

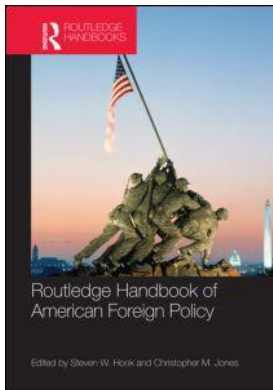
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Foreign Aid

Marijke Breuning and Christopher Linebarger

Foreign aid is one of the most contentious areas of American foreign policy. Aid programs, especially those geared to economic development, were advanced as a critical element of Cold War policy and again during the War on Terror. Throughout this entire period, however, aid met with substantial opposition and policy confusion. Policy-maker opinion is sharply divided between those favoring aid in order to assist development in the countries of the Global South and those favoring the use of aid to advance the policy and security priorities of the United States. This contrast, however, obscures the true aid picture. Aid has been used (often simultaneously) for *both* developmental and diplomatic goals. This dualism is no accident. It is a product of the history of aid as well as the domestic politics of the United States (Lancaster 2007).

This debate is not limited to policy makers. Traditionally, the public has been assumed to be opposed to foreign aid, but opinion polls paint a more complicated picture. The public favors reductions in foreign aid, but dramatically overestimates the amount of aid the United States transfers to developing countries. When asked to set an “ideal” level of aid as a percentage of the U.S. Gross Domestic Product (GDP), the public usually specifies a figure that far exceeds the actual aid budget (Kull and Destler 1999).

Another contentious area is aid’s effectiveness. Cold War era literature held that development aid could improve savings rates and spur capital investment (Rostow 1956, 1960), while more recent authors have argued that aid instead fosters dependence and corruption in the recipients (Easterly 2006; Moyo 2009). Others recognize that aid has a poor track record of fostering development, but suggest that under the right political and economic circumstances aid can contribute to development (Burnside and Dollar 1997, 2000; Collier and Dollar 2002). These studies have influenced recent U.S. foreign aid policy making and therefore warrant attention within the scope of this chapter.

In short, foreign aid is characterized by political arguments about its purposes, misperception by the domestic public, and scholarly debate about its potential. This chapter starts with some definitions, then provides an overview of the main findings and areas of investigation in foreign aid, after which it will discuss the enduring debates in the politics of U.S. foreign aid. The chapter concludes with a brief statement regarding the enduring questions and future potential of foreign aid

What is Foreign Aid? Some Definitions

The foreign aid provided by the United States serves a variety of purposes and is delivered through a variety of channels. Aid can be delivered bilaterally, such as directly from the U.S. government to the recipient state's government, or it can be delivered through international organizations. In the latter case, the United States provides funds to international organizations that, in turn, use the money for their various programs. This type of aid is called multilateral aid and is usually handled through the U.S. Department of Treasury. Bilateral aid serves a variety of purposes, which are often summarized as: humanitarian and/or emergency assistance, development assistance, economic assistance in support of U.S. political and security objectives, and military assistance. This last form of assistance is administered primarily through the Department of Defense (DoD) and generally not included in discussions of foreign aid.

Development assistance, the focus of this chapter, is designed to create sustainable economic and social progress. Evaluating the performance of U.S. foreign aid is complex, because it is difficult to disentangle the purposes of the various forms of bilateral aid. Most of the bilateral aid is managed by the U.S. Agency for International Development (USAID). Though USAID takes the lead, there are several other government agencies that play a role in U.S. foreign aid (Tarnoff and Nowels 2005; see also Nowels and Veillette 2006). These actors include the Peace Corps, the Trade and Development Agency (TDA), and the Overseas Private Investment Corporation (OPIC). In addition, there are a couple independent agencies that also distribute U.S. aid, such as the Inter-American Foundation (IAF) and the African Development Foundation (ADF). In 2004, the U.S. government created its newest development agency, the Millennium Challenge Corporation (MCC), which has been described as the "the most significant structural change in U.S. foreign aid since the passage of the Foreign Assistance Act in 1961" (Hook 2008: 148).

Collectively, the various development assistance programs make the United States the largest single foreign aid donor in terms of dollars, as it has been for most years since 1960, as the comparison with other major donors in Figure 25.1 shows. In 2008, U.S. foreign aid amounted to \$26,842 million, almost twice as much as the next largest donor (OECD 2009).

