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# Foreign Policy Through Aid: Has United States Assistance Achieved its Foreign Policy Objectives?

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FOREIGN POLICY THROUGH AID: HAS UNITED STATES ASSISTANCE  
ACHIEVED ITS FOREIGN POLICY OBJECTIVES?

by

Jessica Andreasen

A thesis proposal submitted in partial fulfillment  
of the requirements for the degree

of

MASTER OF SCIENCE

in

Political Science

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UTAH STATE UNIVERSITY  
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2014

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## ABSTRACT

Foreign Policy through Aid: Has United States Assistance Achieved Its  
Foreign Policy Objectives?

by

Jessica Andreasen, Master of Science

Utah State University, 2014

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Department: Political Science

In looking at the history of U.S. aid, three general goals emerge: political stability, increased economic liberalization and expanding influence in the aid receiving country. While the United States Agency for International Development (USAID) has measures in place to assess the success of its aid endeavors, most U.S. aid, in the form of economic and military aid, is largely unevaluated in terms of achieving these broad foreign policy goals. The results of this study suggest that U.S. military and economic aid fail to achieve these three general foreign policy objectives in a sustainable manner. Conducting a regression analysis of U.S. aid indicates that, in the short term, economic aid does succeed in promoting increased economic liberalization, but the concurrent giving of military aid cancels the effect. In the long term, the giving of economic aid supports the stability of a state's government, but the U.S. will want to assess what other methods might produce similar and more enduring results at less cost.

(50 pages)

## PUBLIC ABSTRACT

Foreign Policy through Aid: Has United States Assistance Achieved Its  
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Jessica Andreasen

Why does the U.S. give foreign aid? There are compelling humanitarian and economic reasons, yet the U.S. also gives large amounts of military aid. What, then, are the overall goals of aid giving in the post 9/11 era? In looking at the history of U.S. foreign aid, three general objectives emerge: political stability, increased economic liberalization and expanding soft power influence in the aid receiving country. While we can identify the motives and aims of U.S. foreign aid, little work has been done to evaluate the success of aid in these objectives. It is the goal of this study to assess the success of combined U.S. economic and military aid in accomplishing these three general foreign policy objectives across the case countries of Egypt, Georgia, Israel, Jordan, Mexico, Pakistan, Peru, Philippines, Russia and Zambia, which represent a range of aid beneficiaries. Using statistical analysis based on three indices, this thesis will evaluate whether there is a correlation between U.S. foreign aid and the attainment of these three broad U.S. foreign policy aims.

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Jessica Andreasen

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## INTRODUCTION

“Foreign assistance is an essential component of our transformational diplomacy... to empower developing countries to strengthen security, to consolidate democracy, to increase trade and investment, and to improve the lives of their people... and to prevent future failed states like Afghanistan.”

-Former Secretary of State Condoleezza Rice, speech to the State Department<sup>1</sup>

The giving of aid from one country to another has long been an instrument of influence. Aid is used as one mechanism of shaping and promoting shared security matters between the U.S. and its allies.<sup>2</sup> During the Cold War, aid was of particular use in winning allies against communism and was, at times, utilized to buy U.S. support.<sup>3</sup> Studies of foreign aid suggest that the goals of aid turned to more humanitarian and developmental concerns with the end of the Cold War, but aid is once again in flux with the start of the War on Terror.<sup>4</sup> It has even been suggested by some scholars in the aid community that aid policy during the War on Terror is reverting back to the Cold War dogma of using aid to buy allegiance.<sup>5</sup>

Is War on Terror aid policy regressing into Cold War strategy? In a study of the incomes of aid-receiving countries, the prospect of a higher income country receiving aid has increased substantially since the Cold War and particularly during the War on

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<sup>1</sup> Carol Lancaster, *George Bush's Foreign Aid: Transformation or Chaos?* (Baltimore, MD: Brookings Institute Press, 2008), 29.

<sup>2</sup> Jamey Essex, *Development, Security, and Aid: Geopolitics and Geoeconomics at the U.S. Agency for International Development* (Athens, GA: University of Georgia Press, 2013), 28.

<sup>3</sup> Per Lundborg, “Foreign Aid and International Support as a Gift Exchange,” *Economics and Politics* 10, no. 2 (1998): 127.

<sup>4</sup> See Carol Lancaster, *George Bush's Foreign Aid*.

<sup>5</sup> Robert Fleck and Christopher Kilby, “Changing Aid Regimes? U.S. Foreign Aid from the Cold War to the War on Terror,” *Journal of Development Economics* 91 (2010): 191.

Terror.<sup>6</sup> While all aid-receiving countries have benefitted from the rise in aid during the War on Terror, higher income countries who have less need for humanitarian or developmental aid, but who are more politically or strategically important to the U.S., have profited more.<sup>7</sup> A conclusion drawn from these data is that the beginning of the War on Terror “corresponds to an apparent policy shift that has placed less and less emphasis on need (at least among core aid recipients) so that, ceteris paribus, percentage increases in aid to better-off countries outstripped those to poorer countries.”<sup>8</sup> In effect, great changes in foreign aid policy were the result of the shifting international environment after the attacks of September 11, 2001 (9/11).<sup>9</sup>

After 9/11, there was a revolution in U.S. foreign aid by the Bush administration. This transformation has seen substantial alterations to U.S. foreign aid, to include changing the purpose of aid, its policies and amounts, and even the organization of aid to be better included in U.S. foreign policy overall.<sup>10</sup> While various aid programs have different specific objectives, the overall aim of U.S. aid in the twenty-first century is to develop foreign states such that the U.S. sphere of influence is expanded.

Foreign aid is an instrument of U.S. foreign policy and sometimes of U.S. domestic policy. It is used to pursue a variety of national purposes, including providing humanitarian relief, furthering diplomatic goals, promoting development and democracy abroad, addressing global issues, supporting economic and political transitions, expanding export markets, preventing and mitigating conflict, and strengthening weak states. Of all of these, promoting diplomacy and development have long been the most prominent purposes of U.S. aid.<sup>11</sup>

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<sup>6</sup> Robert Fleck and Christopher Kilby, “Changing Aid Regimes,” 191.

<sup>7</sup> Lael Brainard, “Compassionate Conservatism Confronts Global Poverty,” *Washington Quarterly* 26, no. 2 (2003): 151.

<sup>8</sup> Fleck and Kilby, “Changing Aid Regimes,” 193.

<sup>9</sup> Louis A. Picard and Terry F. Buss, *A Fragile Balance: Re-examining the History of Foreign Aid, Security, and Diplomacy* (Sterling, VA: Kumarian Press, 2009), 155.

<sup>10</sup> Fleck and Kilby, “Changing Aid Regimes,” 1.

<sup>11</sup> Lancaster, *George Bush's Foreign Aid*, 3.

U.S. foreign assistance is and has been connected to political goals. As a part of Condoleezza Rice's "transformational diplomacy," these goals were to promote "fundamental changes in governance and institutional capacity, human capacity, and economic structure that enabled a country to sustain further economic and social progress."<sup>12</sup> These objectives, in a more condensed form, are political stability, increased economic liberalization and expanding influence in the aid receiving country. Most U.S. aid, in the form of economic and military aid, is largely unevaluated in terms of achieving these broad foreign policy goals. It is the goal of this study to assess the success of combined U.S. economic and military aid in accomplishing these three general foreign policy objectives.

This paper will begin by giving a brief literature review and then addressing the scope of the subject. Understanding U.S. foreign aid is important because, while small in terms of percent of gross domestic product (GDP), the United States is the largest bilateral donor and aid can have far reaching impacts. As a leading international power, U.S. policies impact the shape of the global order. Therefore knowing U.S. aid policies and goals is critical. Additionally, if U.S. aid is being used to achieve expansive foreign policy goals without success, there needs to be a reassessment of the goals of U.S. foreign aid.

The subsequent section will give a brief history of U.S. foreign aid followed by a description of the types of aid the U.S. gives as well as an explication, with evidence, of the broad goals of U.S. foreign aid. This section will place aid in both its recent historical

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<sup>12</sup> "White Paper on U.S. Foreign Aid Policy," *USAID* (Washington, DC: US Agency for International Development, 2004), 14.

and modern context. Furthermore, the segment will lay out the broad foreign policy efforts attached to U.S. aid in the post-9/11 era. This will be followed by a presentation of the methodology applied to determine the success or failure of these goals with an ensuing analysis and discussion of the results. The paper will end with a conclusion and suggestions for policy makers based on these findings.

