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WASHINGTON UNIVERSITY IN ST. LOUIS

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Domestic Political Institutions in US Foreign Policy Decision  
Making

by

Jeremy Caddel

A dissertation presented to the  
Graduate School of Arts and Sciences  
of Washington University in  
partial fulfillment of the  
requirements for the degree  
of Doctor of Philosophy

August 2013

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# Dedication

*To my wife.*

## ABSTRACT OF THE DISSERTATION

Domestic Political Institutions in US Foreign Policy Decision Making

by

Jeremy Caddel

Doctor of Philosophy in Political Science

Washington University in St. Louis, 2013

Andrew Sobel, Chair

The essays in this dissertation are variations on a single theme—how do legislative attempts to constrain the executive branch impact foreign policy outcomes? Conventional wisdom on US foreign policy is split. Some argue that domestic politics no longer stop “at the water’s edge,” and the president is constrained by Congress in foreign policy just as in domestic policy, particularly when economic interests are at stake. Others contend that Wladavsky’s “two presidencies” thesis is alive and strong, and the legislature places relatively few constraints on the president’s foreign policy. My research, presented here, shows that the true relationship is much more nuanced. Placing the policy preferences of the primary political actors on a single, unidimensional scale oversimplifies the issue. In fact, Congress is concerned more with domestic policy, but foreign policy can bring substantial domestic repercussions. In trying to manage those domestic effects, Congress constrains the types of tools that the executive branch can use.

The first essay investigates Congressional oversight of the International Trade Commission (ITC). A sizable literature finds that members of the Congressional oversight committee have used their positions to influence ITC decisions in favor of constituents who seek trade protection. But, reviewing the history of the ITC and the legislation that governs it, I find that the oversight mechanisms put in place were insufficient to lock in this type of preference. Using an original dataset that quantifies witness testimony before the ITC, I find that previous studies have overlooked the substantial political pressure on the ITC from

domestic companies that *oppose* trade protection, as well as from those that seek protection. The ITC remains constrained by Congress, but Congressional oversight reveals far more diverse trade preferences than previously documented in the ITC literature.

The second and third essays focus on US foreign assistance policy. In the second essay, I highlight the role of foreign assistance accounts in the annual budget battles between the president and Congress. These accounts include the authorizations dictating how the foreign aid can be use and, therefore, what impact foreign assistance will have on domestic constituents. While most of the foreign aid literature focuses on which countries receive aid from the United States, that debate is less likely to be important to Congress. Using a novel dataset that records the president's request for foreign aid along with the Congressional appropriation, I am able to show that the differences between the president and Congress are much greater across the different accounts than than across the different recipients. In other words, Congress leaves the president discretion to determine where aid is sent, but retains a firm hand over how aid is spent.

Finally, in the third essay, I illustrate how the Congressional focus on foreign aid accounts constrains the use of foreign aid. I show that the allocation of foreign aid within each account is largely explained by the authorization language used for that account. Funds authorized for economic development indeed flow to countries where the economic need is greater. Funds authorized for security flow to countries where US strategic concerns predominate, regardless of economic ned. And funds authorized for political purposes respond to both types of objectives, depending on the specific purposes for which they are authorized. This goes a long way to explaining some persistent puzzles in the foreign aid literature. First, although studies using aggregated aid data find that US development aid is used for security purposes, this effect disappears when the aid is disaggregated by account. Second, previous research has shown that Republicans give more foreign aid than Democrats in the US, while across other donors, Liberals are far more supportive of foreign aid than conservatives. Using the disaggregated data, it becomes clear that the Republican generosity is not in development aid

at all. Rather, Republicans seek more foreign aid than Democrats for security and political purposes.

In sum, these essays show that research on the interbranch politics of US foreign policy can benefit greatly from a closer examination of the institutional structures that constrain the political actors. This more detailed account often reveals that oversimplified explanations of the domestic politics of foreign policy are based on unfounded assumptions or omitted variables. The more interesting question is not whether the president or Congress controls US foreign policy, but how the different incentives of the two actors interact to balance domestic and foreign objectives.

# Chapter 1

## Introduction: A Foreign Policy

## Research Agenda

This dissertation consists of three essays that appear at first glance to have little in common with one another. The first essay investigates decisions on trade protection by a quasi-judicial governmental agency. The second essay explores interbranch bargaining over the foreign assistance budget. The third again deals with foreign aid, but with a focus on the distribution of US foreign aid at the international level. Beyond a general focus on US foreign policy, there is no obvious theme.

In fact, the three essays are bound together by three common elements: a focus on the institutional structure within which foreign policy decisions are made, an effort to bridge the academic-policy divide, and a commitment to collecting the new data necessary to answer the research questions. In this introductory chapter, I explain these commonalities and provide a brief overview of how I applied them. Chapters 2-4 contain the “meat” of the dissertation, the three individual essays. Each essay is self-contained and succeeds or fails on its own merits. The reader disinterested in a bit of navel gazing about the research process is encouraged to skip ahead. But, personally, the lessons learned in the process of researching these essays were as important as the findings themselves.

First, all three essays present variations on a single puzzle—the relationship between the executive and legislative branches in determining US foreign policy. If the importance of a research agenda is measured by the number of trees felled, then the question of interbranch politics in foreign policy must be among the most important issues in the discipline. Numerous books and articles have been written on the topic (Canes-Wrone, Howell and Lewis, 2008; Fleisher and Bond, 1988; Fleisher et al., 2000; Hinckley, 1994; Peterson, 1994; Prins and Marshall, 2001; Ripley and Lindsay, 1993; Sigelman, 1979; Wildavsky, 1966). My particular spin on this debate is to focus on the principal-agency relationship between Congress and the executive branch, whether represented by the president or a bureaucratic agency. In all three essays, I focus on the ways that the particular institutional context of foreign policy limits the options of both branches and constrains available policy options.

Second, I make a determined effort to marry insights gleaned from foreign policy practi-

tioners with the theoretical models derived from academic research. The research for each of the three essays begins with the initial observation that practitioners and academics offer strikingly different descriptions of the political processes at work. In each instance, I take another look at the issue from the perspective of a practitioner and identify important aspects that the academic literature had overlooked. It is not that the existing academic literature has reached entirely incorrect conclusions. Nothing in these three essays represents a theoretical revolution in political science. Rather, applying a practitioner's eye to the problem reveals certain mistaken assumptions or omitted variables that, when accounted for, provide a more nuanced and complete understanding of interbranch politics in US foreign policy.

Finally, all three essays depend on the collection of new data. Indeed, having identified previously omitted variables in the literature, I have no choice but to locate and collect new data by which to measure them. If the goal is frequent publication, then this research strategy is no doubt inefficient. However, the collection and dissemination of this data facilitates future research on these subjects by the broader academic community. It is, in my opinion, as important a contribution to the discipline as the empirical findings themselves.

## **1.1 The Politics of the International Trade Commission**

In the first essay, I investigate political influences on the International Trade Commission (ITC), a bureaucratic agency charged with adjudicating petitions against unfair trade practices by foreign governments and companies. It is a topic that already has produced a large literature (Allee and Miler, 2010; Boltuck and Litan, 1991; Devault, 2002, 1993; Hansen, 1990; Hansen, Johnson and Unah, 1995; Hansen and Prusa, 1997; Helpman and Krugman, 1985; Lawrence, 1994; McGillivray, 2004; Milner, 1988; Milner and Kubota, 2005; Nivola, 1993). The general consensus in this field of research is that the ITC's decisions are heavily politicized through two mechanisms. First, the petitioning domestic industries, dependent

on the size and cohesiveness of their coalition, can apply direct political pressure on the ITC. Second, these industries can apply pressure through their elected representatives who sit on the Congressional committees overseeing the ITC. However, it is puzzling that the empirical findings in these papers rarely find the same effects. Some find that the petitioning industry's size or industry concentration are significant variables, while others do not. Likewise, the findings for the influence of Congressional committees show no robust agreement. It is clear that politics play a role, but the mechanisms for that political influence are less well understood.

My first contribution is to conduct a more thorough analysis of the institutional context in which Congress and the ITC operate. One of two conditions must be met for the types of political influence identified in the literature to have an enduring effect. It could be that Congress, when constructing the institutional oversight of the ITC, effectively locked a preference for protectionism into the rules of the ITC, a bias that would be resistant to any future shifts in political coalitions. Or, it could be that protectionist interests in Congress maintain constant vigil over the ITC, applying active oversight to ensure that their preferences are honored. As described in Chapter 2, neither condition is met.

In order to identify the missing variables, I take a fresh look at the records of ITC decisions, this time from the perspective of a practitioner. What is important to the ITC commissioners and the parties before them? One aspect seems to occupy a considerable amount of their attention — the testimony of witnesses. In retrospect, this seems obvious. As a quasi-judicial agency, ITC proceedings resemble litigated cases in the judicial branch. The petitioners and respondents hire attorneys, and those attorneys then go about building a factual case to support their legal argument. Witness testimony is an important part of that factual case. Indeed, upon taking a closer look at the records of witness testimony in ITC proceedings, two new avenues for political pressure become apparent. First, there is considerable testimony from witnesses on behalf of companies arguing *against* the petition for trade protection. Second, members of Congress often appear as witnesses to put active



political pressure on the ITC. But, this testimony is not limited to the petitioners. Members of Congress sometimes appear to *oppose* the petition for protection.

Investigating these two avenues for political pressure necessitates new data. Most of the existing research uses data that ends before the year 2000. So, before I can begin coding witness testimony, it is necessary to replicate the data on industry representation that was used to test the previous theories of ITC decision-making. This requires extensive cross-referencing of geographic information system (GIS) data on industry location with the geographic boundaries of Congressional districts. Having reconstructed those variables, I then can code the new variables for opposing witnesses and direct testimony from members of Congress. Ultimately, the effort is worth it. I am able to show that the ITC is not merely an iron triangle for domestic industries in need of protection, but a more open venue balancing the interests of US companies on both sides of the debate. Just as important, the new dataset will allow others to carry on the research agenda and further explore the politics of the ITC.

## 1.2 Foreign Aid Budget Battles

In the second essay (Chapter 3), I explore competition between the president and Congress over the US foreign assistance budget. There are large literatures both on the allocation of foreign aid (Alesina and Dollar, 2000; Bermeo, 2011; Drury, Olson and Van Belle, 2005; Dunning, 2004; McKinlay and Little, 1977; Mckinlay and Little, 1979; Meernik, Krueger and Poe, 1998; Milner and Tingley, 2011; Poe and Meernik, 1995; Schraeder, Hook and Taylor, 1998) and on policy bargaining between the president and Congress (Canes-Wrone, Howell and Lewis, 2008; Fleisher and Bond, 1988; Fleisher et al., 2000; Milner and Tingley, 2011; Sigelman, 1979; Wildavsky, 1966). However, the relationship between these two literatures has not been explored. The foreign aid research assumes that a unitary government makes decisions on how much foreign aid to provide and where to send it. But, foreign aid is both a

foreign policy and a budgetary issue. These decisions incorporate both foreign and domestic policy. Building on principle-agency theory, I am able to construct a more realistic model of foreign aid decision making. Congress, with electoral incentives to focus on domestic policy, is more likely to focus on the domestic ramifications of foreign aid, while leaving the president free to focus on the foreign policy objectives. In other words, the president cares about where aid is sent; Congress cares about how aid is spent.

As with my analysis of the ITC, a shift in perspective helps to identify the mechanisms at work. While the academic literature has been preoccupied with the distribution of foreign aid among recipient countries, the budget and planning documents that the government uses are equally concerned with the budgetary accounts through which the foreign aid will be funded. And, it is the authorizing language for these accounts that dictate the purposes for which funds can be used and the mechanisms for its delivery. Consequently, Congress should be more concerned with how much funding goes into each account than with how much goes to each country.

Again, new data is needed to test this theory. Most of the foreign aid research focuses only on how much money is finally spent in foreign aid, ignoring the back and forth between the president and Congress that leads to that final distribution. Using budgetary documents produced by the Department of State, I am able to construct a detailed dataset measuring the amount of foreign aid by both country *and* budgetary account for the president's request and the final amount approved by Congress. As predicted, the differences between the president and Congress are far more pronounced in the variation by account than they are for variation by recipient country.

### **1.3 The International Impact of Foreign Aid Accounts**

My third essay in Chapter 4 builds on the work in Chapter 3 to show how foreign aid accounts helps to make sense of patterns in US foreign policy. Two foreign policy puzzles,

in particular, are resolved by accounting for these effects of institutional constraints at the domestic level. First, there is wide agreement that US security concerns are a major determinant for which countries receive US development aid (Alesina and Dollar, 2000; Drury, Olson and Van Belle, 2005; McKinlay and Little, 1977; Mckinlay and Little, 1979; Schraeder, Hook and Taylor, 1998). But what explains this pattern? It is not surprising that security is an important objective for US foreign policy, but why use an *economic development tool* to accomplish a *security objective* when more appropriate security aid tools are available? Second, many cross-national studies have found that liberal governments provide more foreign aid than conservative governments, perhaps because the basic idea of wealth redistribution is more consistent with liberal ideology. However, the US is an exception to this rule, with Republican presidents providing more aid than Democrats? Why?

The influence of foreign aid accounts helps answer both questions. Foreign aid accounts control the domestic implications of US foreign aid. They determine which domestic groups profit from foreign aid distribution and how much foreign aid will cost voting taxpayers. Therefore, Congress cares about foreign aid accounts, regardless of whether it truly cares about the foreign policy implications of foreign aid. But, budgetary politics have made it extremely difficult for Congress to make changes to the authorizing language for these accounts. In effect, whatever authorities are enacted in the original authorizing legislation become locked in for the future. And, in theory, this institutional "stickiness" makes aid accounts a useful means to measure the importance of different US foreign policy goals.

Turning again to the dataset constructed from government budgetary documents, I am able to test this proposition. As predicted, there are clear differences between the way the executive branch can use each aid account. Funds from *economic development* accounts go to countries with greater economic need. Funds from *security* accounts go to countries with more strategic importance to the US. And, funds from *political* accounts respond to both sets of variables, depending on the specific purposes for which they were authorized. Having established that aid accounts are a valid indicator of how the aid is used, the two puzzles

are easily resolved.

Why do we use *development* aid for *security* objectives? As it turns out, we don't. Funds from the development accounts go primarily to countries with economic needs. But funds from the political accounts, which the US nonetheless reports to the international community as development aid, are sent to countries where US security concerns predominate. This oft-reported finding is merely a result of double counting by the US, the evidence for which is not discernible in the aggregated aid data used in previous studies.

And why are Republicans who frequently criticize development aid as a waste of taxpayer money more generous than Democrats? Again, the disaggregated aid data provides clear evidence that they are not. Even including President George W. Bush's historically large request for increased funding to combat AIDs in Africa, there is no significant difference between Republican and Democratic presidents' requests for development aid. However, Republicans give significantly more than Democrats to those accounts that can be used specifically to address US security concerns.