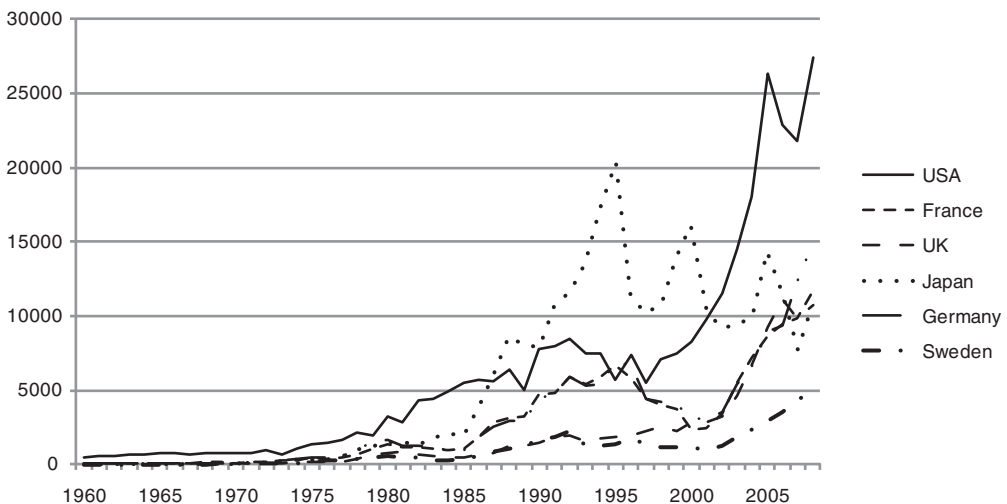


Figure 25.1 The Official Development Assistance (ODA) of the United States and Other Major Donors, 1960–2008 (in constant dollars, 2007=100).

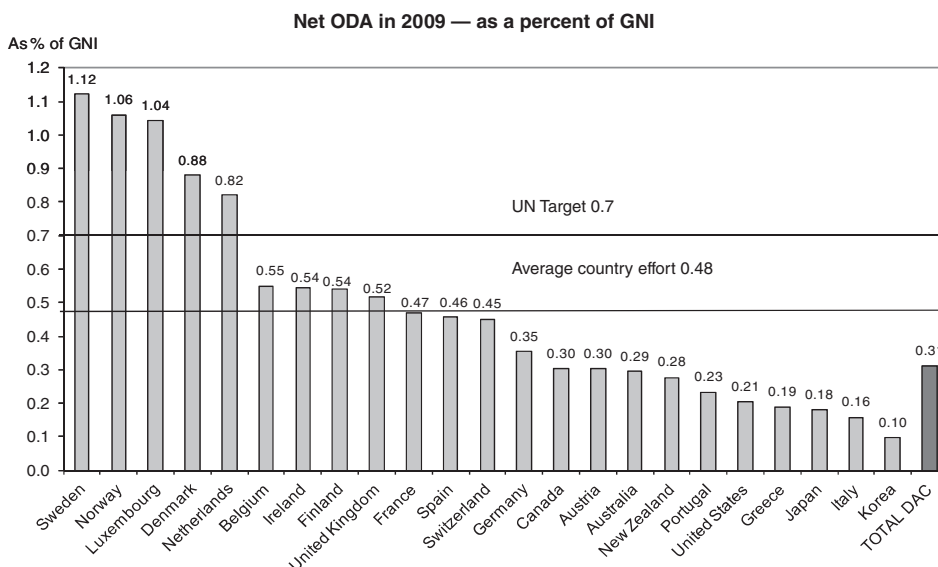


Figure 25.2 Comparison of U.S. Official Development Assistance (ODA) as a Percent of Gross National Income (GNI) with the Other OECD Donors for 2008. Source: OECD 2009 (online statistical annex).

In recent years, China has emerged as a major donor that some sources estimate to rival the U.S. aid performance in terms of dollars (Lum et al. 2009).

Measured as a proportion of Gross National Income (GNI), however, the United States ranks as considerably less generous (Lancaster 2000, 2007; Tarnoff and Nowels 2005). As is shown in Figure 25.2, the United States ranks among the stingiest aid donors in 2008 (OECD 2009). Data from other years would show similar results. When measured as a proportion of the government budget, U.S. development aid does not look much better: it amounted to 0.9% of the federal budget in 2004 (Tarnoff and Nowels 2005).

