Illuminating the Obscurity of U.S. Foreign Aid Distribution: 
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Although it has become widely accepted that foreign aid is an indispensable component in United States foreign policy, the motivations for such provisioning remain controversial. Most assume that it is utilized in the promotion of human rights, economic development, and democracy.1 However, varied research disproves the effectiveness of such policies in attaining these objectives.2 Other research, which studies the motivations for the provision of foreign assistance, demonstrates that donor interests outweigh those of the recipient.3 Even so, the results remain inconclusive or dated. Under the confines of limited time series and perhaps a bias for models of imperialism or security, most studies evaluate similar periods and conclude correspondingly, finding that the primary motivation for the distribution of foreign assistance is the security concerns of the donor country. The realist paradigm, emphasizing the importance of hegemonic order and security concerns that pervades most foreign aid literature, seems to seek solely to disprove the notion that aid is recipient oriented, while subordinating and failing to consider exhaustively the role of economic interests. Has the role of economic interests been understudied by past political scientists, and if so do economic interests also shape foreign aid policy? Or is the provision of foreign assistance driven solely by security concerns as past research contends? I seek to investigate whether a far more inclusive time series data set may prove that economic interests do in fact play a motivating role, along with security concerns.


Literature Review

A number of political scientists venture to consider the determinants of foreign aid and in doing so form differing models. Some choose to focus primarily upon one motivation, while others choose to investigate different motivations comparatively. Most studies elucidate the notion that recipient interests are secondary to those of the donor, and that the relationship between foreign aid and humanitarian objectives is negligible if not a negative one. Therefore, it appears imperative to first discuss the research that notes the insignificance of such altruistic motivations. Subsequently, studies that are more inclusive, which primarily test tripartite models that consider security, economic and humanitarian concerns, are discussed along with their shortcomings.

Schoultz’s article, “U.S. Foreign Policy and Human Rights Violation in Latin America: A Comparative Analysis of Foreign Aid Distributions,” estimates the extent to which changes in human rights violations are related to the distribution of foreign aid. Schoultz evaluates the extent to which the pattern of aid distributions is responsive to congressional preferences as expressed in the Harkin Amendment of 1975, which severely restricted the executive branch in its ability to provide aid to the government of any country which engages in a consistent pattern of gross violations of internationally recognized human rights. The results reveal that United States economic aid tended to flow disproportionately to the hemisphere’s relatively egregious violators of fundamental human rights both in 1975 and 1976. By 1977, aid to countries with repressive governments and relatively few needy people had been severely restricted; however after subsequent inspection of the increased funding to other repressive countries such as Haiti, it is obvious that there is no pattern of aid assistance being directed toward or away from repressive governments. Moreover, the international protection of human rights was not a central concern of economic assistance decision-making during this period. Schoultz also found that military assistance had a positive relationship with human rights violations. Three of the six most repressive governments received 69% of the total military aid to the region, and nonrepressive governments received almost no military aid. Lastly, it was found that aid officials have tended to direct economic assistance to Latin America’s

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relatively needy countries. This study fails to address other possible motivations for foreign aid, but it serves to discredit the notion that foreign aid is motivated by ideological, human rights objectives.

McKinlay and Little’s piece, “A Foreign Policy Model of U.S. Bilateral Aid Allocation (1977),” evaluates and tests five substantive models of foreign aid distributions which isolate the interests of the United States: development interests, overseas economic interests, security interests, power political interests, and interests in political stability and democracy. The authors note that there are two particular views of the rationale underlying aid: the humanitarian view, which emphasizes economic assistance, suggesting that the provision of aid is designed to promote economic development in low income countries; and the foreign policy view, which emphasizes the instrumental utility of aid, suggesting that its provision is designed to promote the foreign policy interests of the donor. Moreover, the authors form two propositions: (1) by establishing commitment and dependence, a state can realize certain foreign policy utilities and (2) aid can be used to establish commitment and dependency. They define commitment as an attempt by one state to register its support for another. A commitment by a donor is used to deter intervention by a hostile state, discourage a developing state from moving out of a developed state’s sphere of influence, or to discourage it from moving into a rival’s sphere of interest. Dependency is defined as one party’s reliance on another without the reliance being reciprocated. Dependency relationships are established by dominant states to generate a degree of control, which may be used for a variety of ends dictated by the dominant state. They hypothesize that the level of commitment and dependency established through aid is a function of the degree of interest that the donor has in low income recipients because all states have external interests and are concerned whenever possible to promote and protect them. In order to test this, a multiple regression analysis is run with data from the years of 1960 to 1970. The dependent variable, total U.S. aid measured in constant terms, serves as a proxy for the level of commitment and dependency.

