FOREIGN AID AND REPRESSION

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Abstract

Despite the democracy-enhancing intentions of most donors, foreign aid can often offer opportunities for governments to politically repress their populations. This article argues and presents evidence that aid from the world's largest bilateral donor – the United States – harms political rights in recipient countries. U.S. aid does so by weakening government accountability via the taxation channel. These findings run counter to the stated intentions of the U.S. government – and other bilateral donors – to foster political liberalization abroad via bilateral economic assistance.

JEL code: F35, O19, H27

1 Introduction

In official statements, U.S. foreign aid is declared to promote political liberalization in recipient countries. For instance, the U.S. Department of State proclaims: "The protection of fundamental human right was a foundation stone in the United States over 200 years ago. Since then, a central goal of U.S. foreign aid has been the promotion for human rights, as embodied in the Universal Declaration of Human Rights."[1]This democracy-enhancing objective is shared by many other bilateral donors, such as Canada, Germany, Japan, and the United Kingdom. These pronouncements are guided by the view that democratic governance facilitates economic development. Yet for many recipient governments, aid inflows may offer an opportunity to politically repress their populations; thus, undermining a key feature of democracy. This seems to one of the tragic political ramifications associated with the world's largest bilateral aid donor: the United States. This chapter argues and presents evidence – using an instrumental variables research design – that U.S. aid *causes* a reduction in the quality of political rights in recipient states. U.S. aid does so in large part by reducing a government's tax effort which weakens its incentive to be politically accountable to its population. This finding runs counter to the stated intentions of the U.S. government – and other donors – to foster political liberalization abroad via foreign aid.

2 How foreign aid can affect political rights

A. Foreign aid and political liberalization

Existing scholarship identifies several channels through which aid can foster political liberalization.[2] For instance, building on modernization theories of democracy, Finkel et al (2007, 410) argue that aid can "indirectly" transform the structural conditions that serve as prerequisites for regime transition (e.g., level of economic development, such as per capita GDP) and/or "directly" by empowering agents (individuals, political institutions, and social organizations) that struggle for regime change in the domestic arena. Reform-minded governments can also leverage aid to accelerate political liberalization. For example, Wright (2009) shows that dictators with large distributional coalitions and who have a good chance of winning fair elections tend to respond to aid by democratizing.

[1] See http://www.state.gov/j/drl/hr/index.htm (Accessed: April 2016)
[2] This section presents an abridged discussion on the discussion through which aid can affect political liberalization. For more detailed discussions, see Finkel et al (2007), Wright (2009), and Ahmed (2016).

The "context" (e.g., geopolitical considerations) in which aid is disbursed can also matter. For example, Dunning (2004) examines the importance of donor "intent" during and after the Cold War. No longer concerned with the potential defection to the Soviet Union, Western donors are less willing to prop up authoritarian governments with aid. Building on this argument, Bermeo (2011) provides evidence that aid from democratic donors (e.g., the US, UK, etc.) in the post-Cold War era is associated with improvements in democracy in recipient countries.

B. Foreign aid and repression

While aid has the potential to foster political liberalization, aid can also empower governments to restrict political freedom. This perspective identifies at least two broad channels through which aid can foster repression: the relationship between taxation and government accountability; and by preventing rent seeking.

The first channel stems from models of government insularity, which views the evolution of the state as the result of bargaining between revenue-maximizing leaders and their citizens (Tilly 1992). In these models, the political bargains governments make hinge on the distribution of this income in exchange for staying in power, as opposed to relinquishing some influence over policy choice in exchange for taxes. Foreign aid has been situated within such models. For example, Moore (1998) argues that as the share of government income from unearned income (e.g., foreign aid) increases, state/society relations are less likely to be "characterized by accountability, responsiveness, and democracy" (85). Thus, governments that do not collect taxes from their citizens because they are being financed by unearned income do not need to be as responsive to the needs of their populations (as would be the case with direct taxation) and may pursue policies that repress their populations.

A second, and not necessarily mutually exclusive, channel posits that aid can hurt political rights by exacerbating group conflict over unearned income. Basically, unearned government income increases the "size of the pie," and if there are multiple groups dividing the pie, rent seeking can contribute to increased fighting over it. As applied to autocracies where groups are less likely to attain their share of the pie through non-violent means, an exogenous financial windfall is likely to raise internal domestic discontent and incidences of political violence. In response, an incumbent regime is likely to employ additional repressive tactics to quell this domestic unrest (Besley and Persson 2011).

