



Geopolitics, Aid and Growth

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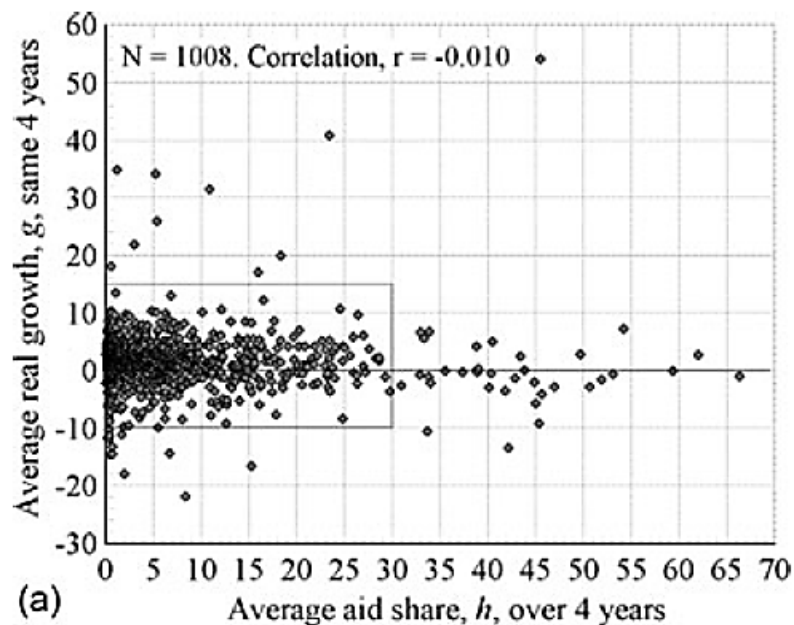
IPES Claremont, 25th of October, 2013





Is development aid effective?

- The aid effectiveness literature
 - Highly emotional debate, researchers divided in camps
 - Which aid can be considered development aid?
 - Clever identification strategy needed



(a)
Source: Doucouliagos and Paldam (2009)



Identification strategies

- Literature so far mostly instrumented aid