## LITERATURE REVIEW

Within the literature on foreign aid, two general branches emerge. The first looks at the effects of aid on the receiving countries by studying economic growth, poverty reduction, or other evidence of development. The second camp studies the determinants of aid by reviewing what donors give and to whom. For example, authors Casella and Eichengreen study the effects of foreign aid in economic stabilization and conclude that aid is only successful early in the economic event and under specific contexts.<sup>13</sup> In a large sample of developing countries, Boone studies the economic impacts of foreign aid and finds that aid has no effect on investment or growth. In fact, Boone concludes that foreign aid leads to higher consumption rather than investment.<sup>14</sup> In a similar study looking at whether foreign aid contributes to growth, Easterly finds only failed projects.<sup>15</sup> In a well-known study by Burnside and Dollar, they conclude that foreign aid is effective when given to countries with good policies (ie: good governance and stable policies) already in place.<sup>16</sup>

For the purpose of this study, the investigation into the determinants of aid, essentially who gives aid and why, is the more salient for our interests. The reasons for giving aid are complex and varied. In a study on who receives aid and why, the focus of authors Maizels and Nissanke is largely on the strategic intentions of the donor in the

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<sup>13</sup> Alessandra Casella and Barry Eichengreen, "Can Foreign Aid Accelerate Stabilisation?" *The Economic Journal* 106, no. 436 (1996): 605, 617. An Economic Event can refer to high inflation, budget deficits and/or rapid monetization.

<sup>14</sup> Peter Boone, "Politics and the Effectiveness of Foreign Aid," *European Economic Review* 40 (1996).

<sup>15</sup> William Easterly, "Can Foreign Aid Buy Growth?" *Journal of Economic Perspectives* 17, no. 3 (2003).

<sup>16</sup> Craig Burnside and David Dollar, "Aid, Policies, and Growth," *The American Economic Review* 90, no. 4 (2000).

giving of bilateral aid.<sup>17</sup> Similarly, McKinlay and Little also conduct a cross-country regression to uncover the determinants of aid. They find that the donor's interests are the primary explanatory variable in bilateral aid.<sup>18</sup> As mentioned above, Burnside and Dollar find that aid is only effective when given to countries with good policies already in place. However, they also note in their results that aid flows are a result of a donor's strategic interests and not the quality of policies in the receiving countries.<sup>19</sup>

Alesina and Dollar use donor-recipient interest variables such as military arms sales and colonial ties to determine aid allocation motives. They conclude that political and strategic interests are an essential variable in explaining aid flows.<sup>20</sup> While the definition of strategic interests varies from study to study, the consensus is that strategic and commercial aims account for much of the motives in aid giving.<sup>21</sup> In a regression analysis of aid data from 1948 to 1979, Lundborg concludes that the U.S. and Soviet Union used aid to encourage international support.<sup>22</sup> Since the start of the War on Terror, Woods has noted the trend of U.S. aid being earmarked for security imperatives and countries of geostrategic importance.<sup>23</sup>

Rather than trying to discuss and summarize every study of aid determinants, this paper will illustrate the main issue that arises from this literature, namely that the United

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<sup>17</sup> Alfred Maizels and Machiko K. Nissanke, "Motivations for Aid to Developing Countries," *World Development* 12 (1984).

<sup>18</sup> R. McKinlay and R. Little, "A Foreign Policy Model of US Bilateral Aid Allocation," *World Politics* 30, no. 1 (1977).

<sup>19</sup> Burnside and Dollar, "Aid, Policies, and Growth."

<sup>20</sup> Alberto Alesina and David Dollar, "Who Gives Foreign Aid to Whom and Why?" *Journal of Economic Growth* 5 (2000).

<sup>21</sup> Fleck and Kilby, "Changing Aid Regimes?"; and McKinlay and Little, "A Foreign Policy Model of US Bilateral Aid Allocation." Strategic interests can include increased trade or commercial ventures, placement of military bases, favorable preference for U.S. economic enterprises, and/or support for ongoing or future U.S. endeavors such as the wars in Afghanistan and Iraq.

<sup>22</sup> Lundborg, "Foreign Aid and International Support as a Gift Exchange."

<sup>23</sup> Ngaire Woods, "The Shifting Politics of Foreign Aid," *International Affairs* 81, no. 2 (2005): 400.

States gives aid for broad foreign policy objectives without knowing if they will succeed.

There is no disagreement in the foreign aid literature that aid is given for strategic purposes. In what follows, the focus is on discerning what the broad objectives of U.S. aid giving were during the War on Terror. For that purpose, the emphasis is on bilateral U.S. aid to a small sample of countries. The objective is to determine the success or failure of broad U.S. foreign policy goals for aid during the War on Terror based on the premise that aid is given for strategic purposes.

## SCOPE

While the United States Agency for International Development (USAID) has measures in place to assess the success of its aid endeavors, most U.S. aid (in the form of economic and military aid) is largely unevaluated in terms of the achievement of the previously mentioned foreign policy goals. It is the goal of this study to evaluate the success of combined U.S. economic and military aid in the accomplishment of these three general foreign policy objectives. Government agencies in the U.S., including USAID, have typically placed a five to ten year expectancy on seeing results for foreign assistance. For that reason, data from the years 2002 through 2011 (the last year for which reliable data on U.S. aid levels and indices of the three goals are available) will be utilized.

For definitional purposes, foreign aid is “money transferred on concessionary terms by the governments of rich countries to the governments of poor countries.”<sup>24</sup> However, there also exists a more nuanced definition of international assistance. “International assistance is the transfer of any resources (grants of money and concessionary – less than market rate – loans), the provision of goods and services, and technical assistance, including military assistance.”<sup>25</sup> For the remainder of this paper, the terms *foreign aid* and *international assistance* will be used interchangeably based on the more comprehensive definition for international assistance.

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<sup>24</sup> Paul Mosley, *Overseas Aid: Its Defense and Reform* (Brighton, UK: Wheatsheaf Books, 1987), 3.

<sup>25</sup> Picard and Buss, *A Fragile Balance*, 6.

For policy and implementation, the U.S. uses state-to-state foreign aid.<sup>26</sup>

Therefore states will be evaluated in this analysis. For this study, ten case countries will be evaluated: Egypt, Georgia, Israel, Jordan, Mexico, Pakistan, Peru, Philippines, Russia and Zambia. These case countries were chosen because they represent a range of U.S. aid beneficiaries. Five of these case countries, Georgia, Mexico, Peru, Philippines, and Zambia, are mid-tier aid recipients.

The remaining five case countries, Egypt, Israel, Jordan, Pakistan and Russia, are in the top seven of U.S. aid beneficiaries across the years 2002 to 2011.<sup>27</sup> The top two aid beneficiary countries, an anomaly attributed to the War on Terror, are Afghanistan and Iraq. Data for these two countries is difficult to obtain or do not exist and are therefore excluded from this analysis. Furthermore, while the high aid levels of Egypt and Israel are due to the Camp David Accords and Israel's special relationship with the United States, these case countries are not expected to impact the results as country fixed effects will be included.<sup>28</sup>

Country fixed effects assist in controlling for unobserved differences which may correlate with the independent variables. In effect, there could be natural differences between these case countries that are correlated with the independent variables. This constant can be removed from the data by using country dummy variables, or fixed

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<sup>26</sup> Picard and Buss, *A Fragile Balance*, 273.

<sup>27</sup> "U.S. Overseas Loans and Grants: Obligations and Loan Authorizations (Greenbook)," *USAID*, last modified September 30, 2011, <http://gbk.eads.usaidallnet.gov/>

<sup>28</sup> For this study, population and case country GDP were used as country fixed effects.

effects.<sup>29</sup> For this study, case country population and gross domestic product (GDP) were used.

To support the analysis, three metrics which measure the political stability in a beneficiary country, the economic liberalization of that country, and also the extent of U.S. influence as it pertains to the global political landscape for each case country will be utilized. These scales will permit the recognition of a measure of the success or failure of U.S. economic and military aid for each goal. From this information we can draw inferences and make suggestions for policy changes or for future research to determine why certain goals were successful or not. I posit that the amount of combined economic and military aid will have little relevance to the success of these goals and that more nuanced future research will be necessary to determine the true algorithm to achieve success in foreign policy aims through aid.

### Objective

This research is a starting point for the evaluation of U.S. foreign aid. Agencies such as USAID and the World Bank have long measured the success of humanitarian aid projects, but no inquiries have been made into the accomplishment of broad U.S. foreign policy goals through economic and military aid. Having an assessment of the three main aid objectives would direct future researchers to look at the nuances of why foreign aid policy objectives were or were not met. This paper takes a U.S. centered approach as it specifically looks at U.S. foreign policy and foreign aid to provide feedback for U.S. policy makers.

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<sup>29</sup> Badi H. Baltagi, *Econometric Analysis of Panel Data*, 4th ed. (Sussex, UK: John Wiley and Sons, Ltd., 2008).

While this paper presents a short-term analysis, it is a beginning point for the understudied area of foreign policy objectives of U.S. foreign aid. Some overarching goals of U.S. aid and U.S. aid policies have remained largely unchanged for decades. If foreign aid is failing to achieve its objectives, it needs to be noted and either ameliorated or abandoned to new policy goals for aid. In addition, this study and future studies in this area will serve as a compass to guide the United States and to direct U.S. aid and energies into endeavors where foreign aid is likely to be impactful.