C. Empirical challenges

Given these divergent predictions, scholars have turned to the data to reconcile the effect of aid on political rights (see Ahmed 2016 for a literature review). Of course, untangling the causal impact of aid on "politics" is problematic as aid disbursements are often correlated with a recipient's political conditions. On the one hand, aid may reward countries committed to political liberalization, such as U.S. aid to shore up nascent Eastern Europe democracies after the end of the Cold War. On the other hand, aid may help stabilize autocratic allies (e.g., Egypt) and thus undermine political liberalization. To overcome this challenge, the next couple of sections leverage an instrumental variables (IV) strategy to evaluate the causal effect of the foreign aid from the world's largest bilateral aid donor – the United States – on political liberalization in over 150 recipient countries.

3 Gaging the causal impact

A. Importance of U.S. aid

This chapter examines the effect of U.S. foreign aid on political liberalization since the United States is the world's largest bilateral aid donor. Since 1960, the United States has allocated over $700 billion in bilateral economic assistance. This figure excludes U.S. military aid, U.S. aid disbursements to multilateral organization (e.g., World Bank, regional development banks) and food aid. Figure 1 captures the temporal variation in total U.S. bilateral economic aid (left scale) and as a share of total DAC (right scale) aid since 1960. U.S. economic aid averaged nearly $17 billion per annum in the 1960s, during a period of robust domestic economic growth coupled with relatively intense Cold War tensions. As super-power rivalry eased during the period of détente and the U.S. experienced economic recession in the 1970s, U.S. economic assistance fell to around $10 billion per annum (and maintained that annual average throughout the 1980s and 1990s). In the 2000s, primarily in response to the events of 9/11, U.S. economic aid increased substantially. Since 2001, U.S. economic aid has averaged over $21 billion per year.

The U.S. share of total DAC aid has also varied over time, ranging from a high of 50 percent in 1963 to a low of 12 percent in 1997. Since 1960, aggregate U.S. aid has amounted to 28.5 percent of total DAC bilateral assistance, which exceeds the share of all other bilateral aid donors. Moreover, compared to the other 4 largest bilateral donors (France, Germany, Japan, and the United Kingdom), U.S. aid also tends to be more volatile (annually). From an econometric

standpoint this greater variability is advantageous, as it will generate more precise estimates of the effect of U.S. aid on political rights.

< Figure 1 around here >

B. Political economy of U.S. economic aid

While recipient characteristics (e.g., "need", "merit") are important factors in shaping their annual receipts of foreign assistance, a significant component of the United States' foreign aid budget is determined through a political process. The majority of U.S. aid is contained in the international affairs budget and is allocated through the State, Foreign Operations, and Related Agencies appropriations bill in the U.S. Congress. The legislative branch plays a critical role in U.S. foreign assistance, possessing the power both to authorize policy and appropriate funds. In response to the President's budget submission (by February 2nd every year), the House and Senate Budget committees are the first to act, setting funding ceilings for various parts of the budget and guiding the work of both authorizing and appropriations committees. Each year, 11-12 appropriations bills, including the State, Foreign Operations, and Related Agencies bill, make their way through a long deliberative process in both the House and the Senate. The appropriations committees, in coordination with the authorizing committees, determine and allocate federal spending each year, including foreign aid. Frequently, the resulting appropriations bills and accompanying reports include numerous detailed directives on how funds should be spent by country and account (Lancaster 2000).

This legislative process frequently reflects the political and partisan interests of Congressional representatives. For instance, members with a more right-leaning political ideology (e.g., Republicans) tend to oppose economic aid than do members from more left-leaning districts (Fleck and Kilby 2006; Milner and Tingley 2010).[3] The existence of these partisan differences over aid allocation suggests that the legislative composition of Congress influences aid disbursements. In particular, existing theories and empirical evidence suggests that a more fragmented legislature contributes to higher government spending, including foreign aid appropriations (Roubini and Sachs 1989; Alesina and Tabellini 1990). The theoretical explanations stem from the well-established proposition that higher levels of aggregate political conflict (e.g., stemming from greater ideological/partisan differences in legislatures) will result in equilibrium

[3] In contrast, House members from more right-leaning districts favor *military aid* than do members from less right-leaning district.

fiscal outcomes that favor greater spending since politicians will exhibit a greater proclivity in providing voters with program benefits. Moreover, greater heterogeneity in partisan preferences over fiscal policy is likely to require legislative logrolling, thus contributing to higher overall spending to accommodate different spending initiatives and to better ensure the bill's passage in Congress. A number of studies confirm this legislative fragmentation-spending relationship, both cross-nationally (Roubini and Sachs 1989; Alesina and Tabellini 1990) and, in particular for presidential systems, such as the United States (Alesina and Rosenthal 1995).