The authors find that power-political and security concerns are central interests associated with commitment and dependency, while overseas economic interests have a weak relationship and the others have none at all. The overseas economic interests model focuses on the variety of domestic and foreign n benefits that can accrue to a high income country through trade and investment ties with low income

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countries. The authors hypothesize that the levels of commitment and dependency established with low income countries are a function of the size of the donor's overseas economic interests in that country. The variables that are used to measure the benefits of such trade and investment ties are U.S. trade domination, U.S. gross trading ties, investment income, and investment balance. The authors find that there is very little support for the main hypothesis derived from the model of overseas interests. The impact of investment income is not only weak, but also generally negative. The impact of investment balance is even weaker, and fails to appear after 1962. There are significant positive relations between aid and trade throughout the period, however once the variance that trade shares with other variables is removed, its influence is generally unimportant. The model formed by McKinlay and Little is certainly more inclusive, however their narrow study upon the years of 1960 through 1970 along with its political component, which focuses essentially on Communist discouragement, limits its present applicability and explanatory power as the issues of that time are no longer salient.

Asking a similar question, Maizels and Nissanke in their article, “Motivations for Aid to Developing Countries (1984),” ask what the underlying principles of aid allocation are and particularly, what is the balance of motivations between the needs of recipient countries and the interest of donor countries. Maizels and Nissanke concentrate on the external linkages between donors and recipients. They form two models: the recipient interest model and the donor interest model, which contains its own set of categories (Political & Security Interests, Donor Investment Interests, and Donor Trade Interests). They look at the present position (represented by the years 1978-1980) and compare it with the earlier decade (represented by years 1969-1970) by running cross country linear multiple regressions that take the value of net aid per head of population of each recipient country as the variable to be explained. For both periods, the variables representing political and security interests dominated the results, with trade interests and investment interests possessing positive but insignificant relationships with aid. The results confirm earlier studies that bilateral aid allocations are made largely or solely in support of donor’s perceived political and security interests. By contrast, aid flows from multilateral sources are allocated essentially upon recipient need criteria; however there has been a shift away from recipient need considerations.

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This study, like McKinlay and Little, is limited to its time coverage, but perhaps more flawed due to its incredibly narrow data set. In order to investigate the possible shifts in aid distribution from the 1970’s to the 1980’s, they choose to use only the last years of each decade. Therefore, the data is not all inclusive and not necessarily representative of the decades in which they are trying to investigate. Shifts or variations in the distribution of aid in the earlier years of each decade are not considered, which may have had significant effects on the results of their regressions. The entire study only contains data from five years, as opposed to the twenty years it could have included. Also, there is another discrepancy in the data used to compare investment interest in the latter decade to that of the former. For the 1969-70 period, estimates published by the OECD countries of the book value of the stock of private direct investment from each DAC country in each of a large number of developing countries were used. However, such estimates have not been published for the subsequent years, so they interpreted the investment interest of the donor in terms of the number of subsidiary and affiliated companies of its transnational corporations, which they themselves identify as only a second best indicator. Therefore, due to this disparity, the results of the variable for 1978-1980 are not comparable with those for the earlier period.

Meernik, Krueger, and Poe, in their article, “Testing Models of U.S. Foreign Policy: Foreign Aid during and after the Cold War (1998),” investigate the approaches that have been formed in studying U.S. foreign policy to explain the actions of nation states. They seek to show that the security driven goals of the systematic approach have become less critical and the ideological goals of the state centered model have become more important with the passing of the Cold War. In order to test this notion, the authors present a few hypotheses under separate systematic security, societal economic, and statist ideological goals. The authors conclude that strategic aims as measured by U.S. military presence and ally variables still show that strategic aims play a role in foreign aid, however the end of the Cold War did bring a decline of funds to such areas. Moreover, there is strong evidence that ideological goals are increasingly influencing the foreign aid program, because there is a positive correlation between foreign aid and poorer nations, democratic nations, and those with better human rights records. Economic interests have varied effects across the model, yet they fail to discuss the specificities of this conclusion and merely mention that the more open a state’s market, the more likely it will receive aid. States with freer markets tended to