 - “Black box“ GMM unreliable as an instrument (Bazzi and Clemens 2010)
- Do motives matter? Implicit homogeneity assumption
 - Is politically motivated aid different?

- How to identify politically motivated ODA?

Temporary UNSC membership

- Quasi-exogenous variation (Dreher, Gould, Rablen and Vreeland 2012)
- Increases in **US Aid** (Kuziemko and Werker 2006), **IMF** (Dreher, Sturm and Vreeland 2009), **World Bank** (Dreher, Sturm and Vreeland JDE, 2009)...



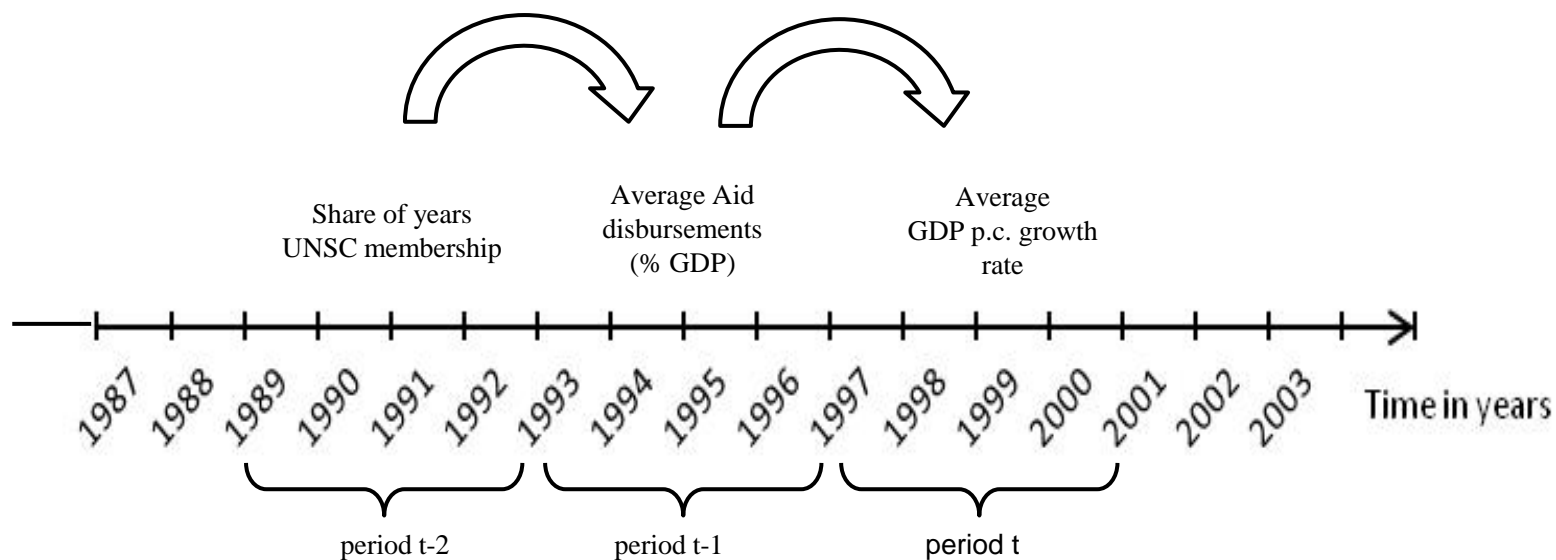
Why should politically motivated aid be less effective?