## 1.4 Conclusion

In summary, the three essays included in this dissertation explore very different areas in US foreign policy, but they share three important characteristics that define my broader research agenda. First, the theoretical mechanism in each essay is based on a careful examination of the institutional context in which foreign policy decisions are made. While the degree to which theory is emphasized in each essay varies, all of them investigate ways in which legislative constraints on the executive branch influence foreign policy. By carefully tying the policy process to principal-agency theory, I am better able to explain how these constraints operate.

Second, all three essays benefit from a conscious attempt to reconcile the perspective of policy practitioners with academic theory. The academic-policy divide is often lamented,

usually when policy makers fail to incorporate academic research to make better informed policy choices. These essays highlight that the division can work both ways. By paying greater attention to the details of the aspects of the policy process on which the practitioners focus, the researcher can uncover mistaken assumptions and omitted variables to help refine academic theory.

And finally, all three essays depend on new data collection. It is a labor-intensive endeavor, but an essential contribution to the discipline as a whole. The three essays that follow are my early attempts to apply this research process to the study of US foreign policy.

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## Chapter 2

# Domestic Competition over Trade Barriers in the US International Trade Commission

## Abstract

As governments lower traditional tariffs, they may use non-tariff barriers, such as antidumping (AD) and countervailing duty (CVD) laws, to protect domestic industries. Research on the US International Trade Commission (ITC), an independent agency responsible for adjudicating AD/CVD claims, finds mixed evidence of political influence in these cases. However, this research focuses predominately on the political influence of the petitioning industry. Applying theories of bureaucratic oversight, I posit that the ITC must be receptive both to petitioners and to firms that oppose trade barriers. Using an original dataset compiled from ITC records of witness testimony in these cases, I demonstrate that domestic opposition to an AD/CVD petition has a significant effect on ITC decisions. Moreover, members of Congress actively intervene on both sides of AD/CVD petitions and have some influence on ITC decisions. These results suggest that AD/CVD politics in the US is better understood as a contest between competing domestic interests than as a captured bureaucracy providing rents to protectionist interests.

## 2.1 Introduction

Countries cooperate through the GATT/WTO and other trade agreements to reduce tariffs, but these governments reserve the right to invoke more specific protectionist policies in limited circumstances. In particular, governments can assess additional duties against imports found to be underpriced due to unfair trade practices such as dumping or illegal subsidies. For proponents of these antidumping and countervailing duty (AD/CVD) laws, unfair trade practices are analogous to anti-competitive pricing in the domestic context. By selling goods at less than fair value, foreign companies could drive out domestic producers and establish monopolistic control of the market. For opponents, AD/CVD laws are merely a protectionist loophole for industries unable compete in the global market. By claiming that foreign prices are unfair, protectionists are able to raise barriers where tariffs are otherwise prohibited (Baldwin, 1985; Boltuck and Litan, 1991; Finger, 1993). These trade barriers can have a significant impact. By one estimate, AD/CVD procedures cost the US up to \$4 billion in welfare costs in a single year (Gallaway, Blonigen and Flynn, 1999). AD/CVD cases are also a major source of international disputes in the WTO. As Finger (1993) puts it, antidumping is “where the action is.”

Considerable uncertainty remains about the politics surrounding AD/CVD decisions. While a large literature investigates the domestic politics of trade policy, most research has focused on tariffs (Grossman and Helpman, 1994; Lohmann and O’Halloran, 1994; McGillivray, 2004; Milner and Kubota, 2005). As the use of non-tariff barriers has become more prevalent, researchers have extended the assumptions and theories of the tariff research to explain AD/CVD policy (Baldwin, 1985; Blonigen and Prusa, 2001; Boltuck and Litan, 1991; Finger, 1990, 1993). Yet, there are important institutional differences between tariff policy and AD/CVD policy. Tariffs are legislated by Congress or delegated to the President, while AD/CVD policy is delegated to bureaucratic agencies and determined through administrative procedures. Therefore, any theory of AD/CVD policy must take into account the principle-agency problem created by this delegation.

This paper contributes to the existing literature on trade protection in two ways. First, I incorporate theoretical insights from the literature on bureaucratic oversight to develop specific hypotheses about the influence of firms and Congress in AD/CVD cases. I argue that the US International Trade Commission (ITC) retains significant discretion to balance domestic interests on both sides of the AD/CVD petition. Second, I collect an original dataset based on records of witness testimony in ITC cases from 1997 to 2010. Using this data, I find evidence supporting a more nuanced understanding of AD/CVD politics. Consistent with conventional theories, the ITC is responsive to pressure from domestic firms and members of the Congressional oversight committees. However, this political pressure is evident on both sides of the petition. While AD/CVD laws are biased toward industries seeking protection, the ITC is highly responsive to pressure from firms and members of Congress on both sides of the case.

## 2.2 Existing Literature on ITC Decision Making

AD/CVD laws permit firms representing a domestic industry to petition for relief from unfairly priced foreign imports. The petition initiates a government investigation carried out jointly by two government agencies: the International Trade Administration (ITA) within the Department of Commerce and the International Trade Commission (ITC), an independent agency. The ITA is responsible for determining whether a foreign company dumped goods in the US market or received illegal government subsidies. The ITC is responsible for determining whether the petitioning industry has suffered harm as a result of the alleged dumping or subsidies (Nivola, 1993). In this paper, I focus on the final determinations of the ITC.

A sizable literature has examined political influence on ITC decisions, but the results have been mixed (Devault, 2002; Finger, Hall and Nelson, 1982; Hansen, 1990; Hansen and Prusa, 1997; Moore, 1992). The research relies on two interrelated theories to explain the

political influences on ITC decision-making. First, the industry capture theory posits that Congress delegated protection for domestic industries to the bureaucracy in order to lock in future benefits for important constituent industries. Firms then use the rules to apply political pressure directly on the ITC to ensure favorable outcomes. A second theory of political influence on the ITC comes from the congressional dominance theory (Weingast and Moran, 1983). Here, members of Congress increase their prospects for re-election by using their oversight powers to influence agency decisions in favor of constituents.

The empirical evidence for the industry capture theory is decidedly mixed. Looking to the influence of petitioning industries, several studies find that larger industries are more likely to win protection (Devault, 2002; Finger, Hall and Nelson, 1982; Hansen, 1990), but others find a significant negative effect (Moore, 1992) or no effect at all (Hansen and Prusa, 1997). Similarly, Devault (2002) finds that more concentrated industries are more likely to prevail before the ITC, but other studies find no significant effect for industry concentration (Finger, Hall and Nelson, 1982; Hansen, 1990; Hansen and Prusa, 1997; Moore, 1992).

Empirical support is mixed for the congressional dominance theory, as well. Researchers often use a count of the number of legislators who have the petitioning industry located in their district, “industry representation,” as a means to assess the influence of Congress on AD/CVD decisions. Examining the Senate Finance Committee’s Subcommittee on Trade, Moore (1992) finds a positive effect for industry representation, but Devault (1993) finds a negative relationship. Neither study finds a significant effect for the equivalent subcommittee in the House, while Hansen (1990) finds a significant positive relationship only for Democrats and a significant negative relationship for Republicans. Devault (2002) examines the Trade Subcommittees on the Appropriations Committees in both chambers and finds no significant effects. Hansen (1990) finds a significant positive effect only for Democrats on the House Ways and Means Committee, while Hansen and Prusa (1997) find a positive effect for members of the Ways and Means Committee and a negative effect for members of the Senate Finance Committee.

These mixed results are troubling. Given the level of activity in this research area and the shared theoretical assumptions of the authors, one would expect to find greater consensus. Perhaps, as Goldstein and Lenway (1989) argue, Congress has created in the ITC a truly independent agency. In the following sections, I posit an explanation that lies somewhere between these two poles. While the institutional structure of the AD/CVD bureaucracy does benefit petitioning industries, it is not sufficient to lock in protectionist policies. Instead, the AD/CVD bureaucracy invites competition between various domestic interest groups, and ITC decisions reflect the balance between domestic interests on both sides of the case.

## 2.3 Re-examining Theories of ITC Oversight

Both tariffs and AD/CVD cases involve political decisions over trade policy. Consequently, one would expect to find that domestic industries have similar incentives to influence these policy decisions and similar preferences over their outcomes. Yet the evidence for political influence on AD/CVD decisions is mixed, while the evidence for political influence on tariff policy is much more consistent (Baldwin, 1985; Gordon and Hafer, 2007; Grossman and Helpman, 1994; Lohmann and O'Halloran, 1994; Milner, 1988). I posit that a key reason for this difference is in the institutional rules governing these decisions. Congress retains significant direct control over tariff policy, but AD/CVD decisions have been delegated to bureaucratic agencies, and this creates a principle agency problem for Congress (Miller, 2005; Weingast, 1984). Even if the incentives and preferences of domestic industries are identical in both policy areas, the principle agency problem can make it more difficult for domestic industries to influence ITC decisions.

The ITC is an independent agency composed of six commissioners appointed by the President and confirmed by the Senate for overlapping 9-year terms. By statute, no more than three commissioners are of a single political party. The House Ways and Means Committee and the Senate Finance Committee exercise oversight over both the ITA and the ITC.

In addition, a special Article III court, the US Court of International Trade (USCIT) has exclusive jurisdiction to review decisions of the ITA and ITC (Nivola, 1993). Procedurally, the ITC operates as a quasi-judicial agency. A professional staff performs preliminary investigations and solicits input from domestic firms. The ITC also conducts formal hearings at which both sides present their cases, usually supplemented by witnesses who have expert knowledge of the product or market in question. Following the hearing, the ITC conducts a formal vote, with only three of six votes required for an affirmative ruling (Nivola, 1993).

Despite the purported independence of the ITC, Congress may use its oversight powers to influence AD/CVD outcomes. Ex ante controls, or deck-stacking, are procedural and structural rules made at the time of delegation that constrain the agencies discretion in the future. These rules help Congress overcome informational disadvantages and ensure agencies respond to the needs of important constituents (McCubbins, Noll and Weingast, 1987, 1989). Implicit in the ITC literature's industry capture theory is the assumption that Congress instilled in the AD/CVD bureaucracy sufficient ex-ante control to ensure continued ITC responsiveness to industries seeking protection. Where ex-ante controls are insufficient to lock in a policy preference, the threat of ex-post controls, such as budget cuts or transfer of authority to another agency, can provide incentives for agency compliance with Congressional preferences (Calvert, Mccubbins and Weingast, 1989; Weingast and Moran, 1983). The Congressional dominance theory of the ITC is built on the assumption that members of the oversight committees use these ex-post controls to influence ITC decisions on behalf of petitioning constituents.

So, has Congress locked in protection for petitioning industries in the AD/CVD process? The literature catalogs a long list of procedural and structural oddities embedded in the AD/CVD laws that benefit petitioning industries. Agencies must issue their decisions according to strict deadlines that favor the well-prepared petitioning industry. A complex bureaucratic procedure ensures multiple opportunities for constituents to notify Congress of agency behavior and for Congress to intervene in the process (Finger, 1993). Congress has



asserted itself in the appointment process, as well, installing a number of former committee staffers as commissioners on the ITC (Devault, 1993). Finally, Congress transferred authority for the domestic portion of AD/CVD investigations from the Department of Treasury to the ITC in 1954 and transferred the remaining authority for the foreign leg of investigations to the Department of Commerce in 1979. These transfers of authority ensured that the investigations would be carried out by agencies with a natural constituency in domestic industry (Baldwin, 1985; Finger, 1993).

On the other hand, the institutional structure fails to meet many of the theoretical requirements to lock in a protectionist policy. Effective deck-stacking requires a cohesive enacting coalition, specific direction to agencies, a structure designed to protect against future coalitions, and reliable enforcement of the agreement by the courts (Hill and Brazier, 1991). But, the ex-ante controls over AD/CVD procedure were not the product of a unified protectionist coalition. Instead, they were a compromise tacked on to more significant trade legislation that both ratified the Tokyo Round of GATT negotiations and extended authority to the executive branch to negotiate the Uruguay Round that would create the WTO (Arnold, 1994; Hansen and Park, 1995). In addition, AD/CVD law remains extremely vague, referencing “unfair trade practice” and imports less than “fair value,” but stopping short of defining those terms with any specificity and leaving wide legal discretion over the standards applied in each case (Boltuck and Litan, 1991; Finger, Hall and Nelson, 1982; Finger, 1993; Jackson, 1984; Kennedy, 1986; Lawrence, 1994).

Finally, the Customs Court Act of 1980 created a special US Court of International Trade that specifically provides standing for foreign companies and other domestic industries to challenge ITC decisions and even allows the Court to hold hearings in foreign countries to ensure that foreign companies have the opportunity to respond (Hansen, Johnson and Unah, 1995; Unah, 1997). So, while many elements of the AD/CVD laws provide an advantage to the petitioner, the overall structure appears insufficient to lock in a protectionist bias without additional oversight.

Where *ex-ante* controls are insufficient to lock in a policy preference, then Congress must rely on constituent monitoring and *ex-post* controls. When constituents are enfranchised to influence and monitor agency behavior, the arrangement is vulnerable to shifts in preferences among the intended beneficiaries of the policy (Balla, 1998; Yackee and Yackee, 2006). The threat of *ex-post* penalties is further dependent on the preferences of the current coalition in Congress (Calvert, Mccubbins and Weingast, 1989; Weingast and Moran, 1983). And, the principals' threat to use *ex-post* controls becomes less credible as preferences among the principals diverge (Hammond and Knott, 1996; Shipan, 2004).

Thus, influence through monitoring and the threat of *ex-post* controls would require a cohesive protectionist coalition on the House Ways and Means Committee and the Senate Finance Committee, which oversee the ITC. But these are two of the committees that Congress scholars consistently classify as "prestige committees" (Fenno, 1973). Unlike, for example, the agriculture oversight committees, these prestige committees deal with policy issues of great importance to all members of Congress. Party leadership carefully controls membership on these committees, ensuring that committee preferences reflect those of the floor (Maltzman, 1998). They are not expected to indulge the parochial constituency interests of individual members over the broader interests of the majority party or the floor (Deering and Smith, 1997). Consequently, these committees are unlikely to demonstrate the cohesive protectionist preferences necessary to bias agency decisions on a consistent basis.

## 2.4 A Revised Theory of ITC Oversight

I propose a revised theory of political influence on the ITC. The *ex-ante* and *ex-post* controls are insufficient to lock in protection for petitioning industries in AD/CVD cases. In fact, the rules provide numerous avenues for direct participation by domestic firms that oppose protection. Moreover, members of the oversight committees are likely to reflect these divergent preferences, with some members supporting protection and some opposing

it. Therefore it is necessary to broaden our models of ITC decision making to accommodate political pressure on both sides of a case.