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receive more aid in the Cold War period than the post-Cold War era, although these variables were not jointly statistically significant. In addition, the more the United States imports from a state the less likely that state is to receive assistance, or increased amounts of aid during and after the Cold War. This negative relationship could be the result of these variables indirectly measuring the nation’s wealth and thus its need for assistance. It is obvious that the study chooses to focus primarily upon the state and systematic approach in order to make a general claim about the increasing importance of ideological goals. However, the simple conclusions deduced from these correlations, which support increasing ideological objectives, do not answer the question of why countries with worse human rights records are obtaining more assistance. In fact, three of the nations that receive the most foreign aid, Turkey, El Salvador, and Peru have among the worst human rights records. Moreover, these states are rated highly democratic, therefore it can be concluded that democracy is not a proxy for human rights preservation and that ideological objectives may not be the driving force behind allocation of foreign aid.

Alesina and Dollar’s article, “Who Gives Foreign Aid to Whom and Why?” tacks the possibility that the pattern of bilateral aid flows is dictated by political and strategic considerations, which have little to do with rewarding good policies. Using the data from the Development Assistance Committee of OECD, focusing particularly upon the United States, Japan, France, and Germany, multiple regressions were run to explain the behavior of these bilateral donors on the basis of the recipients’ poverty, the quality of their institutions and policy, variables capturing the strategic interests of donors and others including trade openness, democracy, civil liberties, colonial status, direct foreign investment, initial real income, and population. As a result, they find that political and strategic variables have more explanatory power than measures of poverty, democracy, and policy. Moreover, colonial past is much more important than democracy, or open economic policies. Like studies before this, there is a strong support for the notion that the provision of aid is motivated by strategic and political interests. The regressions also suggest that bilateral aid is particularly influenced by democratic institutions strictly defined, rather than broader definitions of civil rights and enforcement of law. On the other hand, foreign direct investment responds

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positively to rule of law, but is insensitive to democratic institutions. Many of the strategic variables lose significance in the FDI regressions. Like other studies, the measures utilized for ascertaining economic motivations appear faulty or misguided. As opposed to looking at the economic policy of the recipient country, a measure of economic activity may be a better proxy. Moreover, in this study foreign direct investment is measured as a dependent variable, a substitute for foreign aid. Perhaps it would be useful to look at foreign direct investment as a measure of economic involvement or activity, an independent variable.

These studies, which all support the idea that strategic and political interests serve as the stimuli for the provisioning of foreign aid, fail to address economic interest as a focal point. In many instances there exists a measure of the economic policy of the recipient country as opposed to the economic activity of the donor state. Studies have measured the degree of economic openness to evaluate the impact of economic interests upon aid distribution, but measures of economic activity have been faulty, and understudied. Fordham in his article, “Economic Interests, Party, and Ideology in Early Cold War Era U.S. Foreign Policy (1998),” addresses directly the relationship of economic interests and foreign policy. He asks, “Do conflicting economic interests shape the foreign policy debate even when security issues are highly salient?” Fordham argues that they do, but also presents the idea that economic and security concerns are intrinsically linked. For example, he says “States give economic aid to other allies for security reasons, and industries deploy arguments about national security to gain trade protection.” He argues that if economic stakes were truly important for early Cold War politics, the views of the political leaders about both the overall benefits of internationalism and the regional emphasis of U.S. foreign policy should reflect their ties to different interests in international trade and investment. Overall, Cold War foreign policy had different implications for exporters, import-competing industries, banks with different levels of international lending, and firms involved in different levels of direct foreign investment. Those with a stake in the establishment and preservation of an international political and economic order open to U.S. trade and investment, especially in Europe, should have supported the Truman administration’s foreign policy more than groups without such a stake.