## OVERVIEW OF UNITED STATES FOREIGN AID

### History of U.S. Foreign Aid

The United States' global goals and foreign policy objectives are shaped by the past. Woodrow Wilson's progressive liberal vision was to promote human rights and prevent future human suffering by uniting countries under a system for the resolution of disagreements. While the League of Nations ultimately failed, later Presidents such as Roosevelt and Truman believed in the global unity ideas of Wilson. It was thought that an international order of shared security and economic advancement could help prevent future wars.<sup>30</sup> This led the United States to advocate for a global order with established rules.

[The United States' current] foreign aid regime originated during the ideological confrontation between the United States and the Soviet Union. The Western aid system began formally in 1961 with the establishment of the Development Assistance Committee (DAC) of the OECD (Organization for Economic Cooperation and Development). Using aid to encourage recipients to align themselves with the Western camp, OECD donors also hoped to deter any experiments with socialism.<sup>31</sup>

It was during and, in particular, after the Cold War that a U.S.-led global order was born, with foreign aid one tool of continuing influence and control. During the Cold War period, U.S. foreign assistance, or combined economic and military aid, was directed at specific countries or regions in the ideological and strategic battle for supremacy.

These areas were targeted because they were seen as important in the American-Soviet

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<sup>30</sup> G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton, NJ: Princeton University Press, 2011), 191.

<sup>31</sup> Richard Grant and Jan Nijman, "The Foreign Aid Regime in Flux: Crisis or Transition?" In *The Global Crisis in Foreign Aid: Space, Place, and Society*, ed. Richard Grant and Jan Nijman. (Syracuse, NY: Syracuse University Press, 1998), 5-6.

struggle for global influence.<sup>32</sup> The main focus of aid was to win states away from the Soviet sphere of influence and increase the number of U.S. allied supporters. In effect, aid was premised on the goal of motivating states to combine their security with and under the leadership of the U.S.<sup>33</sup>

Historically, the U.S.-led global economy differs slightly from the global economy as a whole in that U.S. administrations encourage other states to become members of U.S. produced organizations such as the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD), or the World Bank. Moreover, the U.S. pushes for economies and enterprises to be non-state-owned and for markets to be open with low trade barriers, to promote the sale of U.S. products abroad, particularly in agriculture.<sup>34</sup> Increasing bilateral trade with the U.S. is a hallmark of the promotion of the U.S.-led global economy. These ideas are premised on Hegemonic Stability Theory, a predominant view in U.S. international relations, which states that the presence of a hegemonic power creates a more stable international system.<sup>35</sup>

The policy position of Hegemonic Stability Theory (HST) reflects a post-World War II belief held by both academics and policy makers that a stable international system requires the presence of a hegemonic power. HST hypothesizes that the absence of such a power will result in a repeat of the Great Depression of the 1930s when no one was willing or able to establish rules necessary to regulate the international system. Whether this position is still relevant or not is an empirical question. However, Robert Keohane

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<sup>32</sup> Essex, *Development, Security, and Aid*, 28.

<sup>33</sup> *Ibid.*

<sup>34</sup> Alfred E. Eckes, *The Contemporary Global Economy: A History Since 1980* (Hoboken, NJ: Wiley-Blackwell, 2011).

<sup>35</sup> For a full review of Hegemonic Stability Theory, see Charles Kindleberger, *The World in Depression, 1929-1939* (Oakland, CA: University of California Press, 2013).

uses the ideas of Charles Kindleberger, the founder of HST, and G. John Ikenberry credits that U.S. policy makers, while certainly pushing for U.S. interests, still hold to this premise.

Thinking back on the ideas of Wilson, Roosevelt and Truman, they and other American elites held the belief that having a unified global system would improve the lives of everyone. This unified global system, or American hegemony, was centered on the idea that economic integration and political development were linked with and would lead to western notions of development.<sup>36</sup> Essentially, the belief was that progressively more world regions would join the capitalist system and assimilate to the social and political ideologies of the west, leaders at that time in the emerging global order.<sup>37</sup>

In order to achieve the dream of Wilson, Roosevelt and Truman, the United States believed it would need to maintain ongoing “involvement in keeping the order open, stable, and loosely rule-based” through the use of mechanisms such as aid.<sup>38</sup> The international economy became regionalized with the Cold War, and this was opposed to U.S. goals.<sup>39</sup> Only after the end of the Cold War did the international economy become more integrated.

While there are many ways to categorize different periods of aid giving, I have chosen to use three broad periods for better comprehension and simplicity. These three periods of aid are the Cold War period, the inter-war period, and the War on Terror period. During the Cold War period, roughly 1945 to 1989, U.S. aid was used as a geopolitical tool to influence countries to ally with the U.S. and to adopt free market

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<sup>36</sup> Ikenberry, *Liberal Leviathan*, 191.

<sup>37</sup> *Ibid.*, 190.

<sup>38</sup> *Ibid.*, 192.

<sup>39</sup> Eckes, *The Contemporary Global Economy*, 35.

capitalism. During the Cold War, aid averaged \$16.0 billion per year.<sup>40</sup> U.S. aid averaged “\$15.2 billion during the 12 inter-war years (1990-2001) and \$25.0 billion during the first five years of the War on Terror (2002-2006).”<sup>41</sup>

As a general overview of aid policy, aid before the Cold War, from World War II to the 1960’s, was given as capital in order to promote global equality. The idea was that if a country was given capital, and thus increased their GDP, they could pull themselves up by their bootstraps, as it were. Beginning in the 1960’s aid’s intent switched to strategic ends in the fight against communism. In the inter-war years, the purpose of aid shifted away from strategic aims towards humanitarian objectives.<sup>42</sup> In the 1990’s, the object of aid was once more global equality and humanitarian uses, but its vehicle was celebrity causes and non-governmental organization (NGO) delivery. Recent trends during the War on Terror suggest the goals of aid are once again shifting towards Cold War patterns.<sup>43</sup>

Since the start of the War on Terror, aid levels have soared with the result of an increase in aid across the board. Nonetheless, the importance of need has been in steady decline since the advent of the War on Terror.<sup>44</sup> New allotments of U.S. foreign aid have been going to strategically important countries, namely Iraq and Afghanistan, both of which were targets of U.S. interventions. What is more, the Millennium Challenge Account (MCA), designed to aid low income countries, was expanded by the Bush administration in 2002 to include middle income countries of strategic importance to the

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<sup>40</sup> Fleck and Kilby, “Changing Aid Regimes?” 187.

<sup>41</sup> Ibid.

<sup>42</sup> Ann Boschini and Anders Olofsgård, “Foreign Aid: An Instrument for Fighting Communism?” *Journal of Development Studies* 43, no. 4 (2007).

<sup>43</sup> Fleck and Kilby, “Changing Aid Regimes?” 191.

<sup>44</sup> Ibid., 187.

U.S. such as Jordan, Egypt and Russia. This move, the giving of MCA aid to these strategically important countries, is seen as a reward for these countries siding with the U.S. in the War on Terror.<sup>45</sup>

### Forms of U.S. Foreign Aid

The United States gives many forms of aid. However, aid is usually categorized into two general groups: economic and military. U.S. economic aid for the years 2002 through 2012 totaled 313 billion USD and military aid for those years totaled 128 billion USD.<sup>46</sup> “Economic aid entails development aid managed by the USAID, food aid, the Peace Corps, credits for exports, disaster assistance, and the so-called Economic Support Fund (ESF).”<sup>47</sup> Military aid, as the name implies, deals exclusively with U.S. military dealings. It “includes grants for the purchase of military equipment, credit financing of military sales, and military education and training.”<sup>48</sup>

Military aid is more straightforward than economic aid. Military aid serves both U.S. geopolitical goals, such as reinforcing U.S. partners around the world, as well as promoting U.S. commercial interests.<sup>49</sup> In effect, military aid is given to fortify the hard power of U.S. allies, to reinforce the beneficiary country’s ties to the U.S., and to directly support U.S. commercial interests in the manufacture and sale of military equipment.

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<sup>45</sup> Boschini and Olofsgård, “Foreign Aid: An Instrument for Fighting Communism?” 641; and Brainard, “Compassionate Conservatism Confronts Global Poverty.”

<sup>46</sup> “U.S. Overseas Loans and Grants: Obligations and Loan Authorizations,” USAID. Aid amounts in constant 2011 U.S. Dollars.