With respect to U.S. bilateral aid disbursements, such a relationship is apparent in the legislative fragmentation of the US House of Representatives. Figure 2 depicts a robust positive correlation between average U.S. bilateral aid disbursements and a measure of legislative fragmentation based on the difference in number of Democrats and Republicans in the U.S. House of Representatives. Specifically, fragmentation ($FRAG_t$) in year t is defined as $\left(1 - \frac{|DEMOCRAT_t - REPUBLICAN_t|}{435}\right) \times 100$, where a higher value corresponds to greater fragmentation. Using the *absolute* difference in the number of House Democrats and Republicans avoids explicitly incorporating measures of partisanship or ideology (e.g., DW-NOMINATE), which are potentially endogenous with actual preferences for foreign aid (e.g., Fleck and Kilby 2006).

< Figure 2 around here >

Exploiting the legislative fragmentation from the U.S. House of Representatives (rather than from the Senate) is advantageous for a number of reasons.[4] First, all 435 members of House are subject to re-election every two years as opposed to only one-third of the 100 senators. Empirically, this means the House $FRAG_t$ exhibits greater temporal variation than the Senate $FRAG_t$ and generates a statistically stronger and more precise instrumental variable for U.S. aid. Second, and most importantly, $FRAG_t$ is a plausibly exogenous source of temporal variation in U.S. aid disbursements that is uncorrelated with political (and economic) conditions *within* aid recipients. Changes in the composition of U.S. House of Representatives occur bi-annually as a consequence of elections that are largely determined by local and national political and economic conditions, including (but not limited to) federal spending in Congressional districts, Presidential coattails, midterm elections, and retrospective economic voting. To the best of my knowledge,

[4] That said, the results in this chapter are robust to instrumenting for U.S. aid using the legislative fragmentation of the U.S. Senate. These findings are reported in the appendices accompanying Ahmed (2016).

political conditions in poor developing countries have not been identified as a determinant for electoral outcomes in the U.S. House of Representatives.

< Figure 3 around here >

B. Heterogeneity in U.S. aid recipients

The sensitivity of any particular country's receipts of aid to $FRAG_t$ will be affected by that country's probability of actually receiving U.S. aid in any given year. As figure 3 demonstrates, the U.S. government tends to dole out higher amounts of aid to more frequent recipients. This figure plots a country's average receipts of U.S. aid (over the period 1972-2008) against the country's annual probability of receiving any U.S. aid, P_i.[5] For instance, Nigeria has a 68 probability of receiving U.S. aid in any given year, with aid disbursements averaging $31.3 million per annum. In contrast, Algeria receives a substantially lower amount of aid ($41803 on average per annum) about once every three years. The cross-sectional relationship identified in figure 3 is analogous to Nunn and Qian's (2014) observation that U.S. bilateral food aid is higher for countries that receive food aid more frequently from the U.S.

Interestingly, countries that tend to receive U.S. aid *more* frequently are *less* likely to experience *changes* in their annual aid receipts. Or stated alternatively, more frequent aid recipient tend to have more stable (less variation) aid receipts from year to year. Empirically, this means the interaction of $FRAG_t$ and P_i will be negatively associated with U.S. aid receipts; an effect that the first stage regression in Table 1 demonstrates.

C. Identification strategy

I exploit these sources of variation in U.S. aid disbursements to construct a powerful cross-national and time-varying instrumental variable (IV). The instrument interacts the legislative fragmentation of the U.S. House of Representatives ($FRAG_t$) with the probability a country receives U.S. aid in any year (P_i). This instrument ($FRAG_t$ x P_i), which is constructed by interacting a plausibly exogenous term ($FRAG_t$) with one that is potentially endogenous (P_i) can be interpreted as exogenous since the first stage and second stage regressions control for main effect of the endogenous variable (see equations below). Specifically, the identifying assumption is that the "endogenous" variable and the outcome of interest are jointly independent of the "exogenous"

[5] P_i is based on the proportion of years between 1972-2008 a country receives any U.S. aid.

variable. Such an identification strategy underlies existing research examining the effect of foreign aid on politics (e.g., Nunn and Qian 2014; Ahmed and Werker 2015).