Foreign Aid Literature

The earliest literature provided the justification for aid. The first such effort was the Harrod-Domar model of development (Harrod 1939; Domar 1946). Harrod-Domar, a precursor to the exogenous theory of growth, argued that the capital-output ratio of a country's economy was stable over the long term. Therefore, countries with a higher capital requirement relative to economic output required foreign investment in order to attain the growth rates enjoyed by countries with lower ratios. This model became the dominant paradigm in development economics and was used by advocates to argue that such aid would lead to growth in poor countries (Riddell 1987, 2007).

During the 1960s, aid theory underwent a major renovation. Rostow (1956, 1960) proposed a liberal counter to the communist theory of staged development. Like the Marxists, Rostow saw development as proceeding through a number of stages, but for him the most important stage was "take-off," which incorporated the Harrod-Domar argument and assigned a significant role to foreign aid. In essence, foreign aid could be used to raise the rate of domestic savings and so accelerate growth. After take-off was achieved, growth would become self-sustaining and a country might "graduate" from aid.

Building from these models, Chenery and Strout (1966) proposed one of the most comprehensive justifications for aid. These scholars posited the so-called "two-gap" model,

which proposed that there are bottlenecks at different stages of development. Capital in the form of aid or investment could fill the “gap” in savings. Furthermore, if the import-export gap is too great, then development might be inhibited. Foreign aid would provide the solution. While this logic is largely economic, it had a powerful influence upon political science as well. At the time, the main model of political and economic growth was modernization theory, which argued that as societies developed, they underwent a transformation toward greater complexity and specialization (Lipset 1959).

This model of growth has long been criticized. Morgenthau (1962) argued that aid was unlikely to work in many states and Huntington (1968) argued that rapid economic growth in countries with weak states was likely to create political instability. Indeed, when growth failed to occur, modernization theory was cast off. Still, Chenery and Strout (1966) stood as the major justification for aid, although Easterly (2003) provided a powerful critique, noting the growth in aid and the concurrent collapse of economic growth rates in Africa.

Effectiveness of Aid

The evidence regarding aid’s impact on economic development has long been a point of contention. Research arrived at conflicting conclusions and critical studies eroded the justification for aid. For example, Boone (1995, 1996) concluded that aid had no significant impact on growth and instead financed wasteful public consumption.

It was in this context that researchers at the World Bank (Burnside and Dollar 2000; see also Sachs and Warner 1997) published an enormously influential article that found that aid actually did have a positive effect on growth, but only in a “good policy environment” in which inflation was minimal, institutional quality was high, and openness and budget surpluses were present. Subsequent work (Collier and Dollar 2001, 2002; Sachs 2005) further supported these findings, arguing that aid could cut global poverty in half by 2015. These studies became influential in international policy-making circles, ranging from organizations such as the OECD and the United Nations (UN) to the U.S. government. This work would become the basis for aid reforms at the turn of the century, including the UN’s Millennium Development Goals and the U.S. Millennium Challenge Corporation.

However, not everyone agrees with the conclusions of Burnside and Dollar (2000). Easterly (2003, 2006) and Easterly, Levine, and Roodman (2003) found the indicators for policy environment to be insignificant both in studies with the exact same regression analyses, but with expanded data and alternative weights and specifications. Indeed, according to Easterly and his coauthors, aid actually inhibits development by causing dependency, corruption, and rent-seeking. Easterly charges that “the policy community chose to believe the finding that was most favorable to the aid policies it wanted to implement” (2006: 46). Whether true or not, different studies have led to diverging conclusions on the merits of aid, and some studies have been more influential among policy makers than others.

Who Gets Foreign Aid and Why?

It has long been recognized that foreign aid is tied up in political ends and means. Morgenthau (1962) called aid a bribe. As such, aid is inherently interesting to foreign policy analysts. Meernik, Krueger, and Poe (1998) called foreign aid a “microcosm” of international relations. While aid generally constitutes a small portion of the foreign affairs budget of countries, especially in the United States, it can illuminate policy priorities (Schraeder, Hook, and Taylor 1998). The literature commonly divides donor state motives into two models: “donor

interest,” in which donor political and security motives drive aid, and “recipient need,” in which developmental and humanitarian motives drive aid (McKinlay and Little 1979).