<sup>47</sup> Jan Nijman, “United States Foreign Aid: Crisis? What Crisis?” In *The Global Crisis in Foreign Aid: Space, Place, and Society*, ed. Richard Grant and Jan Nijman (Syracuse, NY: Syracuse University Press, 1998), 30.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

Economic aid, in comparison, is much less transparent and also more complex. While one goal of economic aid is to encourage development in the recipient country, other purposes for giving economic aid are to advance the security interests or the economic well-being of the donor.<sup>50</sup> Frequently, economic assistance serves U.S. geostrategic aims. The ESF, for example, which is supposed to help fund large infrastructure development projects, is often given to geostrategic countries for the purpose of security rather than economic development. This can be demonstrated by the fact that ESF was given to countries of political importance to the U.S. such as Israel, Egypt, Pakistan and the Philippines.<sup>51</sup>

While categorizing the two groups would make aid appear to be a transparent issue, where and why the funds are actually disbursed is complex. In fact, “receiving U.S. military aid is linked to a doubling of U.S. economic aid.”<sup>52</sup> Additionally, tying aid to specific foreign policy objectives can be difficult because of the diffuse and versatile functions of aid. For example, military aid often runs counter to economic aid in that it is not meant to further economic freedom and development. However, for the purpose of this research, overall U.S. aid will be measured as supporting all three foreign policy objectives despite military aid.

### Purpose of U.S. Foreign Aid

The United States groups aid into economic and military blocs, but the overall goal of aid is the same. Considerable evidence exists showing aid to be motivated by

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<sup>50</sup> Jan Nijman, “United States Foreign Aid: Crisis? What Crisis?” 30.

<sup>51</sup> Ibid.

<sup>52</sup> Fleck and Kilby, “Changing Aid Regimes?” 190.

political, strategic and even welfare interests of the donor rather than the widespread myth that aid is primarily meant to assist the poor.<sup>53</sup> More specifically, the purpose of U.S. aid is to increase economic collaboration between countries in the hopes of encouraging political constancy and more favorable relations between countries. U.S. leaders recognize the role of the hegemon in this endeavor.<sup>54</sup>

Not incidentally, the initiative and released enterprise of an expanded private sector is presumed by most Western economists – and by many in the developing countries as well – to provide an unrivaled means of spurring economic growth. The gains are, in turn, thought to promote political stability and, through this, close ties and favorable attitudes toward the aid donors and their economic systems.<sup>55</sup>

With the Global War on Terror (GWOt), have the goals of aid changed? An Action Aid report on the distorting impact of the GWOt on aid flows notes that, similar to the Cold War, aid flows during the War on Terror are tied to a single purpose.<sup>56</sup> The War on Terror, or “long war,” is compared to the Cold War as a global, zero-sum ideational struggle.<sup>57</sup> In comparison to Cold War U.S. aid, aid flows are again intended to create support for the U.S. in the War on Terror and the U.S.-led global order.

While aid levels have increased substantially during the War on Terror, the main purposes for giving aid have remained steadfast with the additional aid going towards projects and imperatives that benefit U.S. security requirements after 9/11.<sup>58</sup>

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<sup>53</sup> Boone, “Politics and the Effectiveness of Foreign Aid,” 306.

<sup>54</sup> Kindleberger, *The World in Depression, 1929-1939*.

<sup>55</sup> Marvin G. Weinbaum, *Egypt and the Politics of U.S. Economic Aid* (Boulder, CO: Westview Press, 1986), 1.

<sup>56</sup> John Cosgrave, “The Impact of the War on Terror on Aid Flows,” *Action Aid*, last modified March 1, 2004, [http://www.actionaid.org/uk/100235/our\\_research.html](http://www.actionaid.org/uk/100235/our_research.html)

<sup>57</sup> Barry Buzan, “Will the ‘Global War on Terrorism’ Be the New Cold War?” *International Affairs* 82, no. 6 (2006): 1101.

<sup>58</sup> Woods, “The Shifting Politics of Foreign Aid,” 397.

Conspicuously, it is bilateral aid that is most affected by donor interests.<sup>59</sup> That is to say that increasing aid levels during the War on Terror have encompassed considerable funds for central allies including Jordan and Pakistan.<sup>60</sup> Most of the changes in aid allocation occurring during the GWOt are to countries of strategic significance.<sup>61</sup> These aid payments have propped up regimes as a bulwark in the War on Terror.

There are many secondary goals of foreign aid. The United States has at times worked to promote democracy and it has demonstrated commitments to humanitarian efforts, particularly in efforts to eradicate polio, and reduce smallpox and infant mortality.<sup>62</sup> Nonetheless, it is the views of elites that prevail in debates of foreign policy.<sup>63</sup> In the elitist perspective, security concerns are predominant in the post-September 11 environment and foreign aid policy was transformed to meet the changing security needs of the United States. While foreign aid is still given towards humanitarian endeavors, according to Bob Woodward, the change in U.S. foreign aid by the Bush administration neglected previous aims such as humanitarian assistance programs and the spread of American values such as democracy.<sup>64</sup> The transformation of U.S. foreign aid post-9/11 has been to support U.S. security concerns.

With aid based largely on the interests of the donor country, what are the interests of the United States? The 2002 National Security Strategy “commits the U.S. to ‘actively work to bring the hope of democracy, development, free markets, and free trade to every

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<sup>59</sup> Burnside and Dollar, “Aid, Policies, and Growth,” 848.

<sup>60</sup> Fleck and Kilby, “Changing Aid Regimes?” 187.

<sup>61</sup> Todd Moss, David Roodman, and Scott Standley, “The Global War on Terror and U.S. Development Assistance: USAID Allocation by Country, 1998-2005,” *Center for Global Development*, Working Paper Number 62, July 2005, 1.

<sup>62</sup> Picard and Buss, *A Fragile Balance*, 282.

<sup>63</sup> *Ibid.*, 287.

<sup>64</sup> Bob Woodward, *State of Denial: Bush at War, Part III* (New York: Simon and Schuster, 2006), 127; and Picard and Buss, *A Fragile Balance*, 163.

corner of the world.”<sup>65</sup> The desire to expand the U.S.-led global order, predominantly through economic means, results in the emergence of three general goals for U.S. aid. These objectives are political stability, increased economic liberalization and enhancing U.S. influence in the aid receiving country. Subsequent sections will address each goal in more detail.

### **Political Stability**

Many authors make the argument that the United States gives aid to democratic countries or to promote democracy.<sup>66</sup> Past studies have shown the U.S. to be more partial to democracies over non-democracies.<sup>67</sup> Nonetheless, it is also apparent that the U.S. does not stop aid to non-democratic regimes, particularly when non-democratic regimes support the GWoT.<sup>68</sup> The broader goal of U.S. aid in general is to ensure stability.

Stability, or the continuation of regimes known to the U.S., has always been an international goal. However, with the advent of the War on Terror, state stability has taken on particular salience. Fueled by the belief from elites that poor or failed states act as sanctuary and even breeding grounds for terrorists, political stability has become a vital goal of foreign aid.<sup>69</sup> In fact, the belief that failed or failing states offer a potential harbor to terrorists has made them a main concern of the Bush administration. As a result, state failure is a main priority in the Global War on Terror.<sup>70</sup>

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<sup>65</sup> Moss, Roodman, and Standley, “The Global War on Terror and U.S. Development Assistance,” 3.

<sup>66</sup> Alberto Alesina and Beatrice Weder, “Do Corrupt Governments Receive Less Foreign Aid?” *The American Economic Review* 92, no. 4 (2002): 1127-1135; Alesina and Dollar, “Who Gives Foreign Aid to Whom and Why?” 50; and Fleck and Kilby, “Changing Aid Regimes?” 189.

<sup>67</sup> Alesina and Weder, “Do Corrupt Governments Receive Less Foreign Aid?” 1127.

<sup>68</sup> Dan Morgan, “Foreign Aid Tied to Terror Fight,” *Pittsburgh Post-Gazette* (November 3, 2001), A1.

<sup>69</sup> Robert McMahon, “Transforming U.S. Foreign Aid,” *Council on Foreign Relations Publication no. 10176* (New York: Council on Foreign Relations, March 17, 2006), [www.cfr.org/publications/10176](http://www.cfr.org/publications/10176)

<sup>70</sup> Lancaster, *George Bush's Foreign Aid*, 60.

Failed states are viewed by the U.S. as a direct threat to winning the War on Terror. Indeed, increased funding for Department of Defense (DOD) aid programs is also to be used for stabilization and community development projects, such as building schools and mentoring city councils.<sup>71</sup> Political stability is a goal of U.S. assistance as the U.S. government wants the steadiness and continuation of foreign governments that are willing to work with the United States. One means of promoting stability is economic and trade agreements, which have built in processes to mediate economic conflicts and therefore also holds the power to ease political pressures. Many of these agreements, such as MERCOSUR (Brazil, Argentina, Paraguay, Venezuela and Uruguay) and the African Union are supported by the U.S.<sup>72</sup>

The maintenance of a stable world order is in the interests of the United States. Having foreign regimes that are predictable and willing to work with the U.S. ensures the U.S.' ability to continue to pursue its global aims. Having stable governments preserves the status-quo of a U.S.-led global order. Political upheaval in other countries does not just pose a problem to maintenance of the U.S.-led global order, it also impacts trade flows. The United State depends on global trade flows to continue enticing countries into the U.S. driven global economic structure.