Industry level data is not precise enough to capture the trade preferences of domestic firms, because firms within the same industry may not share the same preferences on trade policy. A large literature on intra-industry trade also shows that firms within a single industry often specialize in specific segments of the market, creating different preferences over trade policy (Helpman and Krugman, 1985; Learner and Levinsohn, 1995). Divergent preferences may increase with exposure to the pressures of globalization (Hansen and Mitchell, 2000; Mayda and Rodrik, 2001; Milner, 1988). Similar coalitional drift has been a significant factor in changing bureaucratic behavior in other policy areas (Balla, 1998; Yackee and Yackee, 2006). All of this suggests that the industry-level measures used in previous research are unreliable, and industries will find it increasingly difficult to maintain a coalition in favor of protection.

The AD/CVD process may contribute to the further divergence in intra-industry trade preferences. In the 1960s, AD petitions resulted in the imposition of duties in only about 10% of cases (Blonigen and Prusa, 2001). Following the restructuring of the bureaucracy in the 1970s, affirmative findings shot up to 54% of cases. Clearly, petitioners were taking advantage of the new rules. Still, petitioners succeeded only slightly better than 50% of the time, and this rate of success continues into my data from 1997-2010. So, while the changes in AD/CVD rules were a boon to petitioning industries, the revised rules by no means guarantee victory. As firms fail to win protection before the ITC, they may be forced to seek new strategies to compete in a globalized economy or simply may go out of business, leading to reduced industry support for protection in the future.

Table 2.1 summarizes the descriptive evidence that industry participation in AD/CVD cases has changed over time. While the average number of cases filed (around 35-40 per year) remains relatively constant, the number of different industries represented in these petitions has decreased dramatically. AD/CVD petitions in the 1980s covered about 246 different

products, meaning separate petitioners accounted for 59% percent of all cases (Irwin, 2004). The 482 petitions filed from 1997-2010 represent only 150 different petitioners, meaning separate petitioners account for only 31% of all cases. In other words, the number of industries using the AD/CVD procedure has declined over time.

Table 2.1: Industry Participation in AD/CVD Cases, 1980-2010

	1980-1990	1997-2010
Total Cases Filed	428	482
% Resulting in AD/CVD duty	54%	55%
# of Separate Petitions	246	150
% Representing Unique Industries	59%	31%
% Opposed (Downstream)	UNK	78%
% Opposed (MNEs)	UNK	20%
% Opposed (Intra-Industry)	UNK	17%

Note: Data for 1980-1990 obtained from Irwin (2004). Data from 1997-2010 are obtained from my original dataset coding ITC decisions recorded in the Electronic Document Information System (EDIS).

In addition, many firms actively oppose AD/CVD petitions, a phenomenon that has been overlooked in previous studies of the ITC. These firms include downstream users of the imported product, domestic subsidiaries of multinational firms, or firms within the petitioning industry itself. Witnesses from downstream firms who opposed AD/CVD duties testified in 78% of ITC hearings from 1996-2010. These are companies that either import and resell the products in question or use them as inputs for other domestic manufacturing. In 20% of cases, at least one of the firms charged with unfair trade practices produced a witness from their own US subsidiary. And, 17% of cases included opposing witnesses from firms in the petitioning industry itself. Firms in all three categories are incorporated in the US and employ American workers. If the AD/CVD bureaucracy is not merely captured by protectionist industries, then the ITC must consider the ramifications of its decisions for both the petitioning firms and the firms that oppose the petition. Consequently, I expect that the appearance of these opposing witnesses in a case will decrease the likelihood of a successful

petition.<sup>1</sup>

*Hypothesis 1: The likelihood of an affirmative ITC ruling decreases when the petition is opposed by a domestic firm that is a downstream user of the imported product.*

*Hypothesis 2: The likelihood of an affirmative ITC ruling decreases when the petition is opposed by a domestic firm that is a subsidiary of a foreign multinational enterprise.*

*Hypothesis 3: The likelihood of an affirmative ITC ruling decreases when the petition is opposed by a domestic firm that is a member of the petitioning industry.*

Similarly, members of the Congressional oversight committees are likely to have divergent trade preferences. As noted, the committees overseeing the ITC are prestige committees, which represent a broad range of trade preferences and are unlikely to use *ex-post* controls to further narrow constituent interests. However, even if the committee as a whole is unlikely to take a stand on an AD/CVD case, individual members of the committees could use active oversight to pressure the ITC. In a comprehensive study of congressional activity, Aberbach (1990) shows that legislators make extensive use of active oversight to control the bureaucracy. Congress conducts active oversight through a number of mechanisms — hearings, investigations, program evaluations, and direct contact with the agency. In particular, Aberbach notes that district concerns and constituency advocacy are important motivations for Congress to devote time to active oversight. Because active oversight is highly visible, it is likely to be of particular value to individual legislators focused on advertising, credit

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<sup>1</sup>This theory is based on the logic that all three types of firms employ American workers, and these workers in turn are constituents of members of Congress. Therefore, any of these firms may be able to exert political pressure directly or through Congress to influence ITC decisions. However, opposition from a purely domestic firm may provide a credible signal that the industry as a whole is not harmed by imports, while domestic subsidiaries are likely to protect the interests of the parent multinational. I return to this idea in the discussion section.

claiming, and position taking for re-election (Fiorina, 1989; Mayhew, 2004).

Table 2.2: Congressional Testimony in AD/CVD Cases, 1997-2010

	Support			Oppose		
	House	Senate	Either	House	Senate	Either
All Legislators	233 (48%)	135 (28%)	269 (56%)	114 (24%)	31 (6%)	126 (26%)
Oversight Committees	140 (29%)	51 (11%)	189 (39%)	31 (6%)	28 (6%)	59 (12%)

The records of ITC hearings conducted from 1997-2010 show a high level of active oversight (Table 2.2). In over half of these hearings, a member of Congress applied political pressure by testifying before the ITC in support of an AD/CVD petition. Sometimes these legislators simply submitted written testimony, but in many cases they appeared before the ITC to testify in person. Petitions were supported by at least one legislator in over half (56%) of AD/CVD cases. In 39% of these cases, members of the House or Senate oversight committees actively lobbied on behalf of petitioners. Legislators also intervened to oppose petitions, although with less frequency. Case records included written or oral testimony from at least one legislator opposing the petition in 126 (26%) cases. And 59 (12%) of these were members of the oversight committees. In almost all of these cases, the representative who actively lobbies the ITC does so on behalf of a constituent industry. This is a striking example of active oversight — members of the oversight committee appear before the bureaucratic agency that they oversee in order to support a particular participant in the case.<sup>2</sup>

Of course, it remains to be seen whether this testimony has any real effect. Legislators

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<sup>2</sup>A working paper by Allee and Miler (2010) provides additional insight into the phenomenon of direct testimony before the ITC by members of Congress. While they focus on the legislators decision to testify and not on the effect of that testimony on ITC outcomes, a number of their findings are instructive. Legislators are driven primarily by constituency concerns and not by party or ideology when they testify individually. The difference between the numbers supporting petitions and those opposing them may be due to the framing of AD/CVD cases as investigations of unfair trade practices by foreign competitors. A legislator opposing a petition is vulnerable to accusations that he or she is advocating against American workers and industry. On the other hand, a legislator publicly committed to free trade can easily support an AD/CVD petition by emphasizing the need for all countries to play by the rules of the free trade system

may testify merely to credit claim or grandstand to gain electoral support (Fiorina, 1989). Knowing this, the ITC would discount such participation as cheap talk. On the other hand, the oversight committees may use their power to encourage a system that facilitates active oversight by individual members of the committee with strong preferences about a particular case. In such a system, the ITC would need to account for the preferences of members when they take an active interest in the case, but would not respond to any latent constituency interests of the oversight committee implied solely by presence of the industry in the member’s district.

*Hypothesis 4: The likelihood of an affirmative ITC ruling increases as the number of members on the oversight committee who actively intervene to support the petition increases.*

*Hypothesis 5: The likelihood of an affirmative ITC ruling decreases as the number of members on the oversight committee who actively intervene to oppose the petition increases.*

## 2.5 Data and Methods

In order to test these hypotheses, I have compiled an original dataset consisting of all final determinations by the ITC in AD/CVD cases from 1997-2010.<sup>3</sup> During this time period the ITC handled 505 AD/CVD petitions. Of these cases, I removed 23 cases involving agricultural products for which industry-wide statistics (employment, concentration, etc.) are not available. In addition, 104 were terminated or settled during preliminary stages of the proceedings.<sup>4</sup> This leaves 378 final determinations by the ITC in the dataset. However, I

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<sup>3</sup>See appendix for descriptive statistics and data sources.

<sup>4</sup>The elimination of cases in the preliminary rounds of the adjudication process raises potential concerns about selection bias. Unfortunately, it is not possible to make a direct comparison between these eliminated cases to those in my sample, because the parties to the case have not fully organized their support from domestic opponents and Congress at this stage. There are a few records of Congressional intervention or domestic witness testimony in these preliminary phases, but such activity is sporadic in the early phases.

include several control variables that capture case-specific factors the ITC is required by law to consider in its determinations.<sup>5</sup> This data is redacted in several cases due to confidentiality concerns, so the final dataset covers only the 221 final determinations of the ITC for which data on all variables were available. The ITC ruled in favor of the petitioner in 66% of these cases.

The definition of a case presents a second methodological issue. A single petitioner may file petitions against multiple respondents and may file separate AD and CVD petitions against a single respondent. As a result, the 221 cases represent only 56 unique petitioners. Counting each petition as a separate case creates the possibility that the findings will be driven by petitioners with multiple petitions. Some researchers have collapsed multiple petitions into a single case to correct for this effect (Devault, 1993). However, in approximately one-third of my cases, an industry that files petitions against a number of different countries prevails against some countries while losing against others. Moreover, my case-specific control variables differ for each named country. This makes collapsing multiple petitions into a single case problematic. I also want to maintain comparability with previous research. The ITA and the ITC count each petition as a separate case, as do as the majority of empirical studies that have examined these cases. Therefore, I maintain the conventional unit of analysis to increase comparability with previous results.<sup>6</sup>

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Overall, I am less concerned with selection bias, as it is expected to result in underestimation of the effect of the explanatory variables, since cases eliminated in the preliminary stages due to these factors would not show up as a negative final determination in my sample.

<sup>5</sup>My thanks to an anonymous reviewer for this suggestion. The inclusion of case-specific variables introduces some danger of selection bias, but this concern is outweighed by the benefit of being able to distinguish political influences from the legally mandated criteria used in the cases. Furthermore, I believe that any selection bias is minimal, as I also ran the model using aggregate-level measures on the larger 378 case dataset, and the results did not differ significantly from those reported in the paper.

<sup>6</sup>A potential concern is that these results may be biased, as the key variables of interest rarely vary among the multiple petitions filed by a single petitioner. As a check, I have collapsed multiple petitions into a single case for each petitioner and refit the models. Using this specification reduces the dataset to a mere 56 cases, making the sample too small to find statistical significance. However, the coefficients are unchanged for all of the variables reported significant in the paper. Consequently, I do not believe that these results are being driven by the classification of each petition as a separate case.



For each case, I identify the petitioning industry using the 6-digit North American Industry Classification System (NAICS) code used by the Census Bureau for reporting economic statistics. ITC cases provide the Harmonized Tariff Schedule (HTS) code for the manufactured products involved. I match these codes with their corresponding NAICS to identify the industry. Where the HTS codes cover multiple NAICS codes, I refer to the written descriptions of the covered products to select the most appropriate NAICS code. There are 26 unique NAICS codes for the petitioner industries in my dataset. The steel industry represents the largest NAICS group in the dataset, with 22 (39%) of the 56 unique petitions.

The dependent variable in all models is the outcome of the ITC’s final decision, coded 1 if the petitioning industry receives protection and 0 if it does not. I include several control variables that capture factors the ITC must consider by law in each case: annual change in capacity utilization, two-year change in domestic production, petitioners’ domestic market share, two-year change in imports from named country; and the dumping margin assessed against each country by the Department of Commerce in early stages of the case. As noted, the ITC’s published reports often redact some or all of the case-specific data. Thus, the more control variables are included, the greater the number of cases are dropped from the dataset. I have chosen these variables to include, because they have been found to be significant indicators of ITC decisions in previous research (Moore, 1992; DeVault, 1993; Baldwin and Steagall, 1994). I also include a dummy variable to control for the type of case ( $AD=0$ ,  $CVD=1$ ), and two macroeconomic controls, the national unemployment rate and the size of the US trade deficit for goods.<sup>7</sup>

Model 0 is a logit model using only the case-specific variables that the ITC must consider and the national economic variables that may influence the ITC’s decisions. This model provides a control against which to compare the models that incorporate political variables.

Model 1 adds variables capturing the conventional measures of political influence in ITC

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<sup>7</sup>I also fit mixed effect models with varying intercepts for each named country. Ultimately, the inclusion of case-specific control variables captured all of the country specific variation, so this control was dropped.

cases. Under the industry capture theory, larger industries should have more influence and be more likely to prevail before the ITC (Blonigen and Prusa, 2001). I include the number of people employed by the industry as an approximate measure of its size (*Industry Size*). Existing theory also predicts that industries with fewer firms are more likely to overcome the collective action problem to exert political pressure. I use the Herfindahl-Herschmann Index (*Industry HHI*), which is the sum of the squares of the market share of the 50 largest companies in the industry. A higher HHI score indicates a more concentrated industry, which should increase the likelihood that the industry can form a cohesive lobby to pressure for protection. Data for these measures are taken from the US Census Bureau’s Economic Census and are measured at the six-digit NAICS level.

The congressional dominance theory asserts that industries are more likely to prevail at the ITC as their representation on the oversight committees increases. I measure committee representation with a simple count of the number of members on the House Ways and Means Committee (*House Oversight*) and the Senate Finance Committee (*Senate Oversight*) who represent a district in which the petitioning industry employs at least 250 people.<sup>8</sup> On average, petitioning industries were represented by nine members of the House Ways and Means Committee and eight members of the Senate Finance Committee. Only 18 petitions were filed by industries with no representation on either committee.

Model 2 tests my revised theory of political influence on the ITC. I use case records obtained from the ITCs Electronic Document Information System (EDIS) to identify the

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<sup>8</sup>I coded this variable using geographic information system identifiers to cross-reference industry employment statistics with congressional districts. The Census Bureau’s five-year Economic Census and its annual Survey of Manufacturers report employment statistics by county for each industry at the 6-digit NAICS level. Each state and county is coded with a unique Federal Information Processing Standards (FIPS) code. The Census Bureau also reports the FIPS code for the counties included in the congressional districts for each Congress. I used this link to create a database of petitioning industry presence by congressional district for each AD/CVD case. In many cases, the geographic boundaries of congressional districts divide a single county. Rather than estimate a percentage of industry employment, I simply coded each congressional district that contains the county as having the industry presence. While this measure is somewhat imprecise, I do not believe that it biases the result. There were very few instances where representatives with adjacent districts served on the same oversight committee.

witnesses who testified for and against the petition in each case.<sup>9</sup> I create three dummy variables to code for testimony from domestic firms that oppose a petition. *Downstream Oppose* is coded 1 if a witness testifies against the petition on behalf of a domestic firm that is an importer or other downstream user of the subject imports. *MNE Oppose* is coded 1 if a witness testifies on behalf of a domestic firm that is subsidiary or affiliate of a multinational enterprise named in the petition. *Intra-Industry Oppose* is coded 1 if a witness testifies on behalf of a firm in the same industry as the petitioning firms according to the NAICS. Consistent with Hypotheses 1-3, I expect the likelihood of an affirmative ITC decision to decrease when any of these domestic opponents participate in the case.