Armed with this instrumental variable, the 2SLS setup is:

$$\text{First Stage:} \quad AID_{it} = \alpha + \boldsymbol{\beta}\,(FRAG_t \times P_i) + \gamma\, X_{it} + Y_t + C_i + \varepsilon_{it}$$

$$\text{Second stage:} \quad RIGHTS_{it} = a + \mathbf{b}^{*}AID_{it} + c^{*}X_{it} + Y_t + C_i + u_{it}$$

where *i* refers to the country, *t* indexes the year, X_{it} is a vector of controls, and C_i and Y_t are dummies for countries and years respectively. The inclusion of country fixed effects implies the estimated coefficients will evaluate each aid recipient's within-country variation in $RIGHTS_{it}$. To account for serial correlation, the standard errors are conservatively clustered by country.

In the first stage regression, AID_{it} is each country's annual receipts of U.S. bilateral economic aid, measured in logarithmic units (i.e, $\log(1+AID_{it})$). In the second stage regression, $RIGHTS_{it}$, is an increasing measure of political rights (where higher values imply *greater* political repression). *This means that if U.S. harms political rights, the coefficient on* AID_{it} *(b) should be positive and statistically significant.*

In the second stage regression, $RIGHTS_{it}$ is Freedom House's *POLITICAL RIGHTS* index.[6] This index has been used in similar studies and has the largest country (~150) and temporal coverage (1973 onwards) compared to related measures, such as those from POLITY and CIRI Human Rights Project. *POLITICAL RIGHTS* lies on a 7-point (1-7) scale, where *higher* values of *POLITICAL RIGHTS* (e.g., 6 or 7) correspond to *less* freedom.

Turning to the instrument, $FRAG_t$ is equal to $\left(1 - \frac{|DEMOCRAT_t - REPUBLICAN_t|}{435}\right) \times 100$; where a higher value (i.e., closer to 100) implies greater legislative fragmentation in the House of Representatives. The tendency for a country (*i*) to receive any aid is given by $P_i = \frac{1}{38}\sum_{t=1972}^{2009} P_{i,t}$ where $P_{i,t}$ is equal to 1 if that country receives any aid in year *t* and zero otherwise. Observe, the vector of country fixed effects absorbs this probability since P_i is specific to each country (*i*) and time-invariant. The inclusion of year fixed effects subsumes the main effect corresponding to legislative fragmentation since $FRAG_t$ changes from year to year, but remains the same across all

[6] Based on the opinions of experts, *POLITICAL RIGHTS* gages the ability for "people to participate freely in the political process, which is the system by which the polity chooses authoritative policy makers and attempts to make binding decisions affecting the national, regional, or local community" (e.g., the right to vote, the capacity of elected officials to have decisive votes on public policies).

aid recipients. Year fixed effects also account for any constant time trend in the independent and dependent variables.

In both stages, I control for a parsimonious set of covariates (X_{it}) that affects both the allocation of aid in the first stage regression and $RIGHTS_{it}$ in the second stage regression: log GDP per capita ("need") and economic growth ("merit").[7] I also control for a country's population size since smaller countries tend to receive disproportionately higher amounts of aid and the "cost" of political repression often varies by country size (Alesina and Dollar 2000). These control variables also serve to account for the main channels through which "modernization theories" can foster political liberalization (e.g., Finkel et al 2007). Finally, to account for the United States geopolitical motives in allocating its economic aid, I control for a recipient's annual consumption of U.S. exports, its membership on the UNSC, and its alliance status with the United States (for further discussion of these geopolitical motives, see Ahmed 2016).[8]

4 U.S. aid represses

This section presents the main results evaluating the effect of U.S. foreign aid on repression. I first show that the instrumental variable is a robust and valid determinant of annual disbursements of U.S. bilateral economic aid. I then move to the second stage regression and show that instrumented foreign aid deteriorates political rights in recipient countries. The section ends by showing that U.S. foreign aid harms political rights by lowering a government's "tax effort", thus weakening its incentives to be accountable to its population.