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<sup>71</sup> Lancaster, *George Bush's Foreign Aid*, 16 and 43.

<sup>72</sup> Oli Brown, "Promoting 'Good' Governance through Trade and Aid: Instruments of Coercion or Vehicles of Communication?" in *Trade, Aid and Security: An Agenda for Peace and Development*, eds. Oli Brown, Mark Halle, Sonia Pena Moreno and Sebastian Winkler (Sterling, VA: Earthscan, 2007), 84.

## Economic Freedom

Economic liberalization is a goal of the U.S. meant to promote the global liberal market model, or classical liberalism. In essence, the aim is to lessen government economic restrictions in order to increase private ownership. This is thought to lead to increased trade and economic interdependence, resulting in less conflict. This is based on Norman Angell's 1910 book, *The Great Illusion*, which makes the case that economic interdependence promotes peace.<sup>73</sup>

The United States' desire for economic liberalization is a direct legacy of Presidents Wilson, Roosevelt and Truman. Having countries economically interdependent is thought to reduce the instances of conflict between countries as they are united by trade. The influence of open market economists on American elites still persists today. Promoting the laissez-faire attitude are the American Enterprise Institute (founded 1954), the Heritage Foundation (founded 1973) and the Cato Institute (founded 1977), all in Washington, DC.<sup>74</sup>

Additionally, the current global economic system is dominated by the United States and having more countries involved in the order expands the influence of the U.S. According to Maizels and Nissanke, the interests of the donor country are in stimulating growth and/or easing economic difficulties in the trade partner countries in order to expand the market for exports or to secure its sources of imports.<sup>75</sup> In this instance, economic liberalization is seen to not only benefit the U.S. through increasing markets

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<sup>73</sup> Norman Angell, *The Great Illusion: A Study of the Relation of Military Power to National Advantage* (New York: Knickerbocker Press, 1910).

<sup>74</sup> Eckes, *The Contemporary Global Economy*, 95.

<sup>75</sup> Maizels and Nissanke, "Motivations for Aid to Developing Countries," 884.

for its products, but it is also perceived as aiding the domestic economy of the aid receiving country.

### **Global Influence/ United Nations Voting**

The third target, global influence or soft power, is defined by Joseph S. Nye, Jr. as the U.S.'s ability to get what it wants "through attraction rather than coercion or payments. It arises from the attractiveness of a country's culture, political ideals, and policies."<sup>76</sup> The goal of increasing U.S. soft power is to enlarge the U.S. sphere of influence. The belief is that any single country requires the backing of others to be seen as not only legitimate, but as a global leader. Therefore the U.S. has an incentive to utilize aid as a political tool to achieve the needed support.<sup>77</sup> The United States desires global reach and the ability to influence global matters. Having such a position would allow the U.S. to perpetuate the U.S.-led global order.

In an effort to maintain its global influence, the U.S. utilizes the United Nations as a pulpit to affect and guide other countries. U.N. votes have been found to be a consistent gauge of the political relationship between countries and these alliances help determine flows of foreign aid.<sup>78</sup> In fact, when it comes to the U.N. Security Council, "a country's U.S. aid increases by 59 percent and its U.N. aid by 8 percent when it rotates onto the council."<sup>79</sup> The results of the study by Kuziemko and Werker demonstrate that U.N. Security Council membership also impacts foreign aid flows. When a country is selected

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<sup>76</sup> Joseph S. Nye, *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004), X.

<sup>77</sup> Lundborg, "Foreign Aid and International Support as a Gift Exchange," 128.

<sup>78</sup> Alesina and Dollar, "Who Gives Foreign Aid to Whom and Why?" 46.

<sup>79</sup> Ilyana Kuziemko and Eric Werker, "How Much Is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations," *Journal of Political Economy* 114, no. 5 (2006): 905.

to join the Security Council, incoming foreign aid increases steeply and remains high throughout their Security Council term. Only after the term ends do aid levels abruptly return to pre-Security Council levels.<sup>80</sup> This demonstrates that U.N. votes are one area of particular interest for the U.S. as it pertains to influence.

This is not to say that U.N. voting is the only area where the U.S. wishes to expand its impact. As previously mentioned, a goal of U.S. aid is to expand U.S. economic reach to ensure capitalism, and its champion, the United States, remain integral parts of the global economy and global system. Soft power and alliances can be military-strategic or commercial, or both, when it comes to increasing the U.S. sphere of influence.<sup>81</sup> U.N. voting patterns are correlated with both country relationships and having parallel political and economic interests. It is therefore no surprise that “donors favor their ‘friends’ in disbursing aid, and an observable manifestation of ‘friendship’ is the pattern of UN votes.”<sup>82</sup> This suggests that U.N. voting is one observable expression of soft power.

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<sup>80</sup> Kuziemko and Werker, “How Much Is a Seat on the Security Council Worth?” 907.

<sup>81</sup> Alesina and Dollar, “Who Gives Foreign Aid to Whom and Why?” 47.

<sup>82</sup> *Ibid.*, 46.

## METHODOLOGY

In order to assess the relationship between U.S. foreign aid and foreign policy objectives, I will be using a least-squared test to conduct a regression analysis of the data. Because we would expect to see the results of aid the year after the aid is given, data for the independent variable, or aid, will be lagged by one year from the dependent variable. However, foreign aid experts typically expect to see the results of aid 5 to 10 years after initiating an aid program. For that reason, a second regression, lagging aid by five years, will also be analyzed. A country fixed effects model is used to control for differences between case countries that might influence aid. I use the statistical software program STATA to determine if any relationship is statistically significant. Data for the regression analysis will come from existing metrics.

To measure political stability in each country I will be using the State Fragility Index and Matrix from the Center for Systemic Peace (CSP). This index uses multiple variables to infer a state's stability.<sup>83</sup> To rate increased economic liberalization, I will be using the Index of Economic Freedom developed by The Heritage Institute in collaboration with *The Wall Street Journal*. This index measures various elements that are then combined into four broad categories that quantify economic liberalization.<sup>84</sup> For the third scale, measuring U.S. influence/ soft power, I will make use of non-consensus voting in the United Nations. U.S. influence, in particular, will be difficult to assess and I have necessarily chosen to look at only one index in order to quantify the sway of the U.S. on other countries.

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<sup>83</sup> Specific variables noted in detail in subsequent section.

<sup>84</sup> Specific variables noted in detail in subsequent section.

## Limitations

By limiting the variables to a single scale for each foreign policy objective, the chances of realization in every category are narrowed because each broad goal will naturally contain many elements. However, these scales are designed to present a raw gauge of success or failure for each objective and are not an exact prediction. There are many possible variables to measure each category and I am measuring but a few. This was necessary for the brevity of the research and because not all mediums of each goal are measurable. Soft power, in particular, is difficult to measure.<sup>85</sup> Nonetheless, this study is able to overcome some of these limitations by choosing indices that are representative of each of the major U.S. foreign policy goals.

Another limitation of this study is the choice to use a lagged model instead of a change score model. A change score model has its strengths, such as controlling for measurement error, but the lagged model was chosen for specific reasons. In this case, aid is given to generate a change or result in the receiving country. This means that aid can be, in part, based on the aid receiving country's output. If a country is not stable, U.S. aid might increase to that country to assist in stability efforts. Because the result has a causal effect on the input of aid, the change score model would overestimate the negative effects.<sup>86</sup>

An additional drawback to this study is the potential for omitted variables. Of particular note may be external economic or political factors affecting a state's economic

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<sup>85</sup> Nye, *Soft Power: The Means to Success in World Politics*, 2-3.

<sup>86</sup> David Johnson and Haskell Sie, "Comparing Change Scores with Lagged Dependent Variables in Models of the Effects of Parents' Actions to Modify Children's Problem Behavior," *Pennsylvania State University*, last modified May 22, 2013, [http://www.modeling.uconn.edu/m3c/assets/File/Johnson\\_parental%20intervention%20residualized%20change\(1\).pdf](http://www.modeling.uconn.edu/m3c/assets/File/Johnson_parental%20intervention%20residualized%20change(1).pdf)

growth and/or political stability.<sup>87</sup> Once more, this was necessary for the brevity of the research and because not all mechanisms affecting each objective are easily discernable or measurable. I have, consequently, attempted to select a representative method of measuring each aim of aid in order to gain a broader picture of the success of U.S. aid in general. Additional research and better data are necessary. However, it is possible to draw important conclusions from the existing variables and available data, demonstrating the significance of this research despite its small scope.

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<sup>87</sup> Variables might include: changes in currency value or foreign investment, discovery of an abundant natural resource, political coup or other politically destabilizing event.