Hypotheses 4 and 5 predict that active participation in the case by members of the oversight committees will influence the ITC's decision. I include a dummy variable coded 1 when at least one member of the House Ways and Means Committee (*House Support*) or the Senate Finance Committee (*Senate Support*) submits written or oral testimony to the ITC in support of the petition. I include the same measure for members actively opposing the petition, *House Oppose* and *Senate Oppose*. I expect that the likelihood of an affirmative ITC decision increases when there is active support for the petition from the Senate or House and decreases when there is active opposition.

Finally, I include all of the variables in Model 3 to control for covariation between the different sets of variables in Models 1 and 2.

## 2.6 Results

The results of all models are reported in Table 2.3. Model 0 serves as the control model, including only the case-specific and economic variables that the ITC is expected to consider.

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<sup>9</sup>Data was coded based solely on the testimony of the witness before the ITC. Most witness testimony begins with the introduction of the witness, identification of the witness's employer, and a statement of the witness's knowledge about the industry in question. This testimony was generally sufficient to classify the witness's firm into one of the three categories, as witnesses self-identified their affiliations with downstream firms, MNE subsidiaries, or other firms within the industry.

Of these, the petitioners' change in production and domestic market share are statistically significant. This makes sense, as firms that are producing more and enjoy higher market shares should find it more difficult to demonstrate that they have suffered economic harm from underpriced imports. The change in imports also is statistically significant. Petitioners are more likely to prevail against countries from which imports have increased over the 2 years leading up to the petition. These results are consistent with previous research and set the baseline for evaluating the effect of the political variables.

Table 2.3: Effect of Political Variables on Likelihood of Affirmative ITC Decision

	Model 0	Model 1	Model 2	Model 3
CVD Case (+)	0.84 (.44)	0.71 (.44)	1.10 (.52) *	1.03 (.54)
Unemployment (+)	-0.13 (.14)	-0.01 (.16)	-0.64 (.22) **	-0.50 (.26)
Trade Deficit (+)	-0.12 (.11)	-0.22 (.14)	-0.45 (.18) *	-0.62 (.22) **
Capacity Utilization (-)	1.74 (1.21)	2.55 (1.39)	0.57 (1.79)	0.18 (2.29)
Change in Production (-)	-0.01 (.00) *	-0.01 (.01)	-0.01 (.01) *	-0.01 (.01)
Market Share (-)	-0.05 (.01) ***	-0.06 (.01) ***	-0.07 (.02) ***	-0.08 (.02) ***
Change in Imports (+)	0.00 (.00) *	0.00 (.00) *	0.00 (.00)	0.00 (.00)
Dumping Margin (+)	0.00 (.00)	0.00 (.00)	0.00 (.00)	0.00 (.00)
Industry Size (+)		0.049 (.389)		0.36 (.57)
Ind. Concentration (+)		-0.84 (.37) *		-1.14 (.45) *
Downstream Oppose (-)			-3.21 (.98) **	-2.95 (1.01) **
MNE Oppose (-)			-1.41 (.84)	-1.33 (.89)
Intra-Industry Oppose (-)			-2.28 (.87) **	-2.14 (.97) *
House Oversight (+)		-0.10 (.06)		-0.06 (.07)
Senate Oversight (+)		0.13 (.11)		0.08 (.14)
Act. House Support (+)			0.98 (.48) *	1.39 (.57) *
Act. House Oppose (-)			10.51 (1072)	9.620 (1072)
Act. Senate Support (+)			2.68 (.90) **	4.06 (1.31) **
Act. Senate Oppose (-)			-1.31 (.79)	-1.18 (-0.85)
Constant	4.07 (1.33) **	7.64 (4.24)	8.68 (2.17) ***	10.80 (5.76)
$\log Lik (Pr(\hat{\rho}^{Chisq}))$	-123.1	-118.6 (.06)	-96.5 (.00) ***	-91.1 (.00) ***
$pseudo R^2$	.22	.27	.47	.51
$N$	221	221	221	221

Note: \*  $p \leq .05$  level, \*\*  $p \leq .01$ , \*\*\*  $p \leq .001$ . Expected direction of the effect of each variable is denoted by (+) and (-).

Model 1 tests the conventional political models of ITC decisions, including measures for the political power of the industry and its representation on the oversight committees. The inclusion of these variables does very little to improve the overall fit of the model, as there is no statistically significant improvement in the log likelihood over the control model. Likewise, the model offers no support for the conventional theories of political influence on the ITC. Only the coefficient for industry concentration is statistically significant, but it is negative, indicating that more concentrated industries are less likely to succeed before the ITC.

It should be noted that these results may underestimate the effect of these variables due to selection bias from cases eliminated in preliminary rounds. If smaller or less concentrated industries are eliminated in the preliminary stages, then they will not appear as negative determinations at the final stage. At the same time, the negative coefficients may be driven by the petitioners' decisions to file AD/CVD claims. Firms in more concentrated industries will find it easier to file a petition and petitioners may believe that their chances of success are greater when they have powerful allies on the oversight committee. These factors may encourage firms to file less meritorious petitions before the ITC. Nonetheless, the results of Model 1 provide very little support for the conventional understanding of political pressure on the ITC.

Model 2, with a log likelihood of -96.5, is a statistically significant improvement in model fit over Models 0 and 1. The coefficients for the participation of firms who oppose the AD/CVD petitions are all negative, indicating that this opposition decreases the likelihood that the ITC imposes a duty on the imported product. This effect is statistically significant for both domestic firms that are downstream users of the product and firms classified as members of the petitioning industry. A significant positive effect also exists for active support from members of the House and Senate oversight committees. Active Senate opposition has a negative effect, as expected, but does not reach statistical significance. The coefficient for active opposition from the House oversight committee is neither in the expected direction

nor statistically significant.

Model 3 includes all of the variables, and the results are largely consistent with the previous models. The coefficients for all variables remain in the same direction and retain their statistical significance. The results of Model 2 are robust to the inclusion of Model 1 variables, and vice versa.

These effects are substantively important, as well. Holding all variables at their mean, Model 2 predicts the likelihood of an affirmative ITC ruling is 0.70 when downstream firms oppose the petition. The predicted likelihood jumps to 0.98 when there is no downstream opposition. Petitions with no intra-industry opposition are predicted to prevail in 0.83 of cases, but the likelihood of a successful petition drops to 0.34 when intra-industry opposition is present. Active support from the Senate increases predicted likelihood from 0.76 to 0.98, while support from the House increases predicted likelihood from 0.73 to 0.88.

## 2.7 Discussion

My results support the idea that the ITC is subject to pressure from firms opposing protection, but the effects for each category of opposing firm appear to operate differently. These differences bear further investigation. Under my original assumptions, the ITC would respond to opposition from any domestic firm simply because that firm employed American workers (and constituents) whose preferences would need to be balanced against the preferences of the petitioning firms and their employees. In that case, all three types of domestic opposition should operate in much the same way. Instead what we see are three very different effects for these types of firms.

Opposition from downstream firms most closely resembles my initial hypothesis, in that downstream opposition appears to serve as a check on protectionism in the ITC. Where downstream opposition is present, the proportion of successful petitions is about on par with the overall average. However, when this check is removed, the proportion of successful

petitions jumps dramatically. Absent an opposing domestic interest, the ITC appears much more willing to grant protection to petitioning industries.

On the other hand, the strong effect of intra-industry opposition may have more to do with the legal effect of the testimony than with a desire to balance domestic interests. When the petitioning industry is united, the proportion of successful petitions is only slightly greater than the overall proportion for all cases, but it drops precipitously when there is evidence of a split within the petitioning industry. Legally, the petitioning firms are required to demonstrate that they represent the industry as a whole in order to have standing to bring a claim. Active opposition from other firms in the industry is a strong signal that this requirement has not been made. It is also difficult for the petitioner to demonstrate that it has been harmed by underpriced imports when other firms in the industry are arguing the exact opposite. Testimony from firms within the petitioner's industry may represent a credible signal to the ITC that the petitioner's claims are without merit.

Finally, testimony from foreign owned subsidiaries has no significant effect, even though these firms also employ American workers. It may be that the ITC simply feels less pressure to account for the interests of these foreign-owned corporations. On the other hand, this may indicate a legal effect rather than a political attempt to balance the interests of domestic interest groups. Whereas testimony from firms in the petitioning industry can credibly contradict the evidence presented by petitioners, the ITC is unlikely to find testimony from subsidiaries of the defendant firms as credible . This would explain the apparent lack of effect for participation by these subsidiary firms. Further research is needed to explore these possible explanations.

Another question for future research is whether these dynamics have changed over time. Due to a change in the industry coding system used by the Department of Commerce in 1996, most previous studies have datasets ending in 1996. Unfortunately, the ITCs electronic case files are less complete for cases before the mid-1990s. As a result, there is a break in the continuity of data on ITC decisions. While political variables for the petitioning industry



were extremely sensitive to different model specifications in the pre-1996 period, several studies did find significant correlations for some of these measures. Increasing exposure to the pressures of globalization, increasing mobilization of domestic industries that favor free trade, and/or increasing intra-industry trade may have led to less cohesive industry preferences in more recent years. Answering this question will require substantial archival research to extend the dataset, but could prove valuable in explaining whether the mixed results in AD/CVD research are simply a result of model specification or evidence of a long-term trend toward greater liberalization driven by the shifting preferences of domestic industries.

## 2.8 Conclusion

With tariffs decreasing, AD/CVD procedures have become an important form of trade protection, but much about how these procedures are administered remains unknown. Most experts on the AD/CVD process in the US argue that the process is biased against foreign companies and that adjudicating agencies are influenced by political factors. In this paper, I seek to explain the mixed results of past research by developing a more nuanced understanding of political pressure on the ITC. My results point to an ITC that is constrained by law to favor petitioners, yet remains responsive to opposition from other domestic interests. Moreover, the agency remains responsive to Congressional preferences, but only when members of the oversight committee actively intervene to influence outcomes.

These results are more consistent with our theoretical understanding of Congressional oversight of the bureaucracy and with evidence of increasing divergence of trade preferences within industries. Whatever the original intent, the AD/CVD system is not merely a system for doling out rents to a particular interest group, but a fairly effective means of balancing competing domestic interests, agency independence, and Congressional preferences. This points to important additional avenues of political influence on the ITC and raises new

questions for future research on how the ITC balances these competing interests.

## 2.9 Appendix

Table 2.4: Data Sources and Descriptive Statistics

<i>Variable</i>	<i>Source</i>	<i>Min</i>	<i>Mean</i>	<i>Max</i>
Case Outcome	International Trade Commission	0	.71	1
Case Type	International Trade Commission	0 (AD)	.18	1 (CVD)
Unemployment Rate	Bureau of Labor Statistics	.04	5.28	10.0
Natl. Trade Deficit (Goods BoP) in \$ millions	US Census Bureau	-835689	-514655	-198428
% Change in Industry Capacity Utilization	US Census Bureau	-.59	.01	.78
2-Year Change in Petitioner Production	ITC Case Records	-82.0	-0.3	363.9
Petitioner Domestic Market Share	ITC Case Records	8.00	68.63	90.40
2-Year Change in Imports from Country	ITC Case Records	-100.00	197.3	1,000.00
Country Dumpin Margin	ITC Case Records	0	73.17	383.60
Industry Employment	Census Bureau	1,407	85,498	521,712
Industry HHI	Census Bureau	14.9	619.2	2912.5
Downstream Opposition	International Trade Commission	0	.78	1
MNE Opposition	International Trade Commission	.13	1	
Intra-Industry Opposition	International Trade Commission	0	.11	1
House Oversight Members	Census Bureau; Cong. Almanac	0	9	39
Senate Oversight Members	Census Bureau; Cong. Almanac	0	8	17
Active House Support	International Trade Commission	0	.37	4
Active House Opposition	International Trade Commission	0	.16	4
Active Senate Support	International Trade Commission	0	.17	8
Active Senate Opposition	International Trade Commission	0	.09	2

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## Chapter 3

# The President, Congress, and the Allocation of US Foreign Aid

## **Abstract**

A large literature studies the determinants of foreign aid and finds a strong correlation between US development aid and strategic security concerns. This presents an interesting policy puzzle. Why address security concerns with development tools? The strategy appears to be inefficient from both a development and a security perspective. I posit that the domestic political process contributes to this inefficient policy outcome. Congress, focused on the domestic effects of aid policy, cares little about where the aid is sent, but cares a great deal about how the aid is spent. As a result, Congress oversupplies certain types of foreign aid and undersupplies others. The president, focused primarily on foreign policy concerns, has greater discretion over where to send the aid and prioritizes those countries of highest concern to US security. Using a novel dataset, I find support for this theory. The differences between the president's request for aid and Congress's appropriation vary more by foreign aid account than by recipient country, and these differences also vary with the relative institutional strength of the actors. This process contributes to the suboptimal policy outcomes observed in the literature.

## 3.1 Introduction

The US and other developed countries spend billions of dollars a year in foreign assistance. This foreign aid serves a variety of purposes—arming allied militaries, providing emergency relief after natural disasters, supporting economic development, promoting democratic reforms, and more. Among foreign aid donors, the US shows a unique tendency to direct foreign aid to countries with strategic importance or security concerns, rather than to those countries most in need. Research shows that these security concerns play a major role even in the allocation of US development aid; e.g., Alesina and Dollar (2000). It is not particularly surprising that US foreign policy is heavily concerned with national security. What is puzzling is that the US would choose to use *development* aid to address these *security* concerns when more suitable policy instruments are available. Why not simply increase the available mechanisms for security aid to address security concerns and focus development aid on the countries where it is most needed or most likely to have an impact?

Existing research on the determinants of foreign aid does not get to this question. First, most research focuses on aggregate levels of development aid as reported to the Organization for Economic Cooperation and Development.<sup>1</sup> This is useful for comparing foreign aid levels across multiple donors, but less useful for examining the policy decisions of a single donor. The use of aggregate aid levels obscures internal decisions about how to allocate aid between the constituent aid programs and their different foreign policy objectives. Second, most aid research treats the US government as a unitary actor, thereby overlooking the distinction between the policy preferences of the president and Congress. In order to understand US foreign aid decisions, it is important to consider both policy actors and the process by which the policy is decided.

In this paper, I examine US foreign aid policy using new data on bilateral aid from fiscal years 2001–2010. The data covers both the president’s request and Congress’s appropriation,

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<sup>1</sup>Recent work on the AidData project (Tierney et al., 2011) is an important exception.

and breaks down the allocation of aid by recipient country and by foreign assistance account. Consequently, I can compare directly the preferences of the president and Congress over where foreign aid is sent and how foreign aid is spent. I find that Congress is largely unconcerned with the foreign policy implications of foreign aid, but defends its preferences when the policy has domestic implications. For the most part, the president is able to dictate the allocation of aid among recipient countries, but Congress maintains control over the allocation of aid through the accounts that determine the purposes for the aid and the mechanisms for its delivery.