A. Determinants of U.S. bilateral aid

Table 1 shows that the instrumental variable ($FRAG_t$ x P_i) is a robust determinant of annual bilateral disbursements of U.S. aid to about 150 recipient countries. Column 1 presents a specification without any fixed effects. Consistent with figure 2, greater legislative fragmentation raises U.S. aid disbursements (coefficient=0.37). And consistent with figure 3, more frequent aid recipients receive higher amounts of aid (coefficient=40.73). The coefficient on the instrumental

[7] Hoeffler and Outram (2011) discuss the "need" and "merit" based determinants of foreign aid.
[8]The economic and demographic controls are drawn from the World Development Indicators. UN Security Council membership is available from the United Nations, alliances from the Correlates of War data set, and U.S. exports from the International Monetary Fund.

variable is -0.34 and is highly statistically significant (p-value=0.00). This negative coefficient is consistent with the claim that *more* frequent aid recipients tend to experience *less variation* change in annual U.S. aid receipts. The corresponding *F*-statistic (=35.14) means the instrument is "strong" (since it exceeds the threshold of 9.6 suggested by Stock et al 2002) and implies the second stage estimates can be interpreted as causal.

< Table 1 around here >

Column 2 shows that instrument is a strong predictor of bilateral economic aid in a specification with country and year fixed effects.[9] Column 3 shows that the instrumental variable is also a strong predictor of bilateral disbursements of U.S. economic *and* military aid. Yet the instrument is a poor predictor of military aid by itself (column 4). In this regression, the coefficient estimate is much smaller in magnitude and the corresponding *F*-statistic (=6.13) is smaller than that associated with economic aid only. This drop in coefficient size and statistical precision is expected since Congress has less influence over the allocation of U.S. military aid and therefore, movements in $FRAG_t$ *should not* affect these disbursements.

Given the strong predictive power of the instrument for economic aid from these first stage regressions, I therefore gauge the causal impact of U.S. bilateral economic aid on repression in the second stage (although, as Table 2 shows instrumented U.S. economic and military aid and instrumented military aid also harm political rights). Finally, in the first stage regressions, the control variables have their expected effects. In general, richer countries tend to receive lower amounts of aid, while those experiencing economic growth are "rewarded" with more aid. The time-varying geostrategic measures tend to have very little effect on U.S. aid.

B. The impact of U.S. aid on political rights

Table 2 evaluates the effect of U.S. aid on political rights. Column 1 shows that in a "naïve" OLS specification, U.S. economic aid has no impact on political rights. This effect is unsurprising and wholly consistent with the weak (or null) effects found in existing studies of aid on political rights. In contrast, column 2 shows that instrumented U.S. aid *causes* a deterioration of political rights: a unit increase in log U.S. economic aid raises *POLITICAL RIGHTS* by 0.15 index point. This effect is highly statistically significant (p-value<0.01) and substantively meaningful: moving from the 10 percentile of aid receipts to merely the 50 percentile corresponds to around a 2.5 index

[9] This specification excludes $FRAG_t$ and P_i since they are subsumed by year and country fixed effects, respectively.

point rise in *POLITICAL RIGHTS*. Such a jump corresponds to 1.25 standard deviation increase in the *POLITCAL RIGHTS* index and is equivalent to moving from a less repressive country like Peru to a more repressive country like Sudan or Vietnam.[10] This 2SLS estimate as well as those with fixed effects are larger than the OLS estimates, suggesting that they correct for attenuation bias and thus adjust for the downward bias of U.S. aid that is often (and increasingly) directed to countries with higher quality of democratic governance. The control variables (not reported) are consistent with existing findings. For example, richer countries (i.e., higher GDP per capita) are less repressive.