## U.S. Foreign Aid to Case Countries

Table 1 - U.S. Economic and Military Aid by Country, 2002 – 2011

YEAR	COUNTRY										Economic, Military & Combined Aid
	Egypt	Georgia	Israel	Jordan	Mexico	Pakistan	Peru	Philippines	Russia	Zambia	
2002	1106.6	108.7	892.7	290.3	94.4	947.9	322.9	134.3	512.1	88.4	
	1598.7	133.6	2532.0	125.4	23.6	93.9	16.3	69.4	79.5	0.2	
	2705.3	242.3	3424.7	415.7	118.0	1041.8	339.3	203.7	591.7	88.7	
2003	552.7	106.2	796.2	1270.3	67.2	387.8	266.3	179.7	840.5	79.4	
	1570.0	11.0	3718.3	772.4	18.0	318.0	12.4	65.2	68.6	0.4	
	2122.7	117.2	4514.5	2042.7	85.1	705.8	278.7	244.9	909.1	79.7	
2004	779.6	130.4	653.8	479.7	98.0	410.6	308.3	169.7	1043.7	120.1	
	1547.7	15.9	2542.7	253.4	12.9	101.7	10.7	44.7	84.1	0.5	
	2327.3	146.3	3196.5	733.1	110.9	512.2	319.0	214.4	1127.8	120.7	
2005	309.7	109.1	548.2	427.1	104.8	494.1	194.9	146.3	1737.9	163.0	
	1472.3	15.6	2537.5	349.5	12.4	367.3	8.3	43.5	85.4	0.4	
	1782.1	124.7	3085.7	776.5	117.2	861.4	203.1	189.8	1823.2	163.4	
2006	548.0	406.0	314.3	364.1	187.1	693.7	359.1	192.7	1531.6	214.0	
	1431.4	15.4	2483.2	232.4	16.7	359.8	13.1	41.1	174.9	0.3	
	1979.4	421.4	2797.4	596.5	203.8	1053.5	372.2	233.8	1706.6	214.3	
2007	716.9	95.8	179.5	354.4	77.3	668.8	167.5	112.7	1585.5	221.8	
	1392.1	11.8	2501.4	225.2	16.6	372.8	8.6	46.8	134.2	0.3	
	2109.0	107.6	2680.9	579.6	93.9	1041.6	176.0	159.5	1719.6	222.0	
2008	310.3	138.4	46.3	599.1	86.7	568.3	157.5	135.9	1427.8	276.9	
	1347.5	10.5	2485.8	314.6	13.1	448.8	11.5	33.7	78.5	0.5	
	1657.8	148.9	2532.1	913.7	99.8	1017.1	169.1	169.6	1506.3	277.4	
2009	502.6	606.0	41.5	590.9	444.4	1387.9	145.3	157.2	477.9	303.6	
	1339.3	13.9	2452.4	245.0	70.0	495.0	10.3	38.0	77.2	0.4	
	1841.9	620.0	2493.9	836.0	514.4	1883.0	155.6	195.2	555.1	304.0	
2010	405.1	427.8	37.0	472.2	633.4	2036.2	192.2	206.5	426.8	343.8	
	1327.6	18.2	2856.3	309.8	97.9	945.7	24.4	36.3	89.5	0.4	
	1732.7	446.0	2893.3	782.0	731.3	2981.8	216.6	242.8	516.3	344.2	
2011	172.5	95.1	31.3	531.6	317.5	1026.9	128.6	584.5	88.9	322.8	
	1298.7	18.0	2995.1	319.2	93.7	673.2	13.0	26.3	41.6	0.4	
	1471.2	113.0	3026.4	850.8	411.2	1700.1	141.6	610.8	130.4	323.2	

Amount in millions, constant 2011 U.S. Dollars  
Source: U.S. Overseas Grants and Loans (Greenbook)<sup>88</sup>

<sup>88</sup> “U.S. Overseas Loans and Grants: Obligations and Loan Authorizations,” USAID.

## DATA

**State Fragility**

Part of the foundation of the U.S.-led order is global peace and stability. The United States relies heavily on the global economic system remaining open and prosperous to secure its position as the global hegemon. When states are not at war, they are better equipped to develop their economies and to increase trade. It is consequently a foreign policy objective, and a goal of aid, to reinforce stability in countries around the globe. The War on Terror has placed significance on stability as a means of reducing and preventing terrorism.<sup>89</sup>

State Fragility is a complex issue and requires a complex calculation to measure it. To measure political stability in each country the State Fragility Index and Matrix from the Center for Systemic Peace (CSP) is used. This index uses multiple variables to infer a state's stability. In particular, the index measures political "effectiveness and legitimacy across four distinct dimensions: security, governance, economic development, and social development."<sup>90</sup> The idea for this matrix was originally a product of the University of Maryland at the request of USAID. It is designed to measure a country's fragility in terms of the government's ability to manage conflict, create and execute public policy, and to deliver essential services. It also looks at systemic and domestic level variables such as

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<sup>89</sup> Robert McMahon, "Transforming U.S. Foreign Aid"; and Picard and Buss, *A Fragile Balance*, 155.

<sup>90</sup> Monty G. Marshall and Benjamin R. Cole, "Global Report 2011: Conflict, Governance, and State Fragility," *Center for Systemic Peace*, last modified December 1, 2011, <http://www.systemicpeace.org/GlobalReport2011.pdf>

system coherence and quality of life, as well as the government's ability to effectively respond to crisis and its capability to maintain development.<sup>91</sup>

State Fragility is based on a 25 point scale measuring the effectiveness and legitimacy of the four indices: security, politics, economics and social factors. According to the Center for Systemic Peace, country scores are derived from both effectiveness and legitimacy in four performance areas: security, politics, economics and social. Each of these four dimensions is assessed on a four-point fragility scale, with scoring as follows: 0 'no fragility,' 1 'low fragility,' 2 'medium fragility,' and 3 'high fragility,' with an exception for Economic Effectiveness, which is rated on a five-point fragility scale to include 4 'extreme fragility.'<sup>92</sup>

The Center for System Peace creates the State Fragility Index and Matrix by combining scores from these indicators and gives each country a score ranging from 0 or "no fragility" to 25 or "extreme fragility." The index is compiled by researchers at the Center. Table 2 lists the state fragility scores for the case countries for the period 2002 to 2012.

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<sup>91</sup> Marshall and Cole, "Global Report 2011: Conflict, Governance, and State Fragility."

<sup>92</sup> Ibid.

## Case Country State Fragility Scores

Table 2 - State Fragility Index Scores by Country, 2002 – 2012

YEAR	COUNTRY									
	Egypt	Georgia	Israel	Jordan	Mexico	Pakistan	Peru	Philippines	Russia	Zambia
2002	12	11	9	6	4	17	12	12	12	18
2003	13	12	9	6	4	16	12	12	11	18
2004	12	10	9	6	5	15	12	12	11	19
2005	13	9	8	6	5	16	12	12	10	18
2006	13	6	8	6	5	15	11	12	8	18
2007	13	8	8	6	3	16	8	12	8	17
2008	13	8	9	5	4	16	7	12	8	16
2009	13	8	9	5	4	16	8	12	8	15
2010	12	7	8	5	4	15	7	11	7	14
2011	12	8	8	6	5	16	7	11	7	14
2012	11	8	8	7	5	16	6	11	7	14

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State Fragility Index = Effectiveness Score + Legitimacy Score (25 points),

0 = no fragility, 25 = extreme fragility<sup>93</sup>

Source: Center for Systemic Peace

<sup>93</sup> “State Fragility Index and Matrix Time-Series Data, 1995-2012,” *Integrated Network for Societal Conflict Research: Center for Systemic Peace*, last modified 2013, <http://www.systemicpeace.org/inscr/inscr.htm>

## **Economic Freedom**

Current U.S. development ideas are built on the belief that capitalism and integration into the U.S.-led capitalist economic system are what lead to economic growth, which results in development.<sup>94</sup> Additionally, the U.S.-led capitalist system greatly benefits the United States. It is therefore unsurprising that economics plays a central role in U.S. foreign policy. By incorporating more and more countries into the U.S. global economy, it is the goal of the United States to integrate these states into the U.S.-led order. By providing economic aid, the U.S. believes it can incorporate more countries into the global economy and thereby increase their reliance on and position in the current global order.

As with political stability, continued U.S. leadership relies on the global economic system remaining open and prosperous. This neoliberal ideology has come to be known as the Washington Consensus, which favors financial deregulation and market integration.<sup>95</sup> It can be surmised, therefore, that the economic goal of foreign aid for the past decade has been to deregulate and integrate markets into the global economy.

The Index of Economic Freedom, a collaborative project between *The Wall Street Journal* and The Heritage Foundation, looks at deregulation and market integration in its' assessment of economic freedom. This index is used by the Millennium Challenge Corporation (MCC) to measure a country's economic freedom to determine their eligibility funding. This instrument has measured economic freedom since 1995 "by creating 10 benchmarks that gauge the economic success of 185 countries around the

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<sup>94</sup> Essex, *Development, Security, and Aid*, 28.