In the next section I describe the distribution of US foreign aid and briefly review the relevant literature in this area. Section 3.3 develops a theory based on principle-agency to explain the relative influence of the president and Congress in foreign aid policy. Section 3.4 describes my data and methods. I present the quantitative models and results in section 3.5 and discuss the implications of these results in section 3.6.

## 3.2 Background

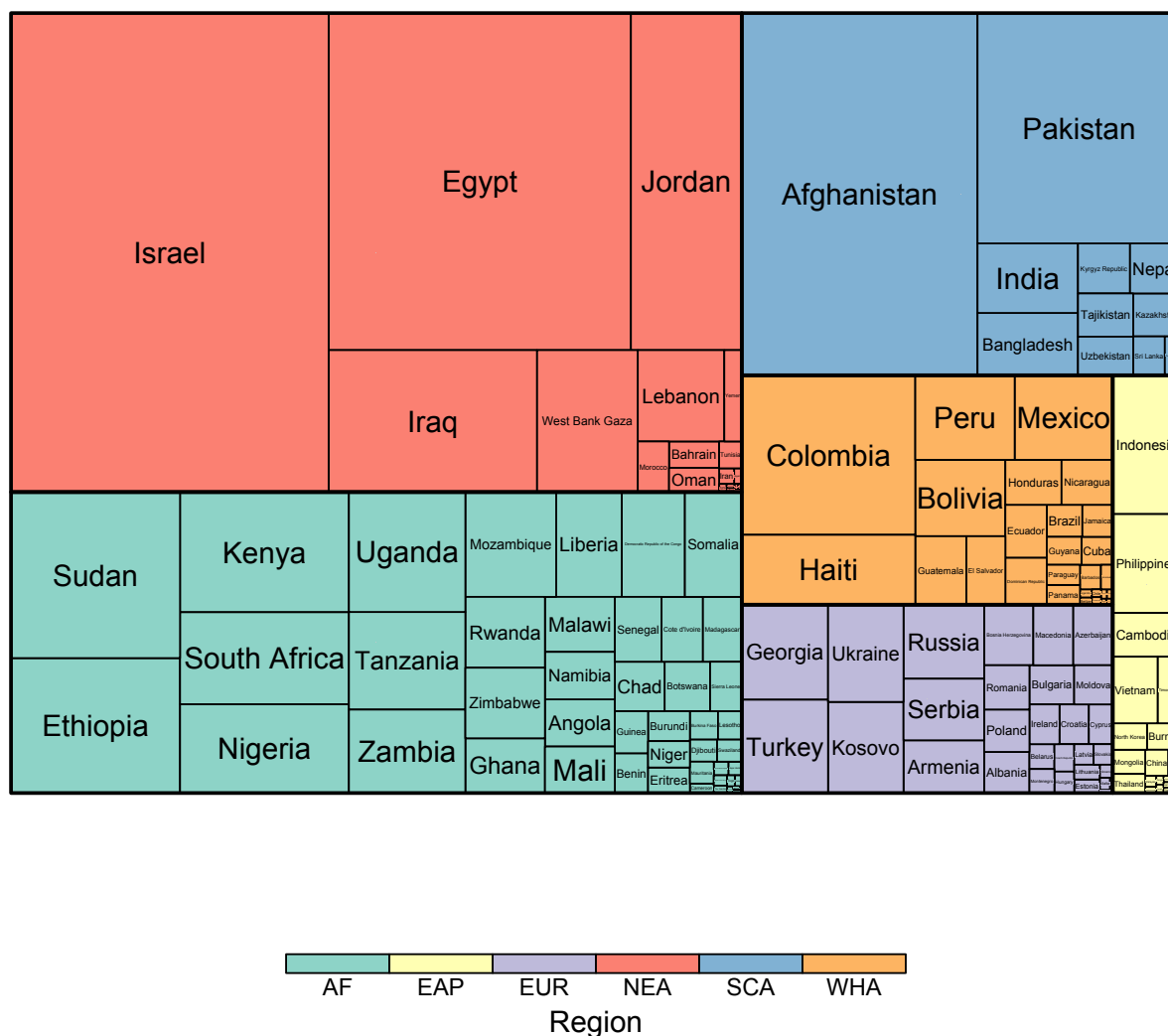
This project focuses on the ways that the president and Congress interact to make foreign assistance policy decisions. A large literature examines the politics of foreign aid allocations at the international level (Alesina and Dollar, 2000; Schraeder, Hook and Taylor, 1998; Drury, Olson and Van Belle, 2005). Most of this research focuses on aggregate levels of aid and where it is sent—who gives aid to whom? The research on the determinants of foreign aid consistently finds that the US, more than any other donor, allocates development aid to countries where security concerns are prevalent.

Figure 3.1, depicting the geographic allocation of bilateral US foreign assistance from 2000–2010, illustrates this pattern. Each box represents a single recipient country. Countries are then grouped by region,<sup>2</sup> each shaded by a different color. The size of each box represents

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<sup>2</sup>These geographic regions are based on the US Department of State’s six regional bureaus: the Bureau of

Figure 3.1: Bilateral US Foreign Aid Appropriated 2001-2010 by Region and Country (Total = \$163 billion)



the proportion of US bilateral aid received. It is readily apparent that a disproportionate share of bilateral US foreign aid flows to regions where security concerns are prevalent, such as the Near East and South Asia. And the pattern continues within regions, as aid flows to

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African Affairs (AF), the Bureau of East Asian and Pacific Affairs (EAP), the Bureau of European Affairs (EUR), the Bureau of Near East and North African Affairs (NEA), the Bureau of South and Central Asian Affairs (SCA), and the Bureau of Western Hemisphere Affairs (WHA).

the countries in these regions with more prevalent security concerns—Israel and Egypt in the Near East, Sudan and Ethiopia in Africa, Afghanistan and Pakistan in South Asia, Colombia in the Western Hemisphere, and Georgia, Turkey, Ukraine, and Kosovo in Europe.

So, there is a clear security bias to US foreign aid distributions, but why? Why use *development* aid to address *security* concerns when more appropriate policy tools are available? The existing allocation of foreign aid is inefficient for both development and security objectives. On the one hand, the US is not sending its aid to the poorest countries where it is most needed or to those countries with better institutional capacity where it might be expected to produce the best results. Instead, US aid is going to relatively wealthy countries, many of which are plagued by corruption and other institutional problems. On the other hand, foreign aid (particularly development aid) seems an inefficient policy tool for accomplishing security objectives. Why not use security and political aid to address security concerns?

The puzzle would be easy to dismiss if the phenomenon were limited to just the past decade. Recent focus on counter terrorism and counter insurgency has led to repeated calls to integrate “the three D’s” of defense, diplomacy, and development. However, the US bias toward security concerns in development aid allocations is not new. It stretches back to the Marshall Plan and has continued to the present day. I posit that the domestic institutional structure in which foreign aid policy decisions are made contributes to the suboptimal policy outcomes observed in the literature.

Despite the attention paid to the determinants of foreign aid, there has been relatively little research on how these decisions are actually made. First, it is common practice in foreign aid research to focus on a single type of aid, such as economic development aid (Alesina and Dollar, 2000), humanitarian aid (Drury, Olson and Van Belle, 2005), or military aid (Francis, 1964), and to exclude other types of aid from the analysis. This approach is useful for cross-country comparison of foreign assistance, as the OECD provides standardized data for economic development aid across countries. However, limiting the analysis to one type of aid obscures the trade offs that governments must make between different types of

foreign assistance and how it will be used. The AidData project (Tierney et al., 2011), which collects detailed data about donor and recipient countries, is making significant progress in improving on the OECD data at the point of program implementation. My project gathers similar data about the decision-making process that funds these programs.

On the domestic side, researchers have begun to address the domestic influences on US foreign aid policy. Milner and Tingley (2011), for example use Congressional roll call votes to measure the preferences of individual legislators. This research is valuable in helping to explain the factors that affect Congressional support for foreign aid in general, but does not provide specific information about policy preferences over the distribution of that foreign aid. As with the literature on determinants of foreign aid at the international level, this research focuses on legislative support for foreign aid in general and not on the more nuanced decisions on what type of aid to provide.

My project builds on the existing research by incorporating US foreign aid accounts to examine the geographic *and* functional distribution of foreign assistance. The US provides foreign aid for a wide variety of purposes, and Congress has authorized several different foreign assistance accounts to meet these objectives. The Congressional Research Service identifies 12 major foreign assistance accounts (Tarnoff and Lawson, 2009). Table 3.1 summarizes these accounts. They cover five major categories of foreign assistance: bilateral development aid, economic assistance supporting US political and security goals, humanitarian aid, military aid, and the “Other” category that includes a variety of smaller accounts, most of which are to deal with contingencies and post-conflict transitions.

These accounts also impose requirements for implementation, including which agency is responsible for the aid and how much of the aid must be provided through US contractors or organizations, known as “tied aid.” Thus, the allocation of funding among accounts can have significant implications for domestic groups in the US, including issue advocacy groups lobbying for aid to support specific causes and the US companies and NGO’s that compete for contracts to implement the aid programs.



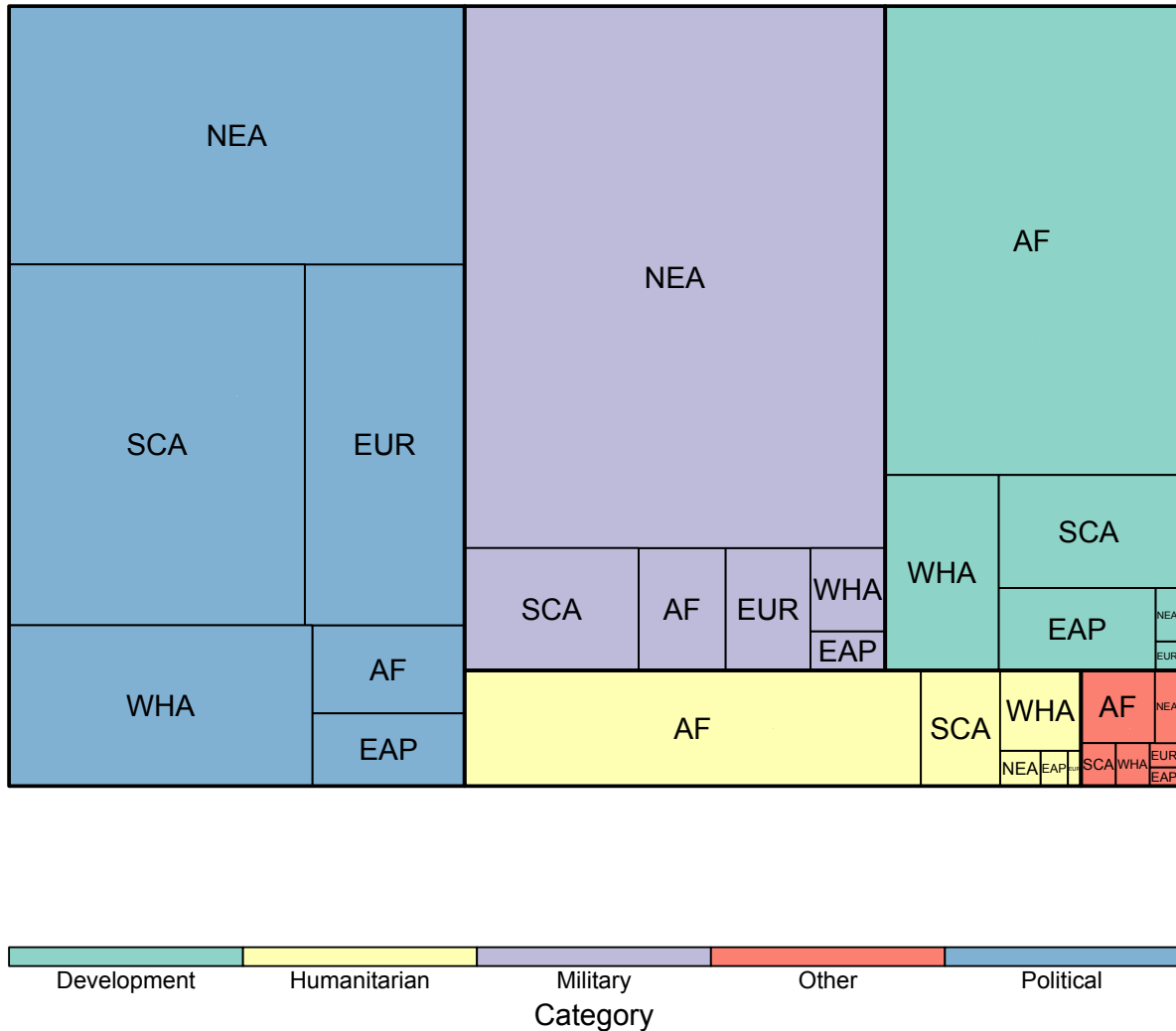
Table 3.1: US Foreign Assistance Accounts

<b>Account</b>	<b>Full Name</b>	<b>Category</b>
AEECA	Assistance to Europe, Eurasia, and Central Asia	Political
DA	Development Assistance	Development
ESF	Economic Support Fund	Political
FFP	Food for Peace	Humanitarian
FMF	Foreign Military Financing	Security
GHCS-State	Global Health and Child Survival (DoS)	Development
GHCS-USAID	Global Health and Child Survival (USAID)	Development
IMET	International Military Education and Training	Security
INCLE	International Narcotics Control and Law Enforcement	Political
MRA	Migration and Refugee Assistance	Humanitarian
NADR	Non-Proliferation, Anti-Terrorism, Demining, and Related	Security
PKO	Peacekeeping Operations	Security
Other	(various smaller programs)	Other

Figure 3.2 depicts the allocation of US bilateral aid from fiscal year 2001–2010 by category and account. Each box represents a specific foreign aid account. Accounts are then grouped into functional categories, each shaded with a different color. Approximately one-third of US foreign aid is given for political purposes, with Economic Support Funds (ESF) representing the largest proportion. A bit less is given for military aid, the vast majority coming from the Foreign Military Financing (FMF) account. Interestingly, economic development aid makes up less than one-third of all US foreign aid. And, more than two-thirds of this development aid comes from the Global Health and Child Survival (GHCS) accounts. Pure economic development aid in the DA account represents a very small proportion of US foreign aid. Finally, the vast majority of humanitarian aid comes in the form of agricultural commodities in the Food for Peace (FFP) account.<sup>3</sup>

<sup>3</sup>It is important to note that much of the aid that the US reports to the OECD and the international

Figure 3.2: Bilateral US Foreign Aid Appropriated 2001-2010 by Category and Account (Total = \$163 billion)



community as economic development aid is classified differently for domestic audiences. The OECD defines overseas development assistance (ODA) as aid that “is administered with the promotion of the economic development and welfare of developing countries as its main objective” (OECD, 2013). The US does not report military aid, anti-terrorism aid, or most aid for peacekeeping as ODA. However, ESF, AEECA, and INCLE funds are reported as ODA, even though these accounts are defined as political aid under US domestic law (Tarnoff and Lawson, 2009). The OECD ODA numbers also include debt forgiveness and domestic costs for housing foreign refugees and students. The propensity of the US government to double count aid in this way must be considered when interpreting the results of existing foreign aid studies. Simply put, the US reports political aid as development aid to the OECD, so that any research relying on aggregate ODA data

As Figure 3.2 makes clear, there is significant variation in the types of foreign aid provided by the US, and this variation is lost when research focuses only on aggregate aid levels. These accounts provide a means to examine and make comparisons of support for foreign aid by function. Using this data, it is possible to move beyond aggregate aid levels and examine the interaction between the geographic and functional distribution of US foreign aid.