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The model estimated the effects of economic interests in three types of international economic activity: trade, portfolio investment, and direct investment. To estimate the size of the export and import competing sectors in each state, he converted the statistics on exports and imports into Standard Industrial Classification sectors. As a measure of international lending, he used the annual data on foreign lending that is released by the Treasury Department. To develop an indicator of the foreign direct investment by corporations headquartered in each state, he relied mostly on the data provided by the annual Moody’s Industrial Manual and the comparable volumes on utilities, merchandising, and railroads. The results indicate that conflicting economic interests, mediated by political party, help shape foreign policy preferences. Economic interests matter even when security issues seem paramount. The pattern of support and opposition to U.S. foreign policy simply cannot be explained in terms of “core values” or security imperatives. Political conflict between domestic actors determines the goals of foreign policy, and economic interests play an important role in the shaping of this conflict. The study does contain flaws in the analysis, because it can only consider a few of the avenues through which economic interests might influence foreign policy preferences. It does not take into account the influence of powerful interest groups, the variation of interests of firms in the same industry, or the influence of defense industries. However, the paper does substantiate the idea that economic interests have an effect on foreign policy, which shows that economic interests can plausibly be a substantial influence on foreign aid, especially in a time of growing international financial markets and multinational corporations.

**Causal Model**

The provision of aid may be evaluated either through the humanitarian view or the foreign policy view. This paper focuses upon the foreign policy perspective by seeking to build a model that demonstrates a significant relationship between the use of foreign aid as an instrument of the United States’ foreign policy and the promotion of domestic business interests. It does not propose to invalidate the claim that foreign aid is distributed for strategic and political interests as aforementioned studies have strongly shown. However, it does endeavor to supplement the existing literature regarding the motivations of

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foreign aid. In order to develop this relationship, two causal aspects need to be explored: collective action problems and their implications in the domestic political landscape, and reasons for using foreign aid as a way to promote domestic economic interests.

Michael Gilligan in his work, Empowering Exporters, discusses the issue of collective action problems.\(^\text{11}\) He does so to explain the bias towards protectionism in American trade politics, which is not in question here. However, the logic underlying the outcome of collective action problems is applicable to this discussion. Collective action problems are a class of problems associated with political action by groups. Larger groups may have higher organizational costs, and members of larger groups have smaller personal stakes in an issue, offering them less incentive to take costly political action. As Olson (1982) notes, there are obvious implications for trade policy: since import competing industries form a much smaller group than do consumers, they have much less stringent collective action problems and can more readily take political action.\(^\text{12}\) In light of the relationship addressed here, internationally oriented business groups (import and export industries, multinational corporations, investment groups, banks, etc), which are relatively concentrated and small in comparison to large non-economic constituencies, have the capability to organize more easily and efficiently. This ability to organize translates into real lobbying pressures upon Congress, which may be reflected in a foreign policy that is sympathetic to United States business interests.

In addition to Gilligan’s argument, society centered approaches view American policy as either reflecting the preferences of the dominant group or class in society, or as resulting from the struggle for influence that takes place among various interest groups or political parties.\(^\text{13}\) This strengthens the argument that state behavior should reflect the foreign policy goals of the most politically powerful interests, which in this case are the interests of American businesses. Moreover, as Jeremy Rosner states in his article, “The New Tug of War,” as international economic competition increases, the demand from the

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business community for the government to provide greater investment and trading opportunities abroad and to promote American goods will intensify.\textsuperscript{14}

A number of political scientists have investigated the question of why foreign aid might be used to attain United States business interests. Meernik, Krueger, and Poe offer a few suggestions in their explication of societal economic goals. Export and import organizations may pressure the government to protect and extend trade relationships by providing aid. Multinational corporations may believe that strong trading relationships will result from aid-induced economic growth in developing countries. Moreover, to cultivate investment opportunities for U.S. businesses and to increase the competitiveness of American goods, countries more committed to economic liberalism will receive more aid. Aid to such countries also can be used to help smooth the transition to open market economies and diminish the sometimes harsh consequences these changes can mean for some groups. Moreover, it is probable that smooth transitions may help to foster economically profitable relationships with such countries or fortify preexisting relationships.

Maizels and Nissanke (1984) describe the investment interests and trade interests of donor countries, which may motivate the provision of aid.\textsuperscript{15} The investment interest would be in promoting economic growth or in alleviating economic difficulties in a developing country in which the donor has substantial investments. Aid to such countries would constitute an external subsidy to ensure the continuing profitability of the foreign investments of enterprises of the donor country. The trade interest of a donor country would be in promoting growth, or in alleviating economic difficulties, in developing countries which are its major trading partners, either as markets for its exports or as sources of its imports. Aid for this purpose would help to ensure the profitability of its export trade and the adequacy of essential imports from major suppliers.