<sup>95</sup> Ikenberry, *Liberal Leviathan*, 232.

world.”<sup>96</sup> While these variables are politically charged, they represent the neoliberal approach to the market and the limited role of the state. According to The Heritage Foundation, each of the ten components is equally weighted and measured on a scale from 0 to 100, with 100 representing maximum freedom. The ten components are grouped into four broad categories:<sup>97</sup>

**Rule of Law** (property rights, freedom from corruption)

**Limited Government** (fiscal freedom, government spending)

**Regulatory Efficiency** (business freedom, labor freedom, monetary freedom)

**Open Markets** (trade freedom, investment freedom, and financial freedom)

While each of the freedoms in these categories is individually scored on a scale from 0 to 100, a country’s total economic freedom grade is determined by averaging its scores from the 10 individual freedoms listed above.<sup>98</sup> Hence, the overall scale ranges from 0 to 100 with a higher score denoting that a country is more economically free. A perfect score of economic freedom would, therefore, be 100. Table 3 denotes the economic freedom scores for each case country for the period 2002 to 2012.

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<sup>96</sup> “2013 Index of Economic Freedom,” *The Heritage Foundation* (In Partnership with *The Wall Street Journal*), accessed October 16, 2013, <http://www.heritage.org/index/>

<sup>97</sup> Ibid.

<sup>98</sup> Ibid.

## Case Country Economic Freedom Scores

Table 3 - Economic Freedom Scores by Country, 2002 -2012

YEAR	COUNTRY									
	Egypt	Georgia	Israel	Jordan	Mexico	Pakistan	Peru	Philippines	Russia	Zambia
2002	54.1	56.7	66.9	66.2	63.0	55.8	64.8	60.7	48.7	59.6
2003	55.3	58.6	62.7	65.3	65.3	55.0	64.6	61.3	50.8	55.3
2004	55.5	58.9	61.4	66.1	66.0	54.9	64.7	59.1	52.8	54.9
2005	55.8	57.1	62.6	66.7	65.2	53.3	61.3	54.7	51.3	55.0
2006	53.2	64.5	64.4	63.7	64.7	57.9	60.5	56.3	52.4	56.8
2007	54.4	69.3	64.8	64.5	66.0	57.2	62.7	56.0	52.2	56.2
2008	58.5	69.2	66.2	64.0	66.1	55.5	63.7	55.9	49.7	56.2
2009	57.9	69.7	67.5	65.4	65.8	56.9	64.6	56.7	50.7	56.6
2010	59.0	70.4	67.7	66.1	68.3	55.2	67.6	56.3	50.3	58.0
2011	59.1	70.4	68.5	68.9	67.8	55.1	68.6	56.2	50.5	59.7
2012	57.9	69.4	67.8	69.9	65.3	54.7	68.7	57.1	50.5	58.3

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Economic Freedom Scale from 0 to 100, 0 = no freedom, 100 = perfect freedom  
Source: The Heritage Foundation<sup>99</sup>

<sup>99</sup> “2013 Index of Economic Freedom,” *The Heritage Foundation*.

## Global Influence/ United Nations Voting

The United States wants other states to support the U.S.-led global order, particularly during the U.S. War on Terror. While the United States is a military power and could conceivably coerce support from other countries, it is the goal of foreign aid to increase the U.S.' soft power. Joseph Nye, a professor and former U.S. government official, is the first to coin the term "soft power" in his book *Bound to Lead: The Changing Nature of American Power*.<sup>100</sup> While soft power is a difficult concept to quantify, Nye defines it "as the ability to influence likeness of others. Specifically, a country's [...] soft power lies in its ideology, cultural and political values and the ability to form international norms and institutions."<sup>101</sup> Nye goes on to note that:

When countries make their power legitimate in the eyes of others, they encounter less resistance to their wishes. If a country's culture and ideology are attractive, others more willingly follow. If a country can shape international rules that are consistent with its interests and values, its actions will more likely appear legitimate in the eyes of others. If it uses institutions and follows rules that encourage other countries to channel or limit their activities in ways it prefers, it will not need as many costly carrots and sticks.<sup>102</sup>

Soft power is difficult to measure. While soft power has many expressions, one manifestation is through similar voting in the United Nations. While there may be extraneous factors influencing a country's voting decisions, when a country's votes harmonize with the United States', it is also a likely sign of U.S. influence. By reviewing United Nations voting records for the years 2002 through 2012, we can find the degree of agreement between aid receiving countries and the United States. Table 4 illustrates the

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<sup>100</sup> Henry H. Sun, "International Political Marketing: A Case Study of the United States Soft Power and Public Diplomacy," *Journal of Public Affairs* 8, no. 3 (2008): 172.

<sup>101</sup> Ibid.

<sup>102</sup> Nye, *Soft Power*, 10-11.

extent to which the case countries and the U.S. have voted together at the U.N. The data are comprised of all votes, excluding consensus votes, which is when no country voted in opposition to the U.S. vote.

### Case Country United Nations Voting Scores

Table 4 - U.N. Voting with the U.S. by Country, 2002-2012

YEAR	COUNTRY									
	Egypt	Georgia	Israel	Jordan	Mexico	Pakistan	Peru	Philippines	Russia	Zambia
2002	20.0	45.1	92.6	13.5	27.1	19.4	32.9	24.1	30.4	22.4
2003	12.8	47.1	89.7	11.5	20.7	17.9	23.0	17.7	26.4	17.7
2004	8.5	36.7	93.2	16.0	23.0	9.7	25.0	13.0	18.6	12.7
2005	8.9	43.7	90.5	12.5	23.5	8.5	24.7	19.5	21.7	12.8
2006	7.4	40.5	84.2	5.3	23.3	17.6	23.6	16.3	20.5	13.8
2007	6.3	36.4	86.4	9.2	15.8	11.0	16.2	7.9	11.9	5.4
2008	6.7	41.8	87.7	8.3	24.1	18.9	26.3	18.8	17.1	16.0
2009	17.7	64.4	97.0	21.3	36.8	30.0	37.5	30.3	32.2	28.8
2010	31.4	58.9	91.8	33.8	37.5	21.3	39.4	31.3	32.8	33.3
2011	34.8	78.8	92.8	38.6	50.0	22.8	50.0	47.4	47.2	39.5
2012	30.0	59.6	92.3	35.6	39.7	23.0	40.5	36.5	42.9	37.0

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Values are percentages of each case country and U.S. consensus in U.N. voting  
Source: U.S. State Department

## ANALYSIS

Using the statistical software program STATA, I am able to conduct a regression analysis of the data to determine if U.S. foreign aid has achieved any of the three broad U.S. foreign policy objectives. I will test economic aid and military aid simultaneously as well as combined in order to parse out any connection between the data. Additionally, because we would expect to see the results of aid the year after the aid is given, data for the independent variable of aid is lagged by one year from the dependent variable. However, foreign aid experts typically expect to see the results of aid five to ten years after initiating an aid program. For that reason, a second regression, lagging aid by five years, will also be examined.

For this analysis I will be conducting a least-squares regression at a 95% confidence interval. In a least-squares regression analysis at a 95% confidence interval, the P-value for a statistically significant relationship between the data would result in alpha being less than 0.05. A statistically significant relationship is seen between both military and economic aid and economic freedom with a one year lag. Using a five year lag, a statistically significant relationship is noted between economic aid and state fragility.

The results of the regression analysis for military and economic aid using a one year lag are shown in Table 5. A regression analysis for combined aid (military and economic aid summed) with a one year lag is shown in Table 6. Table 7 presents the regression analysis for military and economic aid using a five year lag and Table 8 presents the analysis of combined aid using a five year lag.

## Regression Analysis Results

Table 5 - Results for Military and Economic Aid for Each Variable (1 Year Lag)

	STATE FRAGILITY	ECONOMIC FREEDOM	U.N. VOTING
	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>
Military Aid	.0014 (.0014) 0.319	-.0074* (.0026) 0.007*	.0034 (.0083) 0.679
Economic Aid	-.0006 (.0007) 0.379	.0036* (.0013) 0.010*	-.0016 (.0043) 0.707
Constant	10.7883 (1.9959) 0.000	65.3751 (3.7093) 0.000	12.3569 (11.5657) 0.288
N	100	100	100
R-Squared	0.8114	0.7532	0.8114
Root MSE	1.9097	3.549	11.066

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\* denotes statistical significance at the  $p < 0.05$  level

Table 6 - Results for Combined Aid for Each Variable (1 Year Lag)

	STATE FRAGILITY	ECONOMIC FREEDOM	U.N. VOTING
	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>
Combined Aid	-.00004 (.0004) 0.930	.0003 (.0009) 0.678	-.0001 (.0028) 0.964
Constant	12.5854 (1.1424) 0.000	55.8738 (2.2234) 0.000	16.7022 (6.5824) 0.013
N	100	100	100
R-Squared	0.8088	0.7255	0.8109
Root MSE	1.9119	3.7211	11.016

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\* denotes statistical significance at the  $p < 0.05$  level