### 3.3 Theory

Few studies of US foreign aid policy have investigated the role of Congress (c.f., Milner and Tingley (2011)), perhaps due to the widely held assumption that Congress does not matter much for US foreign policy. From Wildavsky (1966) on, foreign policy scholars have debated the relative power of the president and Congress (Fleisher and Bond, 1988; Meernik, 1993; McCormick and Wittkopf, 1990; Prins and Marshall, 2001). While the relationship varies over time, most researchers conclude that the president enjoys greater policy discretion in foreign policy than in domestic policy. It does not follow, however, that Congress has no influence over foreign policy. Canes-Wrone, Howell and Lewis (2008) identify three institutional factors that are likely to affect the power of the president in foreign and domestic policy: a first-mover advantage, information asymmetry, and differing electoral incentives. In this section, I extend their theory to develop hypotheses about when the president will have greater control over foreign aid policy.

First, Howell (2003) notes that the president, as a unitary actor, is able to act more quickly than Congress. Consequently, the president has a first-mover advantage, and this advantage may be more pronounced because the nature of foreign policy requires constant response to unfolding events around the world. The first-mover advantage may be less pronounced in foreign aid policy, because foreign aid is a budgetary issue. As such, the president cannot act until Congress appropriates funds. Nonetheless, divisions within Congress may

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is capturing political and humanitarian aid along with aid intended purely for development purposes.

make it more difficult for Congress to reach consensus on an alternative policy to the president. Faced with the need to pass a bill, Congress may be more likely to rubber stamp the president's proposals when internal divisions in Congress make it more difficult to reach such consensus. *Hypothesis 1* predicts that the president exercises greater control over foreign aid policy when Congress is divided.

Second, Canes-Wrone, Howell and Lewis (2008) argue that the president enjoys significant informational advantages in foreign policy. While Congress has oversight authority over the diplomatic, development, defense, and intelligence agencies, it is the President who manages them. To do so, presidents have developed significant foreign policy bureaucracies within the White House and organized them to assert control over foreign policy agencies (Hammond, 1960; Hess and Pfiffner, 2002; Burke, 2000). The president's information advantage is expected to influence the foreign aid debate. Bureaucratic agents are posted to foreign countries to implement and oversee these foreign aid programs. Their chain of command ultimately reports to the president. Congress has oversight authority over these agencies, but it is too costly and time consuming to monitor them closely. Moreover, these programs have more direct impact on foreign citizens overseas than on voters at home, so there are fewer domestic interest groups with incentives to monitor the programs (Zegart, 2000). Without strong domestic interest groups, fire alarm oversight is not likely to be effective (McCubbins and Schwartz, 1984).

Finally, and closely related to the issue of salience, Canes-Wrone, Howell and Lewis (2008) point out that foreign policy has little effect on Congressional re-election prospects, so Congress lacks the incentives to devote significant time or resources to foreign policy. Few US voters are likely to care enough about who receives U.S foreign aid to influence an election. On the other hand, the implementation of foreign aid policy can affect certain domestic groups. Issue-based interest groups that are concerned with specific global problems—poverty, human rights, environmental sustainability, etc.—may have well-defined preferences about the types of aid they favor and care enough about the issue to lobby

Congress (Lancaster, 2007). Various organizations, both nonprofit and for-profit, also have a stake in the implementation of foreign aid. These include suppliers like American farmers who are paid to provide aid commodities, American shipping companies who provide logistics, and the contractors who are paid to execute the aid programs. In all of these cases, the account by which the aid will have a greater effect on these groups' fortunes.

Highly salient international events may provide an incentive for Congress to gather information about foreign policy, but Congress is not likely to devote the necessary energy to oppose the president because foreign policy has little effect on Congressional elections. In fact, international events that reach high levels of salience in the US often involve military action, and that can strengthen the president's position in foreign policy (Prins and Marshall, 2001). Therefore, Congress is likely to defer to the president on which countries receive foreign aid, and this deference is expected to increase when the international events justifying the aid request are more salient. *Hypothesis 2* predicts that the president exercises greater control over foreign aid policy when foreign policy is more salient.

In contrast, the allocation of foreign aid by account has important implications for segments of the domestic electorate who are highly involved in advocacy groups or the aid distribution economy. These decisions about the type of aid to send and the mechanisms by which to implement it will be more important to Congress. Therefore, Congress may challenge the president over the allocation of foreign aid by account, even while deferring to the president on where to send the aid. *Hypothesis 3* predicts that the president exercises greater control over foreign aid allocations by recipient country than by foreign aid account.

### 3.4 Data and Methods

To test this theory, I compile a dataset that includes the president's request and Congressional appropriations for US bilateral foreign aid from fiscal years 2000–2010.<sup>4</sup> I obtain this

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<sup>4</sup>Additional data collection and coding is underway to expand the coverage from the 1970s to present.

data from the Congressional Budget Justifications (CBJ) submitted by the US Department of State and US Agency for International Development each year. The CBJ has several advantages over alternative data on foreign aid. First, foreign aid appropriations increasingly are passed as continuing resolutions or packaged with other appropriations in omnibus bills (Adams and Williams, 2010). With multiple issues packaged in a single bill, it can be difficult to discern Congressional preferences from floor votes on these bills. Even floor votes held on specific provisions of the aid bill may simply be opportunities for legislators to take public positions, knowing full well that all of the real work will be done later by the conference committee. The CBJ captures the final allocation of foreign aid approved by Congress, regardless of the funding mechanism used.

Second, the CBJ data provides detailed allocations by country and account. The appropriations bills themselves provide only general funding levels, and the committee reports provide detailed allocations for only a few high priority items. More detailed congressional guidance on foreign aid is found in the manager’s reports that accompany the bill. These come from the conference committee that negotiates the final agreed upon levels between the Senate and the House of Representatives. But even these reports do not provide a fully specified allocation of the foreign aid funds. In fact, the final allocations are determined only after the appropriations bill is passed, when the executive branch and Congress negotiate the details of the foreign aid allocation through a procedure known as the “653 process” (USAID, 2005).

Section 653 of the Foreign Assistance Act of 1963 requires that, after finalization of the appropriations bill, the executive branch submit to Congress a detailed plan for the allocation of appropriated foreign aid. In other words, the president must revise the original foreign assistance request to fit within the amounts legislated by Congress and resubmit the request. The 653 allocation must reflect the administration’s plan for foreign assistance within the broad outlines legislated in the appropriations bill and the more specific guidance provided by the accompanying committee reports.

Congress takes no vote on these 653 submissions. The process takes place entirely within the committees that have authority over the foreign affairs budget, primarily the Subcommittees on State, Foreign Operations, and Related Programs of the Appropriations Committees in the House and Senate. Thus, it is important to look beyond public roll call votes to get to the real heart of interbranch negotiations over foreign aid.

For these reasons, the CBJ is a more detailed and reliable quantification of foreign aid preferences than other available data sources. The Department of State and the Agency for International Development prepare a CBJ to accompany the president’s budget request each fiscal year. In addition, the CBJ reports the breakdown of foreign assistance funds for the previous two fiscal years. This makes it possible to extrapolate the final allocation of foreign aid agreed upon by the president and Congress. Because the 653 process is a negotiation, the final results do not necessarily reflect the pure policy preferences of Congress. However, Congress has the final veto in the 653 process, and so it is reasonable to assume that these final allocations are at least an approximation of Congressional will.

Using CBJ data, I construct a data set that measures foreign aid levels by account and country in the president’s request and Congress’s appropriation for fiscal years 2000–2010. This data does not include multilateral aid, nor does it include funds designated as regional aid that may be divided among multiple countries in a region. In total, there are 210 countries and overseas territories, 13 accounts, and 11 fiscal years in the dataset. Each observation records the amount of foreign aid in \$1,000 increments. The data is hierarchical and non-nested, so that there is a separate observation for each *country-account* combination in each fiscal year. For convenience, I refer to each *country-account* combination as a “program” in this paper. Thus, the dataset contains 2,730 programs per year for a total of 30,030 observations overall.

However, several programs receive no aid during this time period. Excluding these programs could create a selection effect problem, particularly when examining the effect of exogenous variables on aid allocations (Drury, Olson and Van Belle, 2005). But including

these programs in the dataset creates its own bias, as there will be many observations for which no money is requested and no money given. Quantitatively, these would appear in the data as complete agreement between the president and Congress. In some sense this is accurate—neither actor believes these programs should receive aid. On the other hand, including these programs only serves to increase the noise in the data, since they are not even on the foreign aid agenda. My focus here is on the relative influence of the president and Congress, and I am not using exogenous variables, such as recipient GDP, that would suffer from the potential selection bias at this stage. Therefore, I limit the data to those observations in which the president requested funds, Congress appropriated funds, or funds were spent in the previous fiscal year.<sup>5</sup>

Measuring the difference between Congress and the president presents its own set of methodological difficulties. Canes-Wrone, Howell and Lewis (2008) recommend a widely used measure for comparing budgetary appropriations, which takes the absolute difference between the percentage change of the president’s request and the Congressional appropriation over the previous fiscal year. Thus, the dependent variable, *Difference* ( $D$ ), is calculated:

$$|(Requested_t - Enacted_{t-1})/Enacted_{t-1} - (Enacted_t - Enacted_{t-1})/Enacted_{t-1}|$$

This measurement provides several advantages when making budget comparisons. Using the change over the previous year emphasizes the changes in policy over the incremental nature of the budgetary process. Measuring it as a percentage provides a uniform comparison between country and account allocations of different sizes. Using the absolute difference treats the budget proposals as preference points and allows for the measurement of differences regardless of the direction of those differences.

My first independent variable captures the president’s first-mover advantage. This ad-

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<sup>5</sup>As an additional test, I ran all models using the complete data set. Results were substantively identical to the models using the redacted dataset. The only significant difference was in the effect of the variable for salience. This effect is obvious when one considers that many of the developed countries that do not receive foreign aid nevertheless receive substantial coverage from the US media.



vantage derives from the inability of Congress to quickly reach consensus on alternative policy options. When there is more division within Congress, it should be more difficult for Congress to reach consensus, and the president should have greater discretion over the policy. To capture this effect, I use a dummy variable, *Divided Congress*, coded 1 if there are different majority parties in each chamber and 0 if a single party controls both chambers. In expectation, *Difference* will decrease when *Divided Congress* equals 1 and increase when *Divided Congress* equals 0.<sup>6</sup>

My second independent variable captures the effect of foreign policy salience. In theory, highly salient international events could generate enough public interest to make Congress pay attention to foreign policy. However, these salient events often involve security concerns, which make it more likely Congress will defer to the president, who has better information about conditions overseas and greater incentive to focus on foreign policy. The variable *Salience* is a simple count of the number of times a country is mentioned in the New York Times in the year leading up to the appropriations bill. In expectation, *Difference* should decrease as *Salience* increases, because Congress is more likely to defer to the president in highly salient foreign policy decisions.

Finally, I expect the difference between the president and Congress to be greater in debates over accounts than over recipient countries. In effect, this is a measure of the domestic impact of foreign aid policy versus the international impact. I use a non-nested multilevel model to estimate this difference. Every dollar of foreign aid in my dataset is categorized by recipient country and by account. Using a hierarchical model, I can measure the overall effect of the independent variables on the dependent variable *Difference*, as well as the group-level effects for each recipient country and foreign aid account. Model 1, using

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<sup>6</sup>I also tested an alternative measure of internal division by using the partisan difference in each chamber based on DW-NOMINATE scores. Results were less pronounced but showed no substantive difference from the *Divided Congress* measure.

*Difference* ( $D$ ) as the dependent variable, is specified:

$$D_i \sim \mathcal{N}(\mu + DivCon_i + Salience_i + \gamma_{c[i]} + \delta_{a[i]}, \sigma_D^2), \text{ for } i = 1, \dots, n$$

$$\gamma_c \sim \mathcal{N}(\mu + DivCon_{c[i]} + Salience_{c[i]}, \sigma_c^2), \text{ for } c = 1, \dots, C$$

$$\delta_a \sim \mathcal{N}(\mu + DivCon_{a[i]} + Salience_{a[i]}, \sigma_a^2), \text{ for } a = 1, \dots, A$$

The model provides an intercept and overall estimates for the effects of the variables *Divided Congress* and *Salience*, along with separate estimates for the intercepts and effects of these variables for each country and account. This partial pooling model can differentiate between the amount of variation in the dependent variable attributable to changes in recipient country and that attributable to changes in foreign aid accounts (Gelman and Hill, 2007). I expect the variation in the dependent variable *Difference* to be greater in the account-level estimates than in the country-level estimates, because the domestic factors that interest Congress are more dependent on the type of account than on the recipient country. In other words, I expect Congress to defer to the president on the allocation of aid by country, but to impose its own preferences on the allocation of foreign assistance by account.

The *Difference* measure is well-accepted as a means of evaluating the president's success in budgetary politics (Canes-Wrone, Howell and Lewis, 2008). However, this measure can overemphasize the differences between the president and Congress and distort the real world policy effect of those differences. For example, a 50% difference in a small aid account would be weighted more heavily than a 5% difference in a large aid account, even if the difference in real dollars is much greater in the larger account. This becomes more problematic as the analysis moves to more specific budget items. These smaller budget lines are more volatile than the larger budget categories, such as Defense and Agriculture, which are used to evaluate success across the entire federal budget. The *Difference* measure also obscures Congressional preferences over the direction of change in the budget; a 10% decrease and a 10% increase are indistinguishable when only absolute difference is measured.