- Approval of aid projects of lower quality to favored countries
- Reduce donor and recipient country motivation to invest in project success(Kilby 2012, 2011)
- Political favoritism undermines the credibility of conditionality
- Mix of politicians might deteriorate

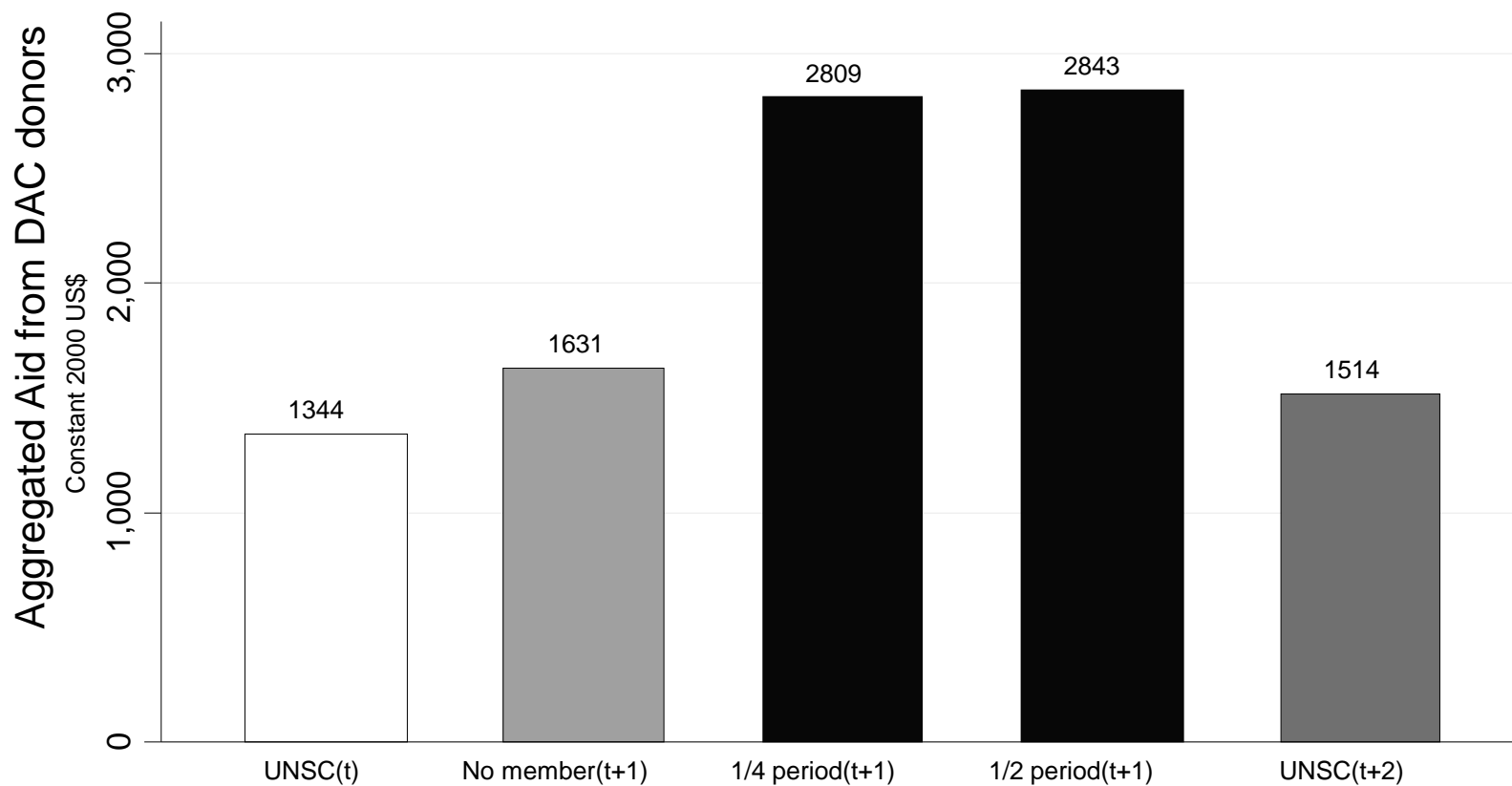


The proposed timeline





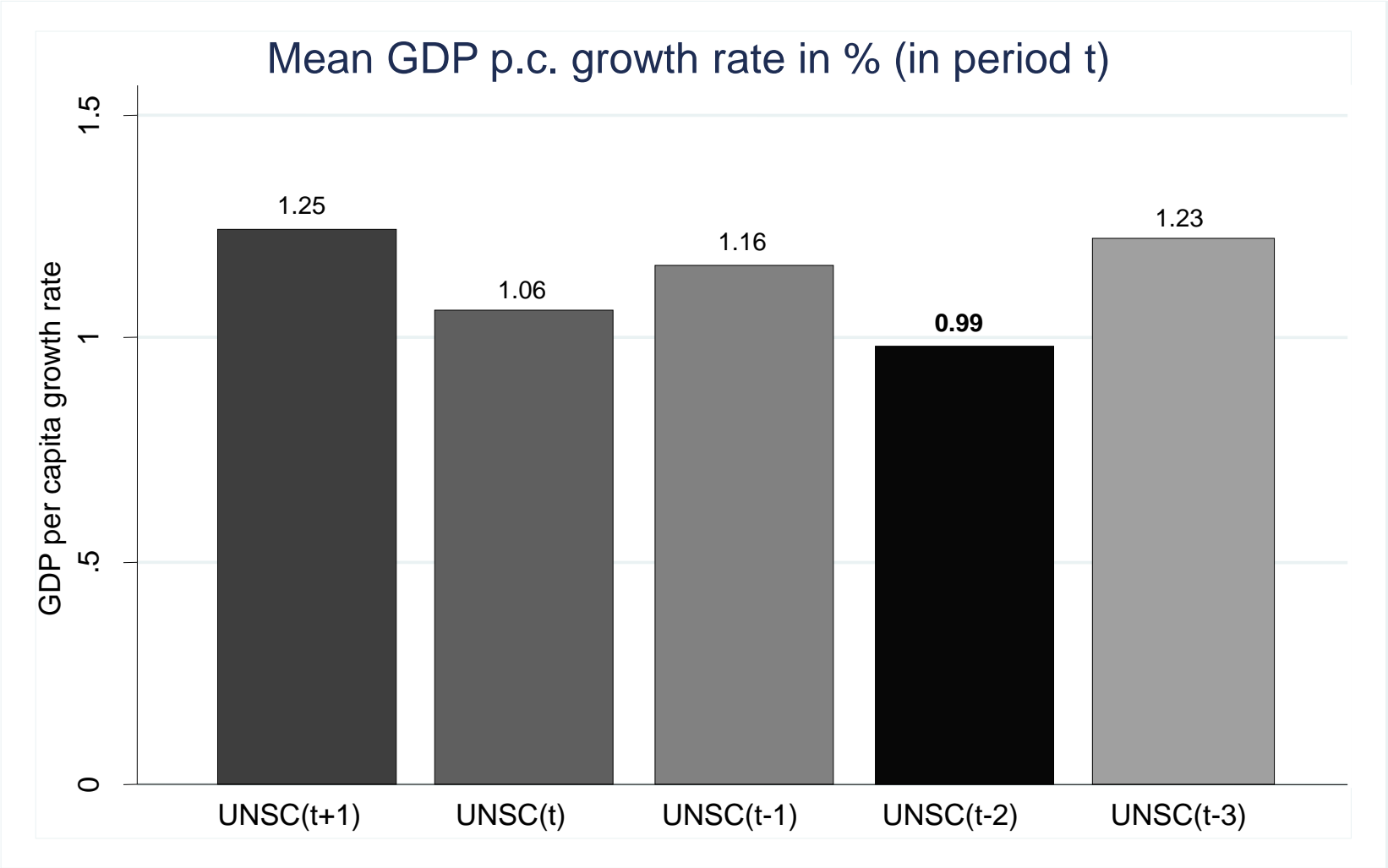
Aid disbursements and UNSC membership



4-year periods, 1959-2009, excluding Russia and China



GDP per capita growth in t and UNSC membership





Data and Method II

- Clemens et al.'s (2011) permutations of Burnside and Dollar (2000, AER) and Rajan and Subramanian (2008)

$$\Delta Growth_{i,t} = \alpha + \beta \Delta Aid_{i,t-1} + \gamma UNSC_{i,t-2} + \delta \Delta Aid_{i,t-1} * UNSC_{i,t-2} + \zeta' \Delta X_{i,t} + \varepsilon_{i,t}$$

- Use lagged rather than contemporaneous aid
- Include aid squared (medicine effect)
- Potential bias AGAINST finding a significant negative interaction
 - Non-UNSC aid is also partly politically motivated
- Consistent estimation of the Interaction Term depends ONLY on the exogeneity of the UNSC term (Nizalova and Murtazashvili 2012, Angrist and Krueger 1999)