Lai (2003) presents a somewhat different perspective and identifies three theoretical paradigms: realism, domestic liberalism, and American exceptionalism. The first argues that security and strategic concerns govern U.S. aid allocation, a conclusion backed by a number of studies (Meernik et al. 1998; Poe 1991, 1992; Poe and Meernik 1995). The liberal perspective holds that aid policies are governed by domestic pressure groups, especially those in business and industry, causing the United States to promote free market economics and policies that assist domestic companies in penetrating foreign markets (Cingranelli and Pasquarello 1985; McKinlay and Little 1979; Meernik, et al. 1998; Poe and Meernik 1995). Finally, the exceptionalist argument holds that the United States sees foreign policy as a way of promoting liberalism abroad (Huntington 1982), causing aid to be diverted into the development of liberal economics and politics (Cingranelli and Pasquarello 1985; Carleton and Stohl 1987; Meernik et al. 1998).

Three studies stand out as overall tests of aid as a microcosm of international relations: Meernik et al. (1998), Schraeder et al. (1998), and Alesina and Dollar (2000). Alesina and Dollar test the overall aid picture and find that respect for human rights in the recipient state is statistically insignificant and that recipient democracy is of marginal significance. The single greatest predictors of aid are strategic concerns, especially the recipient’s post-colonial relationship with the donor. Schraeder et al. (1998) test the determinants of aid to Cold War Africa of the 1980s from four donors: the United States, Japan, France, and Sweden and find somewhat more complicated results, with the United States providing aid to states that were strategically important and economically liberal, Japan aiding capitalist states, Sweden aiding states that mirrored its progressive domestic programs, and France engaging with Francophone states. Finally, Meernik et al. (1998) find that security concerns remain paramount in the U.S. post-Cold War aid policies, although human rights and democratization also play a role.

The next sections delve further into several specialized areas of the foreign aid literature. Researchers have been particularly interested in the political uses of aid, as well as impact of the recipient’s human rights record and progress towards democratic governance.

The Political Uses of Aid

One of the inescapable conclusions in the foreign aid literature is that states often act contrary to their rhetoric, ignoring human rights and democracy, content instead to use aid to achieve political means and ends. Meernik et al. (1998) and Schraeder et al. (1998) place special emphasis on U.S. security goals. As such, it is not surprising that studies have found that the U.S. aid program does not favor relatively less corrupt governments (Alesina and Weder 2002). This state of affairs occurs not because the United States deliberately favors corruption, but because other considerations, such as political and strategic interests, take priority.

Other studies have sought to ascertain how effective foreign aid is as a political instrument. An important line of inquiry asked whether aid recipients vote with the United States in the UN. Early research into this question yielded inconsistent results. However, in 1986 the Reagan administration initiated a policy that explicitly linked foreign aid to the recipient’s voting record in the UN, where U.S. diplomatic influence was seen as being in decline. Third World states, many of them recipients of U.S. aid, often voted contrary to the U.S. position. Interestingly, Kegley and Hook (1991) found that recipient state congruence with the United States actually declined after the policy was enacted. They suggested that reality might be due to the competing interests recipient states face—deference comes at a price. Furthermore, when the United States threatens to withhold aid, the loss may be insufficient to compel new behavior.

However, Wang (1999) notes that few studies have disaggregated UN votes by type. Few votes are important enough for the United States to expend scarce resources. When considered in this manner, Wang (1999) finds that the United States has effectively deployed aid to influence UN votes on matters of national importance. Such findings are congruent with Kuziemko and Werker (2006), who note that a country's U.S. aid increases a full 59 percent when it rotates onto the UN Security Council.

Human Rights

The Carter administration's emphasis on human rights led researchers to ask whether U.S. aid was used to reward recipients that improved their human rights policies and records—and to punish those that did not. After President Ronald Reagan came into office, analysts asked whether aid decisions had returned to a *realpolitik* model (Shoultz 1981; Cingranelli and Pasquarello 1985; Lebovic 1988; Poe 1992; Apodaca and Stohl 1999).

Schoultz (1981), one of the earliest studies in this area, found that U.S. aid in Latin America was disproportionately awarded to states that abused their citizens. As is the case with many initial studies, Schoultz's work contained flaws (Poe 1990). Carleton and Stohl (1985, 1987) dramatically improved the operationalization of human rights, which they estimated as three separate variables: Freedom House's state terror scale and two ordinal measures created through content analysis of the Amnesty International and U.S. State Department reports. They concluded that "the practice of the Carter and Reagan administrations on foreign aid distribution has been remarkably similar. Neither administration has acted in accordance with the established human rights legislative package ... Decisions on the distribution of United States foreign assistance continue to be made with interests other than human rights in mind" (Carleton, Stohl, and Johnson 1984: 227).