Table 7 - Results for Military and Economic Aid for Each Variable (5 Year Lag)

	STATE FRAGILITY	ECONOMIC FREEDOM	U.N. VOTING
	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>
Military Aid	-.0024 (.0014) <i>0.107</i>	-.0114 (.0070) <i>0.114</i>	-.0128 (.0064) <i>0.055</i>
Economic Aid	.0010* (.0005) <i>0.041*</i>	-.0003 (.0024) <i>0.897</i>	.0017 (.0022) <i>0.449</i>
Constant	15.4286 (1.9619) <i>0.000</i>	70.2072 (9.3004) <i>0.000</i>	27.9894 (8.5499) <i>0.002</i>
N	50	50	50
R-Squared	0.9580	0.6735	0.9682
Root MSE	0.9426	4.4686	4.108

\* denotes statistical significance at the  $p < 0.05$  level

Table 8 - Results for Combined Aid for Each Variable (5 Year Lag)

	STATE FRAGILITY	ECONOMIC FREEDOM	U.N. VOTING
	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>	coefficient (standard deviation) <i>p-value</i>
Combined Aid	.00004 (.0004) <i>0.303</i>	-.0023 (.0018) <i>0.215</i>	-.0009 (.0017) <i>0.580</i>
Constant	11.8430 (.8476) <i>0.000</i>	58.9947 (3.9892) <i>0.000</i>	13.2777 (3.6736) <i>0.001</i>
N	50	50	50
R-Squared	0.9535	0.6584	0.9730
Root MSE	.9787	4.5117	4.2417

\* denotes statistical significance at the  $p < 0.05$  level

A statistical analysis of the survey items using the statistical software program STATA, as seen in Tables 5 and 6, determines that there is no significant relationship between U.S. economic aid, military aid or combined aid after a single year and any of the three broad foreign policy objectives, with one exception. That exception is a statistically significant relationship between U.S. military and economic aid and the outcome variable of economic freedom (Table 5). This relationship reveals that as military aid increases, economic freedom decreases and vice versa for economic aid. However, the conclusion drawn from these results suggest that the giving of both military and economic aid simultaneously cancels out any actual change in economic freedom.

Tables 7 and 8 show the analysis of a five year lag between the giving of aid and the outcome variables using the same statistical software program. As seen in Table 7, there is a statistically significant relationship between economic aid and state fragility. This would suggest that giving economic aid long-term supports the stability of a state's government. Additionally, while not a statistically significant relationship, it is interesting to note that there may be a connection between military aid and U.N. voting. While no solid correlation was demonstrated in these data, previous studies have found the giving of aid to be directly linked to U.N. voting.<sup>103</sup>

## **Discussion**

Why has aid failed in the immediate-term in achieving the United States' broad foreign policy objectives? For the reason that economic and military aids often run counter in their foreign policy goals. While military aid has multiple purposes, one main

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<sup>103</sup> Kuziemko and Werker, "How Much Is a Seat on the Security Council Worth?" 905-907.

target is serving the commercial interest of the donor.<sup>104</sup> Basically, military aid is given to support U.S. commercial interests in the manufacture and sale of military equipment around the world. While the goal of economic aid is to strengthen beneficiary country domestic markets and increase participation in international trade, the expectation of military aid is to rule the military market and have the U.S. be the only supplier of military equipment. These two forms of aid often run counter in their foreign policy goals, and as demonstrated in Table 5, their opposing purposes cause a lack of sound results in the overall goals of U.S. aid.

In the short-run (five-ten years), U.S. foreign policy objectives are still not being met by foreign aid. The exception, seen in Table 7, is state fragility. The giving of economic aid is linked to decreased state fragility. Nonetheless, this, too, has some caveats. While the continual giving of economic aid helps minimize state fragility, this does not necessarily support the ultimate goal of having a state remain stable on its own. In this case, maintenance of state stability may become dependent on the persistent giving of aid.

While the regression analyses conclude that U.S. aid has little impact in accomplishing the United States' broad foreign policy objectives in the post-9/11 era, aid is not without its successes. While it is the goal of aid to support these general foreign policy goals, most aid is still given for limited and specific reasons. As seen in the case of Egypt and Israel, aid is primarily given to maintain regional stability between Egypt and Israel. As no subsequent conflicts have broken out between Egypt and Israel and their

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<sup>104</sup> Nijman, "United States Foreign Aid: Crisis? What Crisis?" In *The Global Crisis in Foreign Aid*, 30.

bilateral agreements have held strong, U.S. aid appears to be quite successful in this endeavor.

Nonetheless, a re-evaluation of U.S. aid should be conducted to assess what level of aid would be sufficient to accomplish these narrow, particular foreign policy objectives in order to better spend the U.S. aid budget. Additionally, further research is necessary to determine what form of aid or other tool of foreign policy would work best at accomplishing the general foreign policy goals of the United States.

It can be concluded from this analysis that if the U.S. wants to promote economic freedom, then economic aid should not be given concurrently with military aid. Moreover, the results suggest that the promotion of economic freedom through U.S. economic aid is likely to cost a lot to produce even modest changes. As for maintaining state stability, the continuation of economic aid would appear to be working toward this effort. However, the prolongation of economic aid for the purpose of maintaining a foreign state's stability is not a long-term solution and the U.S. will want to assess what other methods might produce similar and more sustainable results.

## CONCLUSION

The Global War on Terror, it is argued, has been used to shore up support for the U.S. and its efforts to lead the global order.<sup>105</sup> The United States endeavors to maintain the status-quo and uses many avenues to shape the world and continue the existing order. The giving of foreign aid is one tool in this effort. Looking at the recent history of U.S. aid giving, three general goals emerge: political stability, increased economic liberalization and expanding soft power influence in the aid receiving country.

This study has assessed the success of combined U.S. economic and military aid in accomplishing these three general foreign policy objectives and found that aid is a weak tool for achieving these goals. On an immediate basis, the giving of economic aid does support economic liberalization. However, any substantial increase in economic liberalization would be an expensive undertaking for the U.S. and would require the relinquishment of the goals for military aid, namely the market domination of U.S. military goods and services.

In the larger view, economic aid also appears to help reduce state fragility. However, while economic aid helps minimize state fragility, this does not necessarily support the more crucial aim of having a state remain stable on its own. Economic aid in this case would be better viewed as a short-term solution to maintaining state stability when needed and not as a long-term foreign policy achievement.

The results of this study suggest that the U.S. should reassess its foreign policy goals with respect to foreign aid. While aid has been able to accomplish smaller and more direct goals, the giving of aid to achieve political stability, economic liberalization and

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<sup>105</sup> Buzan, "Will the 'Global War on Terrorism' Be the New Cold War?" 1101.

increased U.S. influence has largely been an expensive letdown. Some recommendations for U.S. foreign policy makers would be:

**Recommendation 1:** *Recognize that aid is not always the most effective tool of foreign policy.* The United States has a host of tools available for the implementation of foreign policy. While aid could be one such instrument, it is not the most effective device. If the U.S. wishes for global political stability, paying states to control fragility is not a long-term solution. It would be wise to research other methods for promoting sustainable state stability.

Additionally, aid is not always the most valuable means of influence. If the U.S. wishes to expand its soft power influence and also persuade states to join the U.S. in its endeavors, such as the war on terrorism, the U.S. needs to develop rapport with other states. Developing trust and accountability takes time. It is a process that requires the donor to be consistent, understanding, and to collaborate with others to achieve the desired outcome of both.

**Recommendation 2:** *Refocus aid for a primary purpose: humanitarian and/or developmental goals.* U.S. foreign aid policy has shifted considerably and continuously. Having a focused direction for aid that is unending would better facilitate meeting the goal(s) of aid. Instead of the U.S. aid budget being spread thin over multiple endeavors, having a focused objective for aid would allow for targeted impact. Correspondingly, it is important to be patient and consistent. There are no quick fixes in development or resolving humanitarian crisis, but having a long-term, steady approach can enable continual progress.

**Recommendation 3:** *Build on existing aid foundations and align them with domestic priorities.* Rather than throwing out the entirety of foreign aid, policy makers need to look at what is already working. Likewise, it must be acknowledged that one size does not fit all. There are no perfect policies when it comes to aid. Even while having a dedicated purpose, aid must remain flexible and work within the confines of each individual context to achieve the greatest impact.

**Recommendation 4:** *Aid should work from within instead of without.* The U.S. needs to acknowledge, as a donor, that existing power structures and local politics within the recipient country matter. Aid needs to work within the framework of these institutions to serve its purpose. While aid policy has the ability to be coercive and prompt change, the idea of holding aid hostage needs to be carefully considered.

Furthermore, it is presumably the goal of every country to do well economically. The U.S. must recognize this and find ways to include other states in the U.S.-led global economy that produces benefits for all. If the United States wishes for the global economy to remain U.S.-led, it must embrace the growing diversity and needs of other states.

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