In summary, as international economic competition increases, the American business community’s demand for greater investment and trading opportunities and for the promotion of American goods will rise. Since these business-oriented constituencies are small, they will be able to organize


efficiently and take political action to affect policy. Therefore, since foreign aid provisioning is seen as a method to promote and secure American business interests, these groups will lobby to affect foreign aid policy. As a result, their collective action will determine, to an extent, the distribution of foreign aid.

Testable Hypotheses

Understanding the implications of the model discussed, a number of hypotheses can be made concerning the relationship between the level of economic activity between the United States and the recipient country and the level of foreign aid distribution. In each of the presented hypotheses it is imperative to control for strategic and political variables, as past studies have proven that they affect foreign aid decisions by donor states. Nonetheless, the role of economic interests is to complement the previous findings and offer a supplementary explanation for the motivation of foreign aid; therefore, the hypothesized relationships should remain significant after employing the proper controls.

1. As the level of imports from recipient states to the United States rises, the level of foreign aid and assistance to the recipient shall rise.
2. As the level of exports from the United States to the recipient state rises, the level of foreign aid and assistance to the recipient shall rise.
3. As the degree of openness of a recipient nation rises, the level of foreign aid and assistance to the recipient shall rise.
4. As the level of U.S. foreign direct investment rises in the recipient state, the level of foreign aid and assistance to the recipient shall rise.
5. As the level of U.S. portfolio investment rises (lending) in the recipient state, the level of foreign aid and assistance to the recipient shall rise.

Data and Method

The data to be analyzed are a pooled, cross-sectional time series of the United States foreign aid distribution to the rest of the world from 1950 to 2000. These data will be converted into constant 2000 US dollars using the US department of commerce’s National Income and Product Accounts (NIPA) Tables, in
order to correct for inflation.\textsuperscript{16} The analysis will entail an Ordinary Least Squares regression which accounts for all the independent variables described below and their effects upon the absolute amount of foreign aid distributed to an aid-recipient country, the dependent variable. Moreover, the dependent variable for countries which do not receive aid will be 0.

\[ Y = f(E, I, T, FDI, O, PI) \]

Y= amount of bilateral aid

E=total amount of exports to United States of recipient country’s total exports

I=total amount of imports from the United States of total recipient country’s imports

FDI=total amount of foreign direct investment from the United States in the recipient country of the total United States foreign direct investment

O=trade openness: a zero-one index developed by Sachs and Warner\textsuperscript{17}

PI=total amount of portfolio investment/percentage of U.S. portfolio investment in the recipient country of the total foreign portfolio investment

The dependent variable is defined as the total bilateral aid received by an aid-recipient country from the United States. The data to be analyzed is found in USAID: US Overseas Loans and Grants, Obligations and Loan Authorizations July 1, 1945 – September 30, 2001, which is more commonly known as the Greenbook.\textsuperscript{18} The Greenbook shows a complete historical record of United States foreign aid to the rest of the world. It reports all loans and grants authorized by the U.S. Government for each fiscal year from 1945 to 2001 and reports the assistance by purpose and by country. Annual assistance is reported by program categories, which include Economic Assistance, Military Assistance, and other U.S. Government Loans. When running the regressions to evaluate the effects of the independent variables upon the level of foreign aid, three separate regressions will be run with the dependent variable defined differently. The first will have the dependent variable defined as total foreign aid (all programs) and the subsequent regressions will have annual assistance defined by program category (Economic Assistance, Military Assistance and other U.S. Government Loans ). Any variation among the results may denote the varying purposes for

\textsuperscript{16} \url{http://govpubs.lib.umn.edu/stat/tool_nipa.phtml}


\textsuperscript{18} \url{http://qesdb.cdie.org/gbk.html}
different types of aid. More specifically, variation could show which forms may or may not be utilized or which are more important to the furtherance of economic interests. A number of independent variables will be employed to measure the level of economic activity which occurs between the United States and its aid-recipient country. United States trade data shall be collected from the UNCTAD Handbook of Statistics On-line.\(^9\) The handbook provides a comprehensive collection of statistical data relevant to the analysis of international trade, foreign direct investment and development, for individual countries and for regional and economic groupings for the years of 1950-2001. Within a consistent framework, the figures are structured into eight chapters, which are: International Merchandise Trade, Trade and Commodity Price Indices, Structure of International Trade by Region, Structure of International Trade by Product, International Trade in Services, International Finance, Indicators of Development, and Special Studies. For the purposes of this study only the International Merchandise Trade, International Trade in Services, and International Finance chapters will be used.

