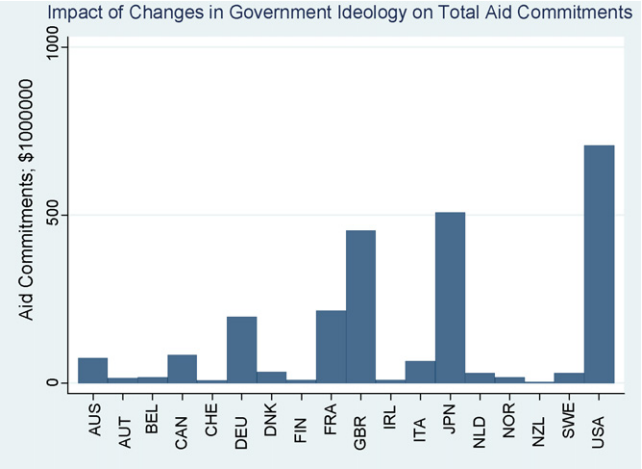

Fig. 1. Impact of changes in governmental ideology on total aid commitments.

8. Conclusion

A common and very robust result in the public opinion literature is that individuals who are more conservative are also less likely to support foreign aid. The literature on legislative voting on foreign aid in the US finds a similar pattern. However, the evidence based on cross-country analyses has been more mixed. This paper presents the first analysis that systematically explores the domestic political determinants of aid behavior over time and *within* countries. I have argued that political and economic variables play an important role in capturing trends in foreign aid. Notably, as governments become more conservative, the share of GDP committed to foreign aid effort declines.

Interestingly, economic ideology appears to matter more for aid to poorer developing countries and multilateral institutions than aid to wealthier developing countries. This is broadly consistent with Fleck and Kilby (2006) who find that more conservative US governments to give more aid to trading partners, while more liberal US governments give more aid to countries needy countries. This also suggests that aid to richer countries could possibly be more about trade or geopolitics.

These results have important implications for how we understand the economic impact of foreign aid. First, changes in domestic political ideology through regularly occurring elections could introduce changes in aid levels, which in turn create volatility in aid. The magnitude of this volatility and its effect is of course an open empirical question. But volatility in aid is an increasingly cited cause of aid ineffectiveness (Arellano et al., 2009; Bulir & Hamann, 2003; Bulir & Lane, 2002; Eifert & Gelb, 2005; Lensink & Morrissey, 2000). However, this literature generally has been silent on the causes of volatility. Insofar as the policy prescriptions from this literature generally seek to limit volatility, a more thorough understanding

[12] I report a series of robustness checks in the paper's appendix. I broke apart the aid categories further, considered alternative measures of ideology, an extended time period, a year trend variable, and included alternative control variables. I also estimate the fixed effects specification with Cold War and post-Cold War time trends, parallel to the first difference specification. I generally found similar results.

[13] Results are similar if *ColdWar* is set to 0.

[14] Simulation results are nearly identical if only a subset of large donors (US, UK, France, Germany, and Japan) is included for estimation of the statistical model and simulations.

of the sources of volatility—for example, donor politics as outlined in this paper—seems worthwhile.

Another contribution is that the analyses show that changes in donor level political variables lead to changes in aid effort that differ across particular types of aid. Hence, governments may have different strategic and economic interests depending on their ideological orientations. Constancy in the international political environment could mask important domestic sources of change in economic and strategic interests. This could have important implications for identification strategies used in the aid effectiveness literature. The results of this paper echo a conclusion laid out by Fleck and Kilby (2006, p. 220) "(o)ur results point to an important caveat for those attempting to instrument for aid with political variables: the political circumstances in donor countries are likely to affect not only the amounts of aid to developing countries, but the *motivation* for providing that aid—including the extent to which aid is focused on reaching development objectives. Thus, political variables may instrument, in part, for the purpose of aid. And the purpose of aid will likely influence the effects of aid on development" (see also Fleck & Kilby 2008; Kilby & Dreher 2009). As a result of changes in aid motivation, the strength of instruments may change over time, as could the satisfaction of the exclusion restriction. Treating country interests as though they are fixed and independent of domestic politics leads to faulty assumptions in attempts to solve endogeneity problems in the analysis of the relationship between aid and growth.

While domestic ideological factors appear to influence aid effort, undoubtedly other ideological and structural factors can influence commitment decisions. For example, the literature argues that there may be some externalization of 'moral' beliefs (Lumsdaine, 1993). While my analysis controlled for domestic welfare state policies, changes in the debate about the morality of aid might influence aid effort. For example, consider the recent warming to foreign aid from conservative Republicans in the United States. Pundits and scholars attribute this fact to changes in moral agendas of Evangelical Christian groups that have come to see foreign aid to poor countries as an important function of government (Busby, 2007). Geo-political and security concerns could overwhelm otherwise salient ideological positions, as could international influence following broader consensus across donors (Lumsdaine, 1993, p. 140). It will be an interesting empirical question over the next decades to see if other changes at the international level have an effect on the type of political coalitions in donor countries that support foreign aid.

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