Results IV, OLS, BD and RS

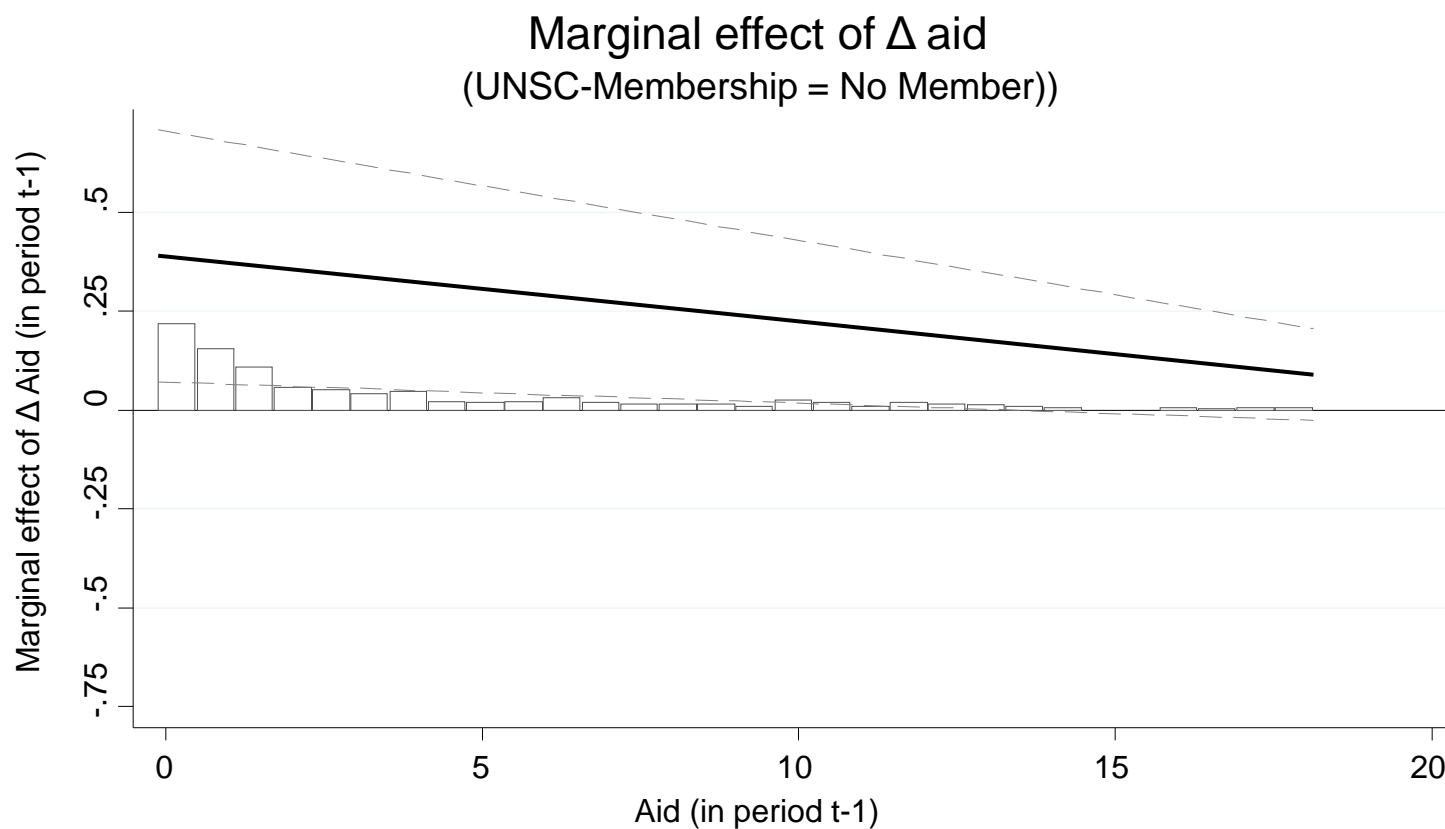
	Burnside and Dollar		Rajan and Subramanian	
	(7)		(8)	
	Coef.	Std. err.	Coef.	Std. err.
Aid (t-1)	0.388**	(0.193)	0.356**	(0.149)
Aid (t-1) squared	-0.008**	(0.004)	-0.007	(0.004)
UNSC (t-2)	-1.709	(1.080)	-0.947	(1.442)
UNSC (t-2)*Aid (t-1)	-1.182***	(0.373)	-1.365*	(0.745)
First difference?	Yes		Yes	
Adj. R-Squared	0.21		0.31	
Number of Observations	323		351	

Included control variables BD: Initial GDP/capita, Ethnic fractionalization, Assassinations, Ethnic fractionalization*assassinations, dummies for Sub-Saharan Africa and East Asia, Institutional quality, M2/GDP (lagged), Policy, and period dummies

Included control variables RS: Initial GDP/capita, Initial policy, (log) Initial life expectancy, Geography, Institutional quality, (log) Inflation, Initial M2/GDP, Budget Balance/GDP, Revolutions, Ethnic fractionalization, and dummies for Sub-Saharan Africa and East Asia