The level of exports of the United States to the aid-recipient country is composed of two measures: merchandise exports and service exports. Three separate regressions shall be run with the first’s independent variable defined as merchandise exports, the second with service exports, and the third with total exports (merchandise exports + service exports = total exports). Variation among the results may denote that a particular form of export may be more important to the United States. For example, a pattern of greater aid to countries that rely more heavily upon one categorization of exports would show that the United States may value that one form over the other. The independent variable for the level of imports is defined, utilized, and analyzed in the same manner. The International Merchandise Trade report provides data for the value and shares of merchandise exports and imports and the International Trade in Services report provides the value and shares of service exports and imports. Export and import data is measured in “millions of dollars”, which represents the total volume of the trade in services or merchandise for a country or as a "Percentage of country's total trade", which represents a country's trade in services or merchandise as a percentage of that country's total trade in both goods and services. For this study, the data measured in “millions of dollars” (inflation corrected in 2000 US dollars) will be used.

\(^9\) [http://www.unctad.org](http://www.unctad.org)
Foreign direct investment data shall be collected from the International Finance chapter in the UNCTAD handbook and supplemented with the UNCTAD Foreign Direct Investment Database. FDI is measured by stock and flows. The Foreign Direct Investment database (FDI) presents inflows, outflows, inward stocks and outward stocks of foreign direct investment for 196 reporting economies in an interactive format. Regressions shall be run with flows and stock measurements separately, as well as together in a total sum of FDI (stock + flow). FDI stock is the value of the share of a country’s capital and reserves, including retained profits, attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises. FDI inflows and outflows comprise capital provided, either directly or through other related enterprises, by a foreign direct investor to a FDI enterprise, or capital received by a foreign direct investor from a FDI enterprise. FDI flows include the three following components: equity capital, reinvested earnings and intra-company loans. FDI flows are presented on net bases (capital transactions' credits - debits between direct investors and their foreign affiliates). Net decreases in assets or net increases in liabilities are recorded as credits (with a positive sign), while net increases in assets or net decreases in liabilities are recorded as debits (with a negative sign). Hence, FDI flows with a negative sign indicate that at least one of the three components of FDI is negative and not offset by positive amounts of the remaining components. These are called reverse investment or disinvestment. Each variable is measured in “millions of dollars” (inflation corrected in 2000 US dollars).

The International Finance chapter of the UNCTAD Handbook also provides data on United States financial flows. Official financial flows refer to net disbursements by official sources to a recipient country. Net disbursements refer to the actual amounts disbursed (gross disbursements) less repayments of principal in respect of earlier loans. Official sources refer to countries and agencies from DAC (Development Assistance Committee) and from OPEC (Organization of Petroleum Exporting Countries). Total flows are composed of loans for concessional and non-concessional purposes. ODA (Official Development Assistance) are loans administered with the main objective of promoting the economic development and welfare of developing countries and OA (Official Aid or Official Assistance) are loans meeting the same criteria as those of ODA, but are directed to countries listed in Part II of the DAC List of Recipients. To define this variable these two components of financial flows will not be used because they

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20 [http://www.unctad.org](http://www.unctad.org)
are concessional and therefore components of total assistance. However, OOF are non-concessional loans with a target other than economic development and welfare of the aid recipient, or loans with a grant element of less than 25%, so they will be used. Flows are also measured in “millions of dollars” (inflation corrected in 2000 US dollars).