Instrumented U.S. economic and military aid also harms political rights (column 4), as does military aid separately (column 5). U.S. economic aid harms political rights when controlling for military aid separately, as well in specifications that lag aid by 1, 2, and 5 years. As expected, the effect of lagged aid on *POLITICAL RIGHTS* is smaller than contemporaneous aid. The results also hold with data averaged over 2 and 5-year periods. Finally, to allay concerns that controlling for time-varying recipient characteristics (e.g., level of economic development), may introduce potential "post-treatment bias", instrumented U.S. economic aid continues to damage political rights in a specification without these controls. [11]

< Table 2 around here >

C. Robustness

The core results in table 2 are robust to an exhaustive list of other potential concerns, such as: country and temporal outliers (e.g., exclusion of frequent aid recipients, restriction of samples to the post-Cold War and pre-2001 periods); spatial diffusion; the inclusion of additional controls (e.g., political institutions, oil exports, arms imports, overall trade openness; conflict; percentage of foreign born population; alternate instruments (e.g., using fragmentation in the Senate); alternate specifications (e.g., controlling for lags and leads of aid, time-varying measures of P_i); alternate clustering of the errors (e.g., by region, year, two-way clustering, etc.); the "crowding-out" of aid from other donors; regional trends (e.g., differential effects for Africa); and region and country-specific trends that vary across the Cold War and post-Cold War period. The core results also hold for alternate measures of the main second stage dependent variable. For example, U.S. aid harms other forms of human rights (and from different data sources): civil liberties (Freedom House

[10] Based on average *POLITICAL RIGHTS* for each of these countries over the sample period.
[11] These results are available in Ahmed (2016), Table 2 columns 6-10.

2011), political participation (Marshall and Jaggers 2010); and freedoms associated with religious, empowerment rights, and imprisonment (Cingaranelli and Richards 2008). (These robustness checks are discussed and presented in Ahmed (2016) and its accompanying appendices.)

D. U.S. aid and tax effort

Why might U.S. aid harm political rights? As described in section 1, one such channel follows from a model of government insularity.[12] In particular, as a source of nontax income, foreign aid inflows can empower governments to reduce their tax effort, thus permitting them to be less accountable to their population (i.e., more repressive). Empirically, this suggests that the amount of taxes collected from citizens (as a share of total government revenues) should be negatively correlated with aid inflows. To test this mechanism, I regress a state's collection of taxes from income, profits, and capital gains (as a percent of government revenue) on U.S. bilateral aid disbursements plus the baseline controls. A reduction in this dependent variable implies a government exerts less tax effort because it is able to derive a larger share of its revenue from nontax sources.

< Table 3 around here >

Table 3 presents compelling evidence that U.S. aid reduces tax effort. In a naïve OLS regression, U.S. aid is negatively associated with tax effort (column 1). In column 2, instrumented U.S. aid has a much larger and statistically significant effect on tax effort. Moreover, controlling for the potential mediating effect of repression does not attenuate the negative effect of instrumented U.S. aid on tax effort (column 3). Instrumented aid also exhibits a negative effect on the level (in dollars and log units) of taxes collected (not reported). Together, the results in Table 3 suggest that U.S. aid harms political rights by reducing a government's tax effort.

5 Conclusion

As an instrument of American economic statecraft, the United States claims to use its bilateral economic aid to promote its national interest by expanding democracy and free markets, while improving the lives of citizens in developing countries. This chapter presents evidence to

[12] Ahmed (2016) shows that U.S. aid does not foster repression via the rent-seeking mechanism (also described in section 1).

cast doubt on this assertion. U.S. aid can empower recipient governments to repress their populations, thus weakening an important feature of democracy.

This finding refutes some recent empirical findings that aid may improve political rights in countries that have exhibited a commitment – both instrumental and normative – to political liberalization. Consequently, to the extent that political liberalization is an important conduit for growth, the article's findings suggest that U.S. aid may also reduce economic development. Future research could investigate this, potentially through the lenses of aid's impact on domestic politics in recipient countries.