The seminal study in the quantitative study of human rights and foreign aid, however, was Cingranelli and Pasquarello's (1985), the first to introduce multiple control variables. Just as important, the study claimed that U.S. aid decisions with respect to human rights were made in a two-stage process. In the first, "gatekeeping" stage, decisions as to which states are to receive aid are made. Developed states are typically excluded and human rights records are not considered. In the second phase, "allocation," aid amounts are decided, with those states with relatively enlightened human rights practices receiving a greater proportion. This model of aid was used widely in all subsequent literature, driven largely by Steven Poe and his co-authors, expanding the scope of study beyond Latin America to the rest of the world and incorporating political, economic, and humanitarian control variables thought to influence U.S. foreign policy (Poe 1991, 1992; Poe and Tate 1994; Poe and Meernik 1995; Meernik et al. 1998; Apodaca and Stohl 1999). This body of literature has largely confirmed the conclusions reached by Cingranelli and Pasquarello (1985), but also modified our understanding of the impact of aid on human rights.

Democracy Promotion

Although the promotion of democracy accounts for only a small proportion of total development assistance, USAID has been quick to take credit for democratization around the world. Aid can assist democratization in two ways: through direct assistance of democracy related programs, such as election support (Carothers 1999), and through conditionality. The former directly assist in building institutions, the latter provides aid only if the recipient government either promises to improve human rights and civil liberties (Knack 2004) or has

already made such improvements. The latter approach is reflected in the MCC and based on the influential study by Burnside and Dollar (2000).

Not all scholars agree that aid *can* influence progress towards democracy. Friedman (1958) argued that aid to governments strengthened the public sector at the expense of the private economic sector. This matters because, in this view, growth is less likely to occur when economic activity is organized by the government. Others have argued that democracy emerges as citizens who pay taxes demand accountability from their government (Tilly 1990). Aid is said to reduce the demand for this accountability, thus retarding democratization. This argument has received renewed attention as the focus has turned to aid as a source of dependency (Muller 1985; Easterly 2006; Moyo 2009) and the attendant lack of government accountability to its own citizens (Karl 1997). Rather than facilitating democratization, aid may in fact sustain dictatorship (Morrison 2009) or increase the value of control over the government to potential coup plotters or rebels (Grossman 1992). Such arguments resemble those of the resource curse and the rentier state.

A number of studies have tested democracy's relationship to aid. Such work consists largely of case studies (Crawford 1997; Carothers 1999), a few quantitative studies (Goldsmith 2001; Knack 2004; Scott and Steele 2005; Finkel, Pérez Liñan, and Seligson 2007), and several works of advocacy (Diamond 1999; Carothers 1999, 2004). Advocacy argues that in light of the Cold War's end, the United States is now free to pursue a policy of democracy promotion abroad, although critics have suggested that it is often hampered by a "one size fits all" mentality and an ideology that asserts the inevitability of democratic transitions (Carothers 1991, 1996).

The limited quantitative work in this field offers mixed conclusions. Knack (2004) finds that aid does not influence democratization, while Scott and Steele (2005) find that aid from the National Endowment for Democracy (NED) is primarily diverted toward autocratic regimes. Finkel et al. (2007) find that U.S. aid directed into specific programs (such as electoral support) does have a positive effect.

As the above discussion suggests, the mixed results of existing scholarship does not provide straightforward guidance for policy makers. As a result, policy makers have often had the freedom to rely on scholarship that helped bolster their own preferences.

Enduring Policy Debates

The history of U.S. foreign aid is best characterized as dualistic. Diplomatic and security objectives compete and clash with development, economic assistance, and poverty reduction. Some argue that the United States should focus on the poorest states and people, without regard for their human rights records or progress towards democracy. Others argue that such principles be taken into consideration and that aid is more likely to be effective in the context of good governance. In many ways, this conflict reflects the broader picture of U.S. foreign policy. Aid is, then, a microcosm of foreign policy, with realism and idealism constantly vying for dominance but never quite achieving it.

Early Policy Debates

The history of development assistance in American foreign policy is traditionally traced to the aftermath of World War II (Hook 1995; Ruttan 1996). Of course, there are earlier precedents. In the 1930s the U.S. Department of Agriculture was funding agricultural research in Latin America. The United States also gave substantial military aid to the Allied powers during both world wars. The most famous example was the Lend-Lease program. Most of the early

aid was not, however, of a governmental character. Humanitarian aid was left to churches and charities (Riddell 1987, 2007; Lancaster 2007).