To correct for these problems, I also fit a regression of the Congressional appropriations as a function of the president's request. Here, the amount of funding enacted by Congress, *Enacted* ( $E$ ), is the dependent variable, and the amount of funding requested by the president, *Requested* ( $R$ ) is included as an independent variable. Model 2 is specified:

$$E_i \sim \mathcal{N}(R_i + DivCon_i + Salienc_i + \gamma_{c[i]} + \delta_{a[i]}, \sigma_D^2), \text{ for } i = 1, \dots, n$$

$$\gamma_c \sim \mathcal{N}(R_{c[i]} + DivCon_{c[i]} + Salienc_{c[i]}, \sigma_c^2), \text{ for } c = 1, \dots, C$$

$$\delta_a \sim \mathcal{N}(E_{c[i]} + DivCon_{a[i]} + Salienc_{a[i]}, \sigma_a^2), \text{ for } a = 1, \dots, A$$

In Model 2, the amount *Enacted* is expected to closely follow the amount *Requested*, and this relationship should be even closer as *Divided Congress* and *Salienc* increase. As with Model 1, I expect that this relationship will vary more by account than by recipient country.

## 3.5 Analysis

As discussed above, I fit two versions of the model to test my theory. The dependent variable in the first model is the absolute *Difference* in the percentage change over last year's budget between the president's request and the Congressional appropriation. This model emphasizes the change in policy in a given year and standardizes comparisons between observations of different sizes. The dependent variable in the second model is the amount of foreign aid *Enacted* by Congress, and I include an independent variable for the amount requested by the president. This model allows for observation of the direction and real dollar amount of the difference between Congress and the president.

### 3.5.1 Model 1 Results

Table 3.2 presents the results of Model 1 using *Difference* as the dependent variable. The overall model fit is relatively poor, as the overall effects explain comparatively little of

the variation. The coefficients for *Divided Congress* and *Salience* are negative as expected, indicating that the difference between the president and Congress decreases when Congress is divided and when the foreign policy salience is higher. However, neither coefficient is statistically significant.

Table 3.2: *Difference* between President's foreign aid request and Congressional appropriation.

<b>Overall Estimates:</b>			
		Estimate:	Std. Error:
(Intercept)		-0.787	0.310
<i>Divided Congress</i>		-0.419	0.489
log( <i>Salience</i> )		-0.072	0.082
<b>Group-level Variation:</b>			
		Variance	St. Dev.
Country	(Intercept)	0.189	0.434
	<i>Divided Congress</i>	0.380	0.616
	log( <i>Salience</i> )	0.039	0.197
Account	(Intercept)	0.326	0.571
	<i>Divided Congress</i>	2.396	1.548
	log( <i>Salience</i> )	0.044	0.211
AIC:		41385	Log Likelihood: -20676
6767 Observations		164 Countries	13 Accounts

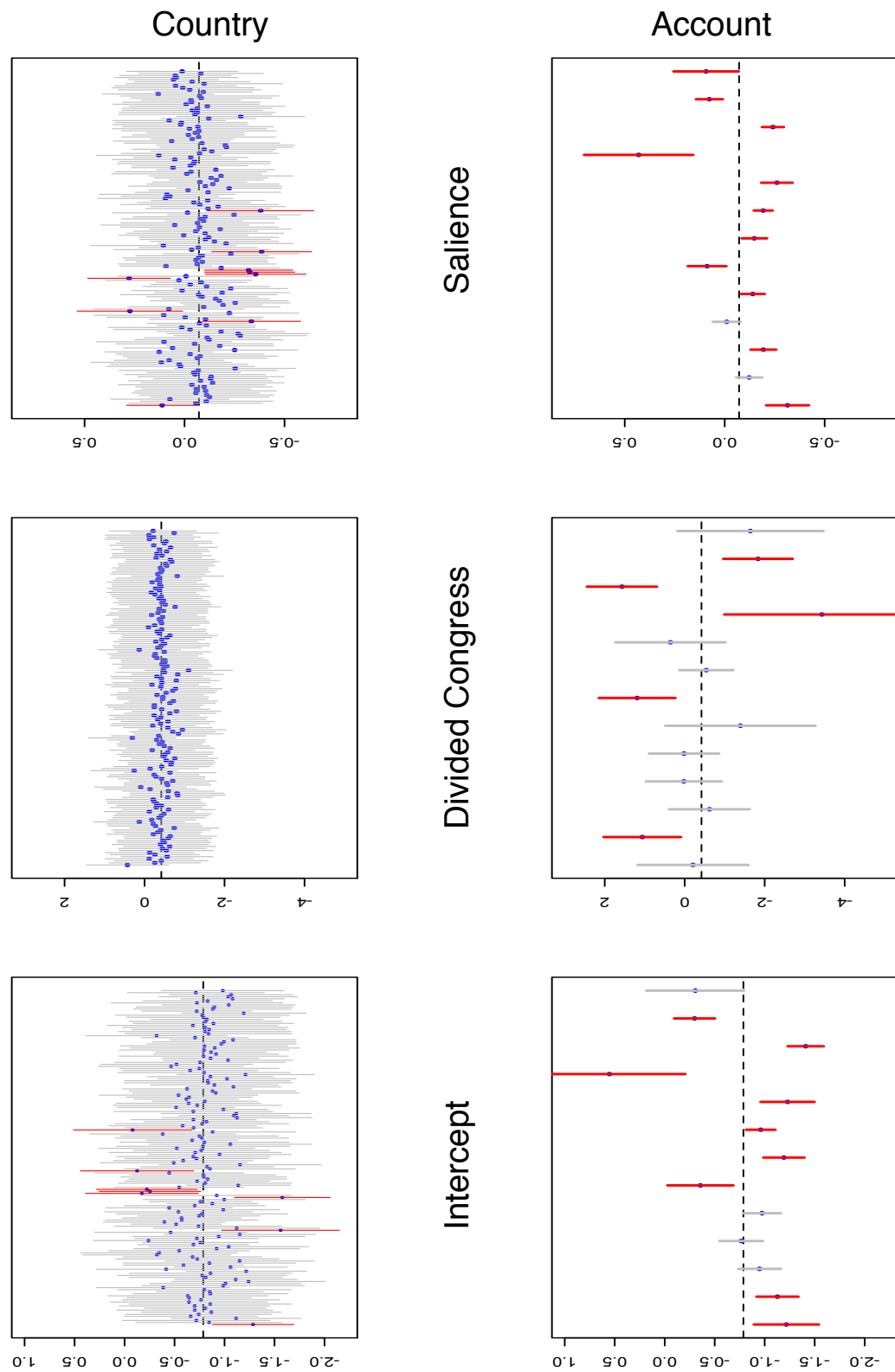
On the other hand, the model provides considerable information about the variation in the group-level effects by country and account. Figure 3.3 shows the individual estimates for coefficients by country and by account for the intercept, *Divided Congress*, and *Salience*. A horizontal line plots the estimated overall effect for each variable. The group level estimates are plotted relative to the overall effects, with vertical lines representing the confidence intervals of the individual estimate. Confidence intervals shaded in red depict an estimate that is statistically differentiable from the overall effect estimate at the 95% level. These plots make it easy to see that there is more significant variation by account than by country. Only a few of the countries show significant variance for the intercept and for *Salience*, while the majority of accounts differ significantly from the overall estimates. There is no significant

variation by country for *Divided Congress*, while five of the thirteen accounts show significant variation. Accounts explain more of the variation between the president and Congress than recipient countries. This is consistent with the hypothesis that Congress is focused more on the foreign aid accounts than on recipient countries.<sup>7</sup>

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<sup>7</sup>Note that this difference in variation is not driven by the difference in the number of categories for Country (164) and Account (13), because both categories have the same number of observations (6767). As a further test, I ran the models using more the more aggregated categories, region and function. Here, the number of categories was more similar, six geographic regions and five functional categories, but the results were the same—changes in functional category accounted for more of the variation than changes in geographic region.

Figure 3.3: Effect on *Difference*, Group-level Effects



These results provide some insight into how the president and Congress interact in foreign aid policy process. There is strong evidence that the difference between the president and Congress is more a function of the foreign aid accounts than the recipient countries. The effects of internal divisions in Congress and foreign affairs salience are consistent with the theory, but not large enough to differentiate from the null hypothesis. However, these results say little about the effect of this process on actual policy outcomes. We can observe the pattern of the differences between the president and Congress, but not the direction of the differences or the real dollar amount of the change. The second model helps address these issues.

### 3.5.2 Model 2 Results

Table 3.3 presents the results of Model 2 using *Enacted* as the dependent variable, and including *Requested* as an additional independent variable. Overall, Congress is estimated to provide only 45% of the president’s request—much lower than expected. However, the other variables add substantially to this base level. Importantly, both *Divided Congress* and *Salience* are significant in this model, and both are in the expected direction. Overall, Congress grants more of the president’s request when Congress is divided and when foreign policy events are more salient.

More importantly, the variation in *Enacted* foreign aid levels varies more by account than by recipient country. Figure 3.4 shows the individual estimates for coefficients by country and by account for the dependent variables *Requested*, *Divided Congress*, and *Salience*. Again, group level estimates are plotted relative to the overall effects, with vertical lines representing the confidence intervals of the individual estimates. While the difference is less pronounced than with Model 1, there is again more significant variation in the individual estimates for account than for country. It should be kept in mind that each account-level estimate represents approximately ten times the number of observations (approximately 1,640) than each country-level estimate (approximately 130). This further supports the hypothesis that

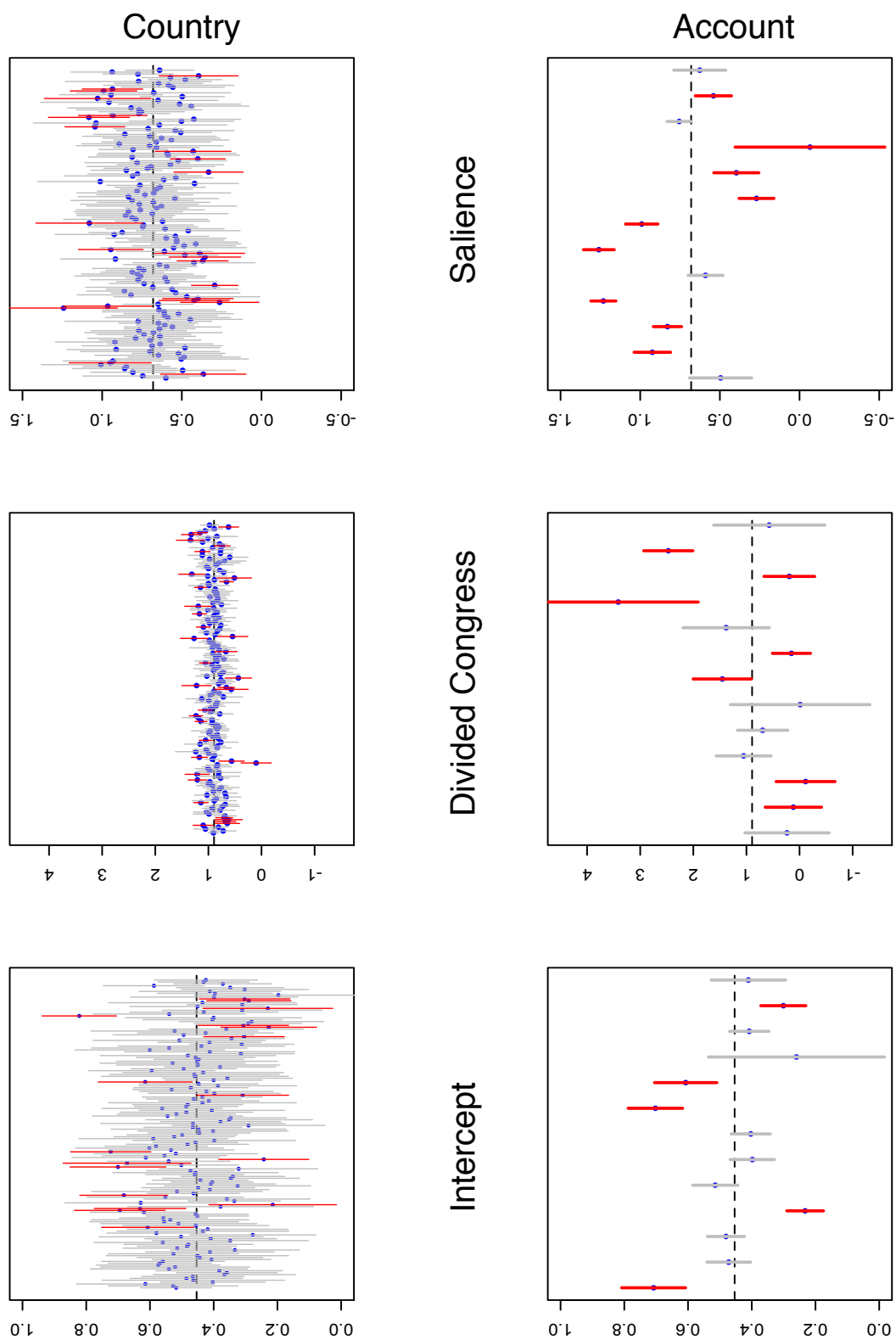
Table 3.3: Real Effects of President’s Request on Aid Enacted by Congress

<b>Overall Estimates:</b>			
		Estimate:	Std. Error:
$\log(\textit{Requested})$		0.454	0.049
<i>Divided Congress</i>		0.893	0.342
$\log(\textit{Salience})$		0.680	0.112
<b>Group-level Variation:</b>			
		Variance	St. Dev.
Country	$\log(\textit{Requested})$	0.022	0.15
	<i>Divided Congress</i>	0.048	0.22
	$\log(\textit{Salience})$	0.058	0.24
Account	$\log(\textit{Requested})$	0.026	0.16
	<i>Divided Congress</i>	1.287	1.13
	$\log(\textit{Salience})$	0.148	0.39
AIC:	33107	Log Likelihood:	-16537
	6767 Observations	164 Countries	13 Accounts

Congress is focused more on the foreign aid accounts than on recipient countries.