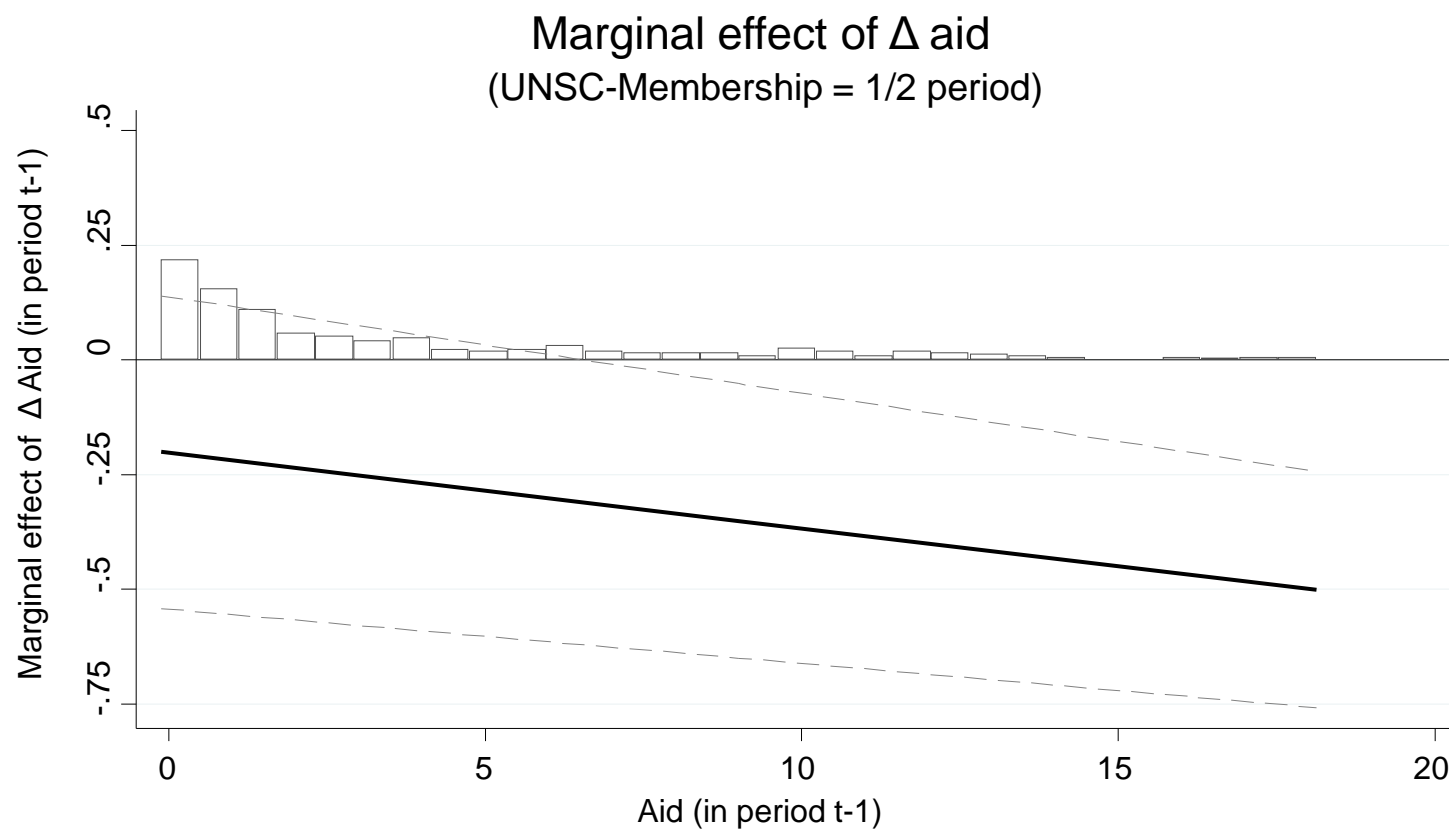
Results II, Burnside and Dollar, column 7, 1970–2005



Burnside & Dollar sample, 4-year periods (95% confidence interval displayed)



Results IV, Burnside and Dollar, column 7, 1970–2005



Burnside & Dollar sample, 4-year periods (95% confidence interval displayed)



Additional tests

- US-aid only
- Effect dominated by “vulnerability“?
- Cold War vs. Post-Cold War period
- Africa only (Results are similar, 50% larger coefficient in BD-sample)
- **Democracies vs. autocracies**
- **Different timing**
- Replicate Bueno de Mesquita and Smith (JCR, 2010)



Conclusions

- Political favoritism comes at the cost of, on average, reduced aid effectiveness
 - Holds in particular in autocratically governed recipient countries
 - (Mostly) holds for Africa
 - Proposed timing seems plausible
- Short-term geopolitical motivated aid is thus less effective - in particular in those places where development is needed most
- Policy implications
 - Decrease political influence on aid allocation to increase its effectiveness
 - **Do not use political motives as instruments in aid effectiveness estimations**

Appendix



The United Nations Security Council (UNSC)



- 5 permanent members with veto power
- 10 elected members (2 year term limits)
 - Nominated by regional caucus, elected by GA
 - Africa (3), Latin America (2), Asia (2), Eastern Europe (1), Western Europe+ (2)
- UNSC votes on UN military action against aggressors and investigating disputes
- Decisions require 9 votes (5+4)



Why bribe/reward UNSC votes?