New U.S. security goals after World War II led to a series of programs and, eventually, aid for development. When Great Britain announced in 1947 that it could no longer afford to battle communist advances in Greece and Turkey, the Truman administration managed to sway a fiscally conservative and isolationist Congress to its side and promulgate aid programs for war-ravaged Europe. Such programs were seen as essential in aiding faltering governments and economies, and in reducing the appeal of communist revolution. The most famous of these programs was the European Recovery Program, more commonly known as the Marshall Plan (Ruttan 1996; Lancaster 2007). Scholars and policy makers touted the success of the Marshall Plan, and advocates of development aid held it up as an example of a successful aid program (Lancaster 2007; Riddell 1987, 2007).

The basis for multilateral aid was also established during this time, most prominently at Bretton Woods in 1944. Although the Bretton Woods institutions (the International Monetary Fund and the World Bank) were originally established to aid European reconstruction after the destruction of World War II, the quick European reconstruction, American concern that multilateral aid was going to the Eastern Bloc, and dominance of bilateral aid caused the World Bank to shift its emphasis toward development of the poorer states (Riddell 1987, 2007).

Although the Marshall Plan is referenced most often as the precedent-setting policy for U.S. foreign aid (Packenham 1973; Wood 1986; Eberstadt 1988; Lumsdaine 1993; Zimmerman 1993; Hook 1995), the American commitment to assistance for economic development is more appropriately traced to the Point Four program (Clifford 1991; Ruttan 1996; Breuning 2003). This program, announced as the fourth point of Harry Truman's 1949 inaugural address, led to the Act for International Development and the creation of the Technical Cooperation Agency (TCA) in 1950. TCA has been called the "godfather to a host of American foreign assistance programs, including the Peace Corps, which followed in the next four decades" (Clifford 1991: 248), even though it can also be characterized as "enlightened, if modest" (Ruttan 1996). Although TCA continued to exist in some fashion for a number of years, it was placed under the umbrella of the Mutual Security Agency (MSA) in 1951—and largely overshadowed by it—as development assistance became increasingly linked to Cold War and security concerns (Ruttan 1996). Throughout most of the 1950s, security concerns remained far more important than economic development.

As much of U.S. foreign aid was dedicated to the maintenance of Cold War alliances, development aid was given comparatively little attention. Such aid that existed was administered by a plethora of departments and mainly concentrated on short-term goals and crises. A number of events changed this perspective. Foremost among them was the Cuban revolution, which raised the specter of similar revolutions diffusing throughout Latin America. Decolonization also spread Cold War tensions across the entire world. Many of the new countries were underdeveloped, and it was thought that their poverty would increase social tensions, thus making communism a more attractive alternative. U.S. aid was seen as a means to spur development, thereby reducing societal tension and communism's appeal. This shift in foreign aid emerged as an issue during the 1960 presidential election.

In this context, the Kennedy administration instituted the Alliance for Progress and the Foreign Assistance Act (FAA). The aim of these programs was to shift aid away from political and military affairs and to foster rapid economic growth and modernization. The Alliance for Progress was intended to spur economic development within the Americas. In theory, the Latin American states were to conduct economic reforms and formulate development plans, and in exchange the United States would provide large infusions of foreign aid. Unfortunately, Latin American countries proved to be less willing to adopt the proposed reforms, and President Kennedy's successors were less enthused with the program. In addition, the total

aid provided, though large in gross terms (\$20 billion), was actually quite small in per capita terms. Moreover, throughout the 1960s, many Latin American governments were overthrown and replaced with juntas. For these reasons, the Alliance for Progress was widely seen as a failure (Taffet 2007).

The Foreign Assistance Act (FAA) of 1961 enjoyed considerably greater success. It consolidated the many aid programs that sprouted during the 1950s under the new U.S. Agency for International Development (USAID). Special effort was made to finance balance of payments issues and provide for investments in infrastructure and education. Large amounts of aid were also routed to Southeast Asia, where the United States found itself involved in an escalating military conflict. That same year, the UN declared the 1960s to be the first “Development Decade.” Various regional development banks were established, aid flows doubled and “the institutional basis of the contemporary aid regime was established” (Hook 1995: 25).