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FIGURES

Figure 1: U.S. bilateral economic aid, 1960-2009

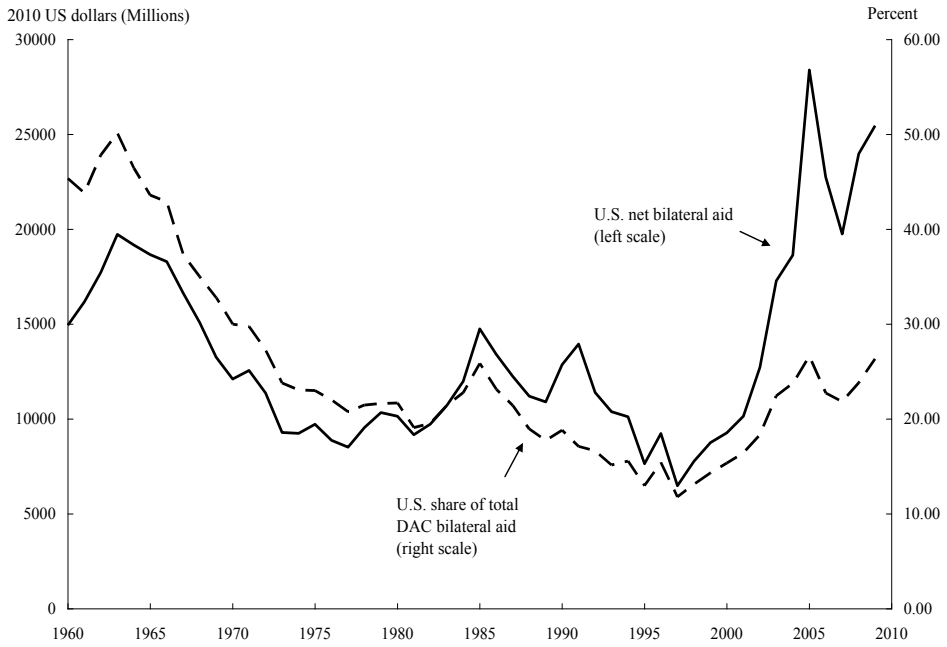


Figure 2: Fragmentation in the U.S. House of Representatives and average U.S. bilateral aid disbursements

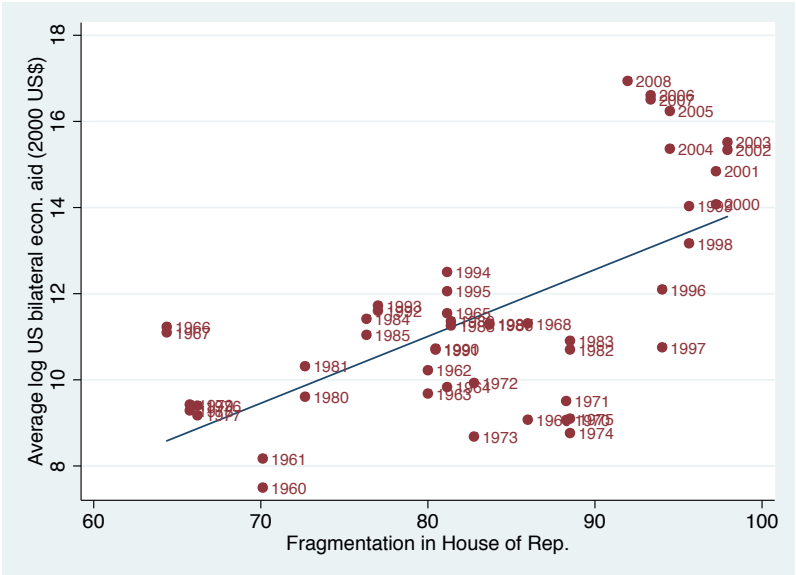
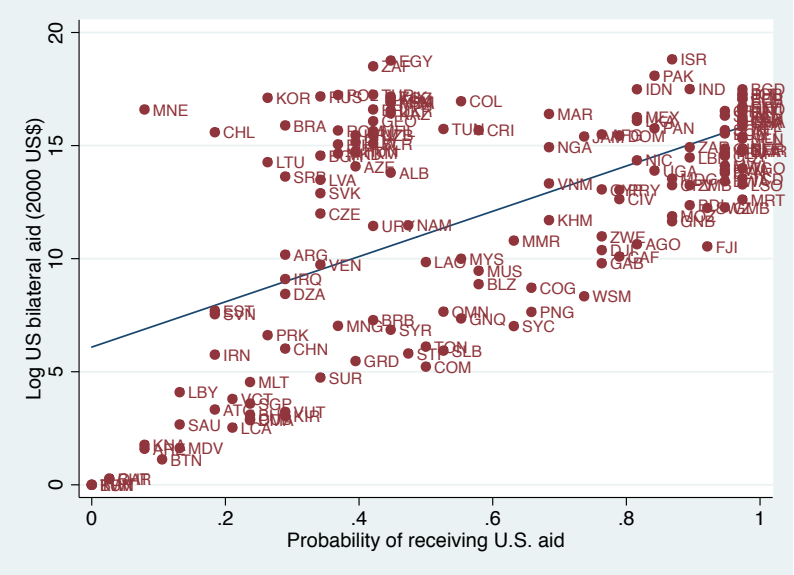