- Voting power? **Unlikely**
 - O'Neill (1996) shows that the cumulative voting power of temporary members is less than 10% (only 4 out of 10 non-perm votes necessary)
- Supermajority? **Possibly**
 - Vote-buying literature shows that over-sized coalitions tend to be established
 - Pursuing unilateral action is more expensive than buying insurance votes
- Legitimacy? **Possibly**
 - "UN Security Council support significantly increases the rally behind the president (by as many as 9 points in presidential approval)..." (Chapman and Reiter 2004)



Anecdotes...?

- Yemen – UNSC member 1990-1
 - Voted against Desert Storm – a U.S. representative was overheard declaring to the Yemeni ambassador that it was "the most expensive vote you have ever cast."
 - The US cut 70 millions of dollars in aid





Results VI, 1960-2005, OLS, BdM/Smith

	(1)		(2)		(3)		(4)	
	Coef.	Std. err.	Coef.	Std. err.	Coef.	Std. err.	Coef.	Std. err.
UNSC (t)	-4.044*** (1.286)							
UNSC (t-2)			-0.964*** (0.364)		0.241	(0.853)	3.456** (1.711)	
Aid (t-1)					0.418*** (0.050)		0.451*** (0.076)	
UNSC (t-2)*Aid (t-1)					-0.224*** (0.076)		-0.371*** (0.117)	
Sample	all		all		all		Africa	
Country Fixed Effects	No		No		No		No	
Region Fixed Effects	Yes		Yes		Yes		Yes	
Year Dummies	Yes		Yes		Yes		Yes	
Regional Trend Variables	No		No		No		No	
Adj. R-Squared	-0.09		-0.06		-0.05		0.01	
Number of Observations	3247		4383		3203		1185	

Included control variables: (log) population size, (log) per capita GDP, the level of democracy and its interaction with UNSC membership



Different timelines

	Burnside-Dollar (1)		Rajan-Subramanian (2)		Bueno de Mesquita-Smith (3)	
	Coef.	Std. err.	Coef.	Std. err.	Coef.	Std. err.
Aid(t) * UNSC(t)	-0.388	(0.466)	0.074	(0.351)	0.05	(0.076)
Aid(t) * UNSC(t-1)	-0.253	(0.344)	0.014	(0.660)	-0.042	(0.115)
Aid(t) * UNSC(t-2)	0.196	(0.193)	-0.217	(0.505)	0.02	(0.101)
Aid(t-1) * UNSC(t-1)	-0.032	(0.400)	0.479	(0.558)	-0.167***	(0.056)
Aid(t-1) * UNSC(t-2)	-1.182***	(0.373)	-1.365*	(0.745)	-0.024	(0.077)
Aid(t-2) * UNSC(t-2)	-0.021	(0.446)	-0.104	(0.338)	-0.048	(0.090)

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

“Burnside-Dollar” regressions include Initial GDP/capita, Ethnic fractionalization, Assassinations, Ethnic fractionalization*assassinations, dummies for Sub-Saharan Africa and East Asia, Institutional quality, M2/GDP (lagged), Policy, and period dummies. “Rajan-Subramanian” includes Initial GDP/capita, Initial policy, (log) Initial life expectancy, Geography, Institutional quality, (log) Inflation, Initial M2/GDP, Budget Balance/GDP, Revolutions, Ethnic fractionalization, and dummies for Sub-Saharan Africa and East Asia. “Bueno de Mesquita-Smith” includes (log) population size, (log) per capita GDP, the level of democracy and its interaction with UNSC membership.

All regressions also include the appropriate aid and UNSC variables themselves.