The variable, which takes into account economic ideology of a recipient country as opposed to its economic interaction with the United States, is the level of openness of the recipient nation. This measure is a zero-one index which is provided in Sachs and Warner’s 1995 study.\(^{21}\) The outcome of this variable will allow us to evaluate the importance of ideology to United States foreign policymakers. If this variable has a significant affect upon the amount of aid distributed, then one may conclude that U.S. policymakers are concerned with rewarding countries with liberal economic ideology. However, if there is not a significant correlation, one may conclude that the U.S. disregards a recipient nation’s economic ideology. Therefore, one may also ask if it is the recipient’s openness to all countries that promotes aid assistance or just the recipients’ amiability toward the United States’ business interests alone that affect decision-makers. The data set provides statistics only for the years up to and including 1995; therefore a separate regression will be run for the data between 1950 and 1995. The times series provided by the study, although eliminating four years (from 1996-2000), still offers a substantial amount of data to evaluate this issue.

Aside from establishing measurements for the independent and dependent variables, the model must control for political and strategic variables. Two different measures of political interests shall be tested in controlling for their effect upon aid distribution. The Affinity of Nations: Similarity of State Voting Positions in the UNGA index, developed by Eric Garztk and Columbia University, provides a metric that reflects the similarity of state preferences based on voting positions of pairs of countries (dyads) in the United Nations General Assembly.\(^{22}\) Similar to affinity is Bueno de Mesquita's, which may also be used.\(^{23}\) The variable \(\tau_B\) is Bueno de Mesquita’s 1981 measure of similarity in alliance portfolios, which uses Scott V. Bennett and Allan Stam’s EUGene software.\(^{24}\) Bueno de Mesquita assumes that if two states have

\(^{21}\) http://www.nuff.ox.ac.uk/Economics/Growth/datasets/sachs/sachs.htm

\(^{22}\) http://www.columbia.edu/~eg589/datasets.htm

\(^{23}\) http://www.nyu.edu/gsas/dept/politics/data/bdm2s2/Logic.htm

\(^{24}\) http://eugenesoftware.org/
exactly the same alliance partners then their interests and policy goals will more likely be highly aligned. In contrast, if states have incongruent allies then they will be less likely to share the same policy goals and interests. According to Gartzke, his measure of affinity offers more information (variance) than the τb index, and may also be less biased. Nonetheless, both will be used.

To control for strategic/security interests we look to see if a defense treaty with the U.S exists or if there are U.S. troops or bases in the recipient country and score 0 or 1 corresponding to their presence or absence. This data is provided by The Correlates of War Formal Alliance data set.25 The dataset identifies each formal alliance between at least two states that falls into the classes of defense pact, neutrality or non-aggression treaty, or entente agreement. A defense pact (Type I) is the highest level of military commitment, requiring alliance members to come to each other’s aid militarily if attacked by a third party. Neutrality and non-aggression pacts (Type II) pledge signatories to either remain neutral in case of conflict or to not use or otherwise support the use of force against the other alliance members. Finally, ententes (Type III) provide for the least commitment and obligate members to consult in times of crisis or armed attack. Each alliance classifies the highest level of military support that an alliance member pledges to another alliance member. The dataset provides the type, members, and appropriate dates of activity of each identified alliance. Moreover, the distributed data include both the list of alliances and a dyadic conversion allowing easy incorporation into dyad-year analyses; therefore providing dyads for the U.S. and each foreign country. The collection includes the years of 1816-2000. However, limited by the other datasets mentioned previously, only the data between the years of 1950-2000 will be used.

Lastly, a variable for democracy is also controlled for. Freedom House provides such an index.26 The country ratings are available from 1972 to the present. Individual countries are evaluated based on a checklist of questions on political rights and civil liberties that are derived in large measure from the Universal Declaration of Human Rights. Each country is then assigned a rating for political rights and a rating for civil liberties based on a scale of 1 to 7, with 1 representing the highest degree of freedom present.

25 http://cow2.la.psu.edu/
26 http://www.freedomhouse.org/ratings/index.htm
and seven the lowest level of freedom. The combined average of each country’s political rights and civil liberties ratings determines an overall status of Free, Partly Free, or Not Free.

**Conclusion**

This study will seek to answer the questions raised earlier. Has the role of economic interests been understudied by past political scientists, and if so do economic interests also shape foreign aid policy? Is the provision of foreign assistance driven solely by security concerns as past research contends? Or, do economic interests in fact play a motivating role, along with security concerns? The findings of this study will then perhaps shed illuminating light upon the obscurity of foreign aid distribution and in turn the significance or triviality of American business interests upon foreign aid policymaking.
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UNCTAD Handbook of Statistics On-line.
http://www.unctad.org