Figure 3: Annual probability of receiving U.S. aid (P_i) and average U.S. bilateral economic aid (2000 US$)



TABLES

Table 1: The legislative determinants of U.S. bilateral aid (first stage regression)

	Type of U.S. bilateral aid (in log units, 2000 US$)			
Dependent variable:	Economic		Econ. and military	Military
	(1)	(2)	(3)	(4)
$FRAG_t$ x P_i	-0.343	-0.342	-0.314	-0.153
	(0.058)***	(0.068)***	(0.062)***	(0.062)**
Recipient characteristics				
Fragmentation ($FRAG_t$)	0.37			
	(0.052)***			
Prob. of rec. aid (P_i)	40.73			
	(5.384)			
Log GDP per capita (2000 US$)	-0.099	-1.412	-0.946	1.177
	(0.285)	(0.801)*	(0.709)	(1.541)
GDP per capita growth (% annual)	0.032	0.023	0.023	0.048
	(0.019)	(0.012)*	(0.013)*	(0.020)**
Log population	0.571	1.638	0.39	-2.684
	(0.171)***	(1.907)	(1.913)	(3.013)
UNSC member	-0.275	-0.065	0.054	-0.201
	(0.406)	(0.329)	(0.309)	(0.476)
US ally	0.111	-0.256	1.279	0.872
	(0.538)	(0.534)	(0.419)***	(0.651)
Log U.S. exports (2000 US$)	0.153	0.1	0.165	0.118
	(0.065)**	(0.064)	(0.065)**	(0.086)
Constant	-36.978	20.62	34.132	53.779
	(5.229)***	(30.008)	(30.118)	(54.008)
Country fixed effects	N	Y	Y	Y
Year fixed effects	N	Y	Y	Y
R-squared	0.44	0.66	0.65	0.57
Number of observations	3853	3853	3853	3853
Number of countries	151	151	151	151
F-statistic on instrument	35.14	25.32	25.39	6.13

Notes: Estimation via OLS. Robust standard errors, clustered by country reported in parentheses. *, **, *** = significant at 10, 5, and 1 percent respectively.

Table 2: U.S aid harms political rights (second stage regression)

Dependent variable:	Political rights				
	(1)	(2)	(3)	(4)	(5)
Method of estimation:	OLS	2SLS	2SLS	2SLS	2SLS
Economic aid	-0.01	0.149	0.157		
	(0.010)	(0.069)**	(0.059)***		
Econ. and military aid				0.171	
				(0.064)***	
Military aid					0.351
					(0.191)*
Controls					
Fragmentation ($FRAG_t$)		-0.048			
		(0.010)***			
Prob. of rec. aid (P_i)		-2.13			
		(1.012)**			
Recip. characteristics	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	No	Yes	Yes	Yes
Year fixed effects	Yes	No	Yes	Yes	Yes
R-squared	0.73	0.003	0.64	0.64	0.07
Number of observations	3853	3853	3853	3853	3853
Number of countries	151	151	151	151	151
F-stat on instrument		35.14	25.32	25.39	6.13

Notes: Robust standard errors, clustered by country reported in parentheses. *, **, *** = significant at 10, 5, and 1 percent respectively. Economic aid is U.S. bilateral economic aid (2000 US$, log units). Military aid is U.S. bilateral military aid (2000 US$, log units). Recipient characteristics include: log GDP per capita, GDP per capita growth, log population, UNSC member, U.S. ally, and U.S. exports. These coefficients, country fixed and year fixed effects, and a constant are not reported.

Table 3: U.S. aid lowers tax effort

Dependent variable:	Income tax (share of government revenue)		
	(1)	(2)	(3)
Method of estimation:	OLS	2SLS	2SLS
Log U.S. aid	-0.324	-1.864	-1.938
	(0.200)*	(1.045)*	(1.023)**
Political rights			-0.050
			(0.556)
Number of observations	925	925	915
Number of countries	113	113	111
R-squared	0.83	0.7	0.69

Notes: Robust standard errors, clustered by country reported in parentheses. *, **, *** = significant at 10, 5, and 1 percent respectively. All specifications control for recipient characteristics (i.e., log GDP per capita, GDP per capita growth, log population, UNSC member, US ally, and U.S. exports), country and year fixed effects. These coefficients and a constant are not reported.