Aid for Security Versus Aid for Poverty Alleviation

The 1970s were the era in which development, poverty reduction, and humanitarian aid, so-called “basic human needs,” became ends in and of themselves, rather than simply as a means through which to battle communism. In the late 1960s, skepticism of aid’s potential arose as various reports emerged showing that the “Development Decade” had failed. Even as aid exploded in Southeast Asia, U.S. assistance to the rest of the world trended downward into the mid-1970s. Under both the Johnson and Nixon administrations, reports were produced calling for the United States to route its aid to multilateral institutions. Although the United States did increase its contributions to multilateral institutions, congressional support was still low. In 1971, liberal lawmakers unhappy with the proportion of aid that went to military purposes allied with conservatives opposed to aid in its entirety and voted down the U.S. aid budget. Faced with a need to rally Congress behind a justification for aid, the Nixon administration took up a moral cause. Aid was to be used to directly combat poverty and unemployment. This emphasis coincided with a new movement at the World Bank and the International Labor Office that suggested aid should be used to fund primary education, health care, and agricultural development. In 1973, Congress shifted the primary focus of its aid policies from growth to “basic human needs.” These trends were magnified by several well publicized droughts and famines in Africa and elsewhere (Riddell 1987, 2007; Lancaster 2007).

Despite this focus on humanitarian aid, the diplomatic objectives of aid were also reinforced during this era. After the 1973 Arab–Israeli War, the United States began routing aid to Israel and Egypt in order to bring those two states to the negotiating table. Peace between these countries was important for the United States because of the affinity many Americans felt for Israel, as well as the need to reduce Soviet influence in a critical region of the world. Egypt and Israel quickly became the largest single recipients of U.S. foreign aid (Lancaster 2007).

By the time Jimmy Carter attained the presidency, aid had become fully dualistic, serving both humanitarian and diplomatic goals. There were several major efforts at reform during the Carter years, the most important of which was a new emphasis on the respect for human rights in the recipient country. Disgruntled with the military objectives of aid in Southeast Asia, and with the realpolitik paradigm governing the Nixon–Ford foreign policy, Carter and his supporters argued that human rights were to be a central tenant of U.S. policy. This effort successfully produced an amendment to the U.S. Foreign Assistance Act that explicitly conditioned aid upon the respect of human rights within recipient states (Lancaster 2007).

Ronald Reagan became president in 1981, a period of intense re-evaluation. As a result of the oil shocks and stagflation of the 1970s, politicians and economists identified over-large government and balance of payment issues as the source of economic dislocation. Developing countries, which had increasing difficulty meeting their debt obligations, were confronted with these ideas in the form of “structural adjustment.” Structural adjustment policies conditioned further aid upon a negotiated set of solutions that generally aimed to shrink the government bureaucracy and reduce government intervention in the economy. Recipient states often agreed to institute such policies because they frequently included forgiveness of a portion of debt, rescheduling payments on the remainder, and access to new aid (Szirmai 2005).

As one of the most conservative men to attain the presidency, Reagan campaigned on removing human rights from the aid program and re-emphasizing security, as well as curtailing aid to balance the budget. The argument went that Carter’s policies actually enforced a double standard—condemning human rights abuses on the one hand while ignoring greater abuses in the Soviet Union. However, U.S. aid actually expanded during the 1980s for three reasons. First, the United States found aid an extremely useful tool for battling communist advances in Central America, especially in Nicaragua. Second, high-profile food crises and droughts continued in Africa, resulting in public pressure for the United States to offer humanitarian assistance. Third, the 1980s also proved to be a propitious time for democratization, with the so-called Third Wave sweeping the world. The United States was quick to pull support from friendly dictators in decline and to create new programs promoting democracy, such as the National Endowment for Democracy and the Inter-American Center for Electoral Promotion and Assistance (Lancaster 2007).

The Contemporary Debate

The end of the Cold War brought a new set of concerns. The Eastern Bloc was transitioning from centrally controlled economies towards free markets. Many were simultaneously attempting transitions to electoral forms of government. Although most of these countries were not classified as “developing,” but rather as “economies in transition,” they received substantial amounts of aid. During the same period, aid flows to Global South countries diminished. It was not until the UN Millennium Declaration, proclaimed in 2000, that attention once again focused on the growing divergence between rich and poor in the world. AIDS had also become a significant global problem, affecting in particular populations in Sub-Saharan Africa.

Although there were several efforts during the 1990s to reform the Foreign Assistance Act (FAA), Presidents George H.W. Bush and Bill Clinton were not successful in their attempts to revise it. It was not until 2004 that a significant change was achieved, and this was not done by reforming the FAA, but by creating a new and separate agency, the MCC. The MCC resulted from President George W. Bush’s initiative to create a new compact for development, and was announced during a speech at the Inter-American Development Bank in March 2002, just ahead of International Conference on Financing for Development in Monterrey. Instead of reforming the existing foreign aid bureaucracy, the MCC was created as a new and separate entity (Hook 2008). The MCC was created to aid countries that had already committed to market reforms, good governance, and institution building. In setting out these criteria, the MCC explicitly built on the findings of Burnside and Dollar (2000), who concluded that these factors enabled recipient countries to achieve economic growth as a result of aid. Moreover, if foreign aid could lead to economic growth in such environments, it could help to stem the causes of political extremism. Such logic met with widespread approval after the attacks on the United States on September 11, 2001.

It is interesting to note the degree to which foreign aid, a program more often associated with liberal politics, was embraced by George W. Bush. Aside from introducing the MCC, Bush also instituted the President's Emergency Plan for AIDS Relief (PEPFAR). Millions of dollars have already been routed to Sub-Saharan Africa, the result being a largely unsung expansion of U.S. AIDS relief and prevention programs that is likely to be sustained by Obama as well (*Economist* 2009).

In 2009, Barack Obama assumed the presidency on a pledge to double the flow of aid, a pledge that signaled new U.S. foreign policy priorities as well as an effort to repair the American image abroad. Along these lines, the State Department has instituted a Quadrennial Diplomacy and Development Review (QDDR), similar to the Defense Department's own quadrennial review system in order to provide a blueprint for short and long term goals. Aid policy, however, has shown remarkable resistance to all but the most cataclysmic of events. In addition, the most recent recession and financial crisis have resulted in budgetary pressures that limit the growth of aid (*Christian Science Monitor* 2009). In the face of increasing political pressure from fiscal conservatives, the Obama administration is likely to find it nearly impossible to significantly increase the aid budget.

As is apparent from this review of U.S. foreign aid, the direction of policy has been informed by the results of academic research. Scholars in both economics and political science have long studied the factors that lead to economic development, as well as the political uses that donor states have applied to their aid for development. The political use of academic research has not been straightforward, in part because of the often contradictory findings, but also because political interests have often made it difficult to alter policy. For instance, Bush circumvented entrenched bureaucratic interests by creating the MCC as a new, independent agency rather than creating a new program housed in USAID (see, e.g., Lancaster 2007; Hook 2008).

Conclusions and Future Research

Foreign aid remains a contentious aspect of U.S. foreign policy, in which political motives mix with developmental objectives. The top five recipients of U.S. foreign aid are currently Iraq, Afghanistan, Sudan, Egypt, and Ethiopia (OECD 2009). Although three of these countries (Afghanistan, Sudan, and Ethiopia) are classified as "least developed," there are clearly political and geostrategic reasons why these five countries rank so highly among the beneficiaries of U.S. aid. Perhaps this is unavoidable. After all, foreign aid is an instrument of foreign policy. Even in its most benevolent form, it is not politically neutral but an aspect of a diplomatic relationship.

Despite the influence of some studies (such as Burnside and Dollar 2000) on policy making, there is as yet very little consensus about how to best use foreign aid to foster development, under what circumstances it has the best chance of improving human development, if—and how—it might foster democratization and better respect for human rights, and whether aid helps make friends—or generates "soft power." Even if Burnside and Dollar (2000) are correct that aid supports development best in countries that have already made commitments to a free market, good governance, and building strong institutions, and even if the MCC can successfully support economic growth in countries that meet its criteria, there are many states in the Global South who have not yet made such commitments. Can foreign aid play a role in ensuring that those countries experience economic growth rather than a descent into chaos? Past research does not provide much guidance on this issue.

As has been amply demonstrated by the various studies cited in this chapter, foreign aid has often served multiple masters simultaneously—and generally pleased none. Economists have often been disappointed at the lack of economic growth and progress on human development

indicators. Some political scientists, too, worry about the gross inequalities—and their potential consequences—that define our world, whereas other political scientists stress the bluntness of aid as a tool of statecraft. Policy makers share many of these worries and misgivings about foreign aid, yet are often persuaded to continue aid programs as a hedge against the dangers that lurk in our insecure world.

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