Figure 3.4: Effect on *Enacted*, Group-level Effects



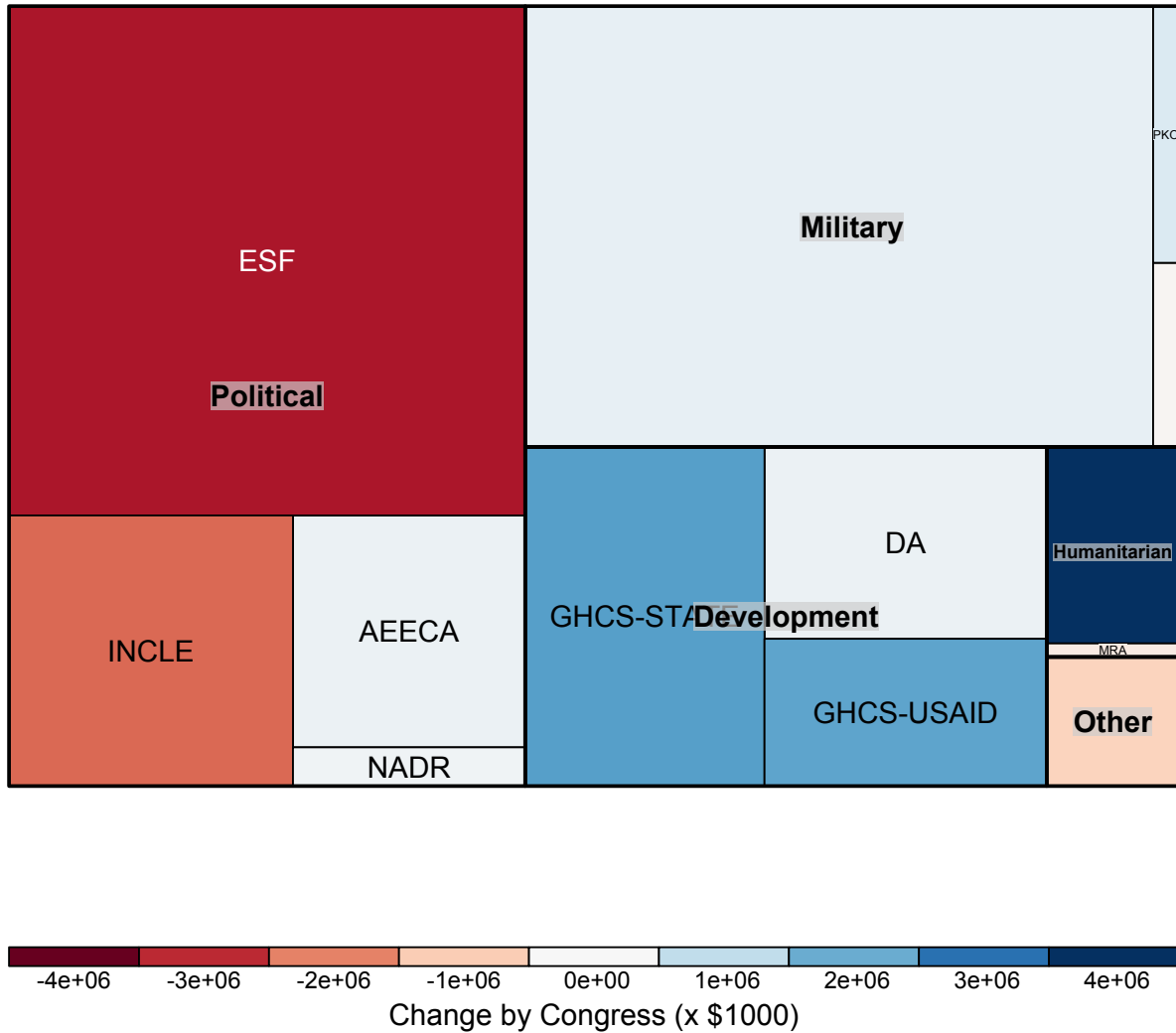
On the whole, the results of all models are consistent with the theory. Most importantly, the differences between the foreign aid policies of the president and Congress depend more on the foreign aid account than on the foreign aid recipient. This suggests that Congress is concerned more with the domestic level factors surrounding how the money is spent than on the international level issue of who receives it. This result is extremely robust, appearing in every model regardless of the method used to measure the difference between the president and Congress. On the other hand, there is weaker support across the models for the hypotheses that Congress is less able to oppose the president when divisions within Congress make it difficult to reach consensus and when the salience of foreign policy events increases. While the coefficients for these variables are in the expected direction in both models, they reach statistical significance only in Model 2.

## 3.6 Implications

What can these findings tell us about US foreign aid policy? Economists and political scientists have found time and again that the geographical distribution of US development aid is strongly influenced by security concerns (Alesina and Dollar, 2000). No doubt a major reason for this finding is the US government's disingenuous practice of reporting some foreign assistance as development aid at the international level even when economic development is not the primary justification under US domestic legislation for these accounts. Additionally, the recent shift in foreign policy priorities with the Global War on Terror has provided a strategic argument for policymakers to link development aid and security concerns (Lancaster, 2007). Even so, it remains to be explained why these policies, among the many other policy options proposed, were accepted by Congress and became engrained in US foreign policy.

My findings suggest that the answer is at least in part an example of policy substitution (Clark, 2001). The president, focused on foreign policy, has a range of policy options

Figure 3.5: Presidents' Request and Congressional Enactment by Account, 2000-2010)



available, but needs to find options that Congress will support, particularly when budgetary appropriations are required. Congress is more concerned with the domestic implications than the international effects of the foreign policy options. When the agreement of both actors is necessary, then the equilibrium policy is one that balances international and domestic concerns. In foreign aid policy, this means that Congress grants the president greater discretion

over where to send aid while retaining control over the type of aid and the mechanisms for sending it. Consequently, Congress has a real effect on foreign policy even if it may be largely uninterested in the policy itself.

But, what effect does this process have on actual policy outcomes? Figure 3.5 depicts the sum of president's request for aid over the time period. The size of each box represents the relative proportion for each account. The shading of the boxes illustrates the amount by which Congress modifies the president's request. A clear pattern is evident with Congress cutting the president's request for ESF, INCLE, and the Other funds and over supplying funds in the FFP and GHCS accounts.

In future stages of this project I will incorporate exogenous variables to explore which factors make these accounts so attractive to Congress. At this point, two possible explanations present themselves. First, Congress may favor accounts that provide significant redistributive benefits to American suppliers. The preference for food aid supports this theory, as food aid is almost entirely a subsidy to American farmers and shippers. However, military aid provides the same benefits to defense manufacturers and Congress does not appear to oversupply military aid. At present, I do not have sufficient information to determine how much of the aid in the medical accounts is tied to US producers.

A second possibility is that Congress favors the type of foreign aid that appeals to voters and issue-based interest groups. Food aid and health aid resemble the types of programs carried out by private sector charities, both religious and secular. They are the types of programs that generate heart-wrenching photo ops, celebrity endorsements, and high profile advocacy. Thus, it may be that Congress is responding to perceived public will, providing foreign aid in these high profile accounts while cutting the less visible political and economic development accounts.

Regardless of Congress's motives it is clear that, from the president's perspective, Congress undersupplies the foreign aid accounts that are most clearly tied to political objectives. This limits the president's ability to redistribute foreign aid to address emerging strategic chal-

lenges. Congress defers to the president when there is a sufficiently salient foreign policy reason for the change, but by the time an issue reaches a sufficient level of salience in the US, it may be too late for foreign aid to have much of an impact.

Overall, the president is faced with a shortage of political funds and an excess of humanitarian and healthcare funds, but Congress places few constraints on where the president sends the appropriated aid. After the appropriations bill is passed and the 653 process has begun, the president may shift funds from the oversupplied accounts to priority countries. By the end of the process, food and healthcare aid end up over-allocated to countries with prominent security concerns, as the president attempts to make up for cuts in the political aid, and the correlation between US development funds and security concerns becomes more pronounced.

Obviously this effect occurs on the margins. I do not contend that this is the sole or even the dominant cause of the correlation observed in the determinants of foreign aid research. It does, however, illustrate how the larger patterns we observe may have come to be. The US could have used any number of policy options to win countries to its side during the Cold War or to address the rising concerns of terrorism and insurgency in recent years. The use of development aid would not appear to be the most efficient means of meeting those objectives, but it is the policy option that prevailed. The domestic implications of these foreign aid policies, and thereby their appeal to Congress, are a likely reason for this policy outcome.

## **3.7 Conclusion**

In this paper I set out to explain the influence of domestic institutional variables on foreign aid policy outcomes. My theory proposes that these policy outcomes are the result of policy negotiations between the president and Congress, and the the relative strength of each actor in these negotiations will be affected by the level of internal division within

Congress, the salience of the international issues to be addressed by the policy, and the domestic implications of the policy. Regardless of the measurement methodology used, I find evidence consistent with the theory across all models. The difference between the president and Congress varies more by the foreign aid account than by the proposed recipient country. In addition, the difference is smaller when Congress is divided and when the foreign policy issue is more salient.

These results indicate that Congress plays an important role in foreign policy decision making, even when Congress is largely unconcerned with the foreign policy itself. The president must substitute policy options that meet Congress's domestic priorities, even when the final policy option is not the best suited to meet the foreign policy objectives. In further extensions of this theory, I will investigate the sources of the president's foreign aid requests. To what extent do these requests reflect the proposals of the foreign affairs bureaucracy? What are the president's priorities for foreign aid policy? And how do domestic institutional factors influence these decisions? I will then incorporate the exogenous international and domestic variables that have been used in previous determinants of foreign aid literature to map out exactly how these factors influence the policy process.

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## Chapter 4

# Foreign Aid Accounts and the Politics of the US Foreign Assistance Budget

## Abstract

While research on foreign aid effectiveness is moving beyond aggregate aid levels to a more nuanced analysis of the different types of foreign aid that governments provide, research on donors' decisions to give foreign aid remains focused primarily on aggregate aid levels. In this paper, I argue that the US addresses a variety of policy objectives through its foreign aid policy and uses different types of foreign aid to achieve these objectives. Using an original dataset covering the US foreign aid budget from 1990-2010, I show that allocations to different budgetary accounts are an important mechanism through which the US government prioritizes foreign aid objectives. Some accounts are focused solely on economic development goals, others are focused solely on security objectives, and still others are used to accomplish a mixture of objectives. This finding helps explain a repeated finding in the foreign aid literature—that US development aid is heavily influenced by strategic security concerns. In fact, there is no evidence of a security bias in the foreign aid accounts that are devoted solely to development. There is, however, a strong correlation between security concerns and the aid accounts that also reference political objectives. I then use these budgetary accounts to evaluate the effect of partisan ideology on the types of aid that the US provides. I find that Republican administrations demonstrate a marked preference for distributing foreign aid through accounts that focus on security-related objectives. These are important findings and demonstrate the potential research advantages that can be gained from considering foreign aid accounts.

## 4.1 Introduction

Foreign aid is something of an anomaly in American politics. The American public is ill-informed about foreign aid policy and there is no broad-based support for the policy. For example, Rep. Ted Yoho (R-Fla.) in a recent debate claimed that over 85% of his constituents opposed foreign aid (Staats, 2013). While that estimate may be high, a 2013 Pew survey found that foreign aid was by far the least popular major spending category, with nearly half of all respondents favoring cuts to the program (Dimock et al., 2013). Yet, year after year politicians continue to fund foreign aid, ostensibly taking tax dollars from voting constituents and sending the money overseas to the citizens of foreign countries who can have no direct impact on the politicians' chances for re-election. Why? It may be that these politicians care only about the implementation contracts that foreign aid provides to their constituents. But another possible answer is that politicians and some of their constituents see foreign aid as a broader tool of foreign policy, important for addressing a range of issues beyond economic development. Indeed, US foreign aid has become a microcosm of US foreign policy writ large, addressing national security concerns, bilateral and multilateral diplomatic goals, the expansion of US trade, and the promotion of US values abroad. So, despite little support from the general public, foreign aid continues to be funded as an important pillar of US foreign policy.

The policy literature on foreign aid explicitly acknowledges that there are myriad non-development objectives behind US aid policy. Similarly, economic and political science research on foreign aid has identified international strategic, political, and security factors that also influence the allocation of foreign aid (McKinlay and Little, 1977; Schraeder, Hook and Taylor, 1998; Meernik, Krueger and Poe, 1998; Drury, Olson and Van Belle, 2005; Alesina and Dollar, 2000). However, the implicit assumption in most of this research is that the primary goal of foreign aid is and should be economic development. When the goal of the research agenda is to investigate the effects of foreign aid on economic development, then this approach makes sense. However, if the primary focus of the research is on the political

factors that determine how a donor government makes decisions about foreign aid allocations, then we should jettison the limiting assumption that foreign aid is primarily a tool for economic development and give equal consideration to other justifications and policy goals. For many policy makers, the economic development of recipient countries is not the sole or even the primary reason to support foreign aid. Accounting for these different objectives will provide a more complete picture of how governments make foreign aid decisions.

In this paper, I begin with the assumption that US foreign aid policy is intended to address multiple objectives. I posit that the budgetary accounts used to fund US foreign aid are a useful indicator of the objectives that the aid is intended to address. Using an original dataset that covers US foreign aid from 1990 to 2010, I evaluate the effect of international determinants—economic development needs, US economic interests, and US strategic interests—on the allocation of aid across the different budgetary accounts. I find that there are clear distinctions in how the US government uses these foreign aid accounts. Money allocated to development accounts goes to countries that have greater economic need. Money allocated to security accounts goes to countries where U.S security concerns are more prevalent. And, funds allocated to political accounts respond to both sets of determinants. Based on these findings, I am able to test the oft-stated but rarely tested theory that ideological differences over foreign policy result in different preferences for foreign aid. Consistent with the theory, I find that both parties use foreign aid to promote economic development and US economic interests. However, Republican administrations seek more aid for countries where US security concerns predominate.

## 4.2 Background

US foreign aid policy is justified on numerous policy grounds. Certainly, a major justification for foreign aid is the humanitarian impulse to assist those in need. At the same time, helping other countries develop their own economy is an important component of the

US strategy to sustain its own economic expansion. More developed countries can buy more US exports and may represent more stable environments for investment by US corporations (Lancaster, 2007; Milner and Tingley, 2011). Advocates also point out foreign aid's perceived impact on international security. Military aid specifically addresses this issue, but many policymakers also believe that there is a direct link between economic development and political stability. Thus, supporters of foreign aid appeal directly to US security interests to justify the foreign aid budget. Finally, foreign aid has become an important means to promote the political goals of the United States. At the domestic level, the US uses foreign aid to incentivize political reforms in foreign countries. At the international level, foreign aid may be used as a side payment to incentivize support for US positions on important international issues (Lancaster, 2007).

It is often difficult to identify a single justification for any one foreign aid allocation. However, I posit that the budgetary accounts by which Congress appropriates foreign aid place effective constraints on the ways in which the executive branch may spend the money in those accounts. As such, these accounts—and the objectives identified in their authorizing legislation—can be used to distinguish between different policy goals. A quick survey of the annual appropriations bills makes clear the overarching importance of the foreign assistance accounts. The appropriations bills themselves are organized by account rather than by country or geographic region. In other words, the laws passed by Congress to provide the funds for foreign assistance are focused on how much money will be devoted for the different foreign aid objectives that have been authorized for each account (Adams and Williams, 2010; Tarnoff and Lawson, 2009). The appropriations bills do include specific earmarks or requirements for some countries, but these are *ad hoc* and only exist within the broader subsections of the appropriations bill for each of the accounts. Moreover, earmarks only cover small portions of the foreign aid budget, but every single dollar must be appropriated through an existing account. Therefore, focusing on these foreign aid accounts promises to provide a more complete picture of foreign aid policy.

The US Congress considers four primary categories of foreign aid accounts: development aid, strategic or political aid, humanitarian aid, and security or military aid (Adams and Williams, 2010). Each category contains multiple accounts. I limit my analysis in this paper to the development, political, and military/security categories. Humanitarian aid is important, but the appropriations process differs because this aid is used specifically to respond to emerging disasters, famines, etc. As such, Congress appropriates these funds with fewer restrictions and grants the executive branch more discretion to distribute humanitarian aid as needs arise. This makes it difficult to compare humanitarian aid to the other categories, where Congress is less willing to provide such general contingency funds.

Table 4.1: Summary of US foreign Assistance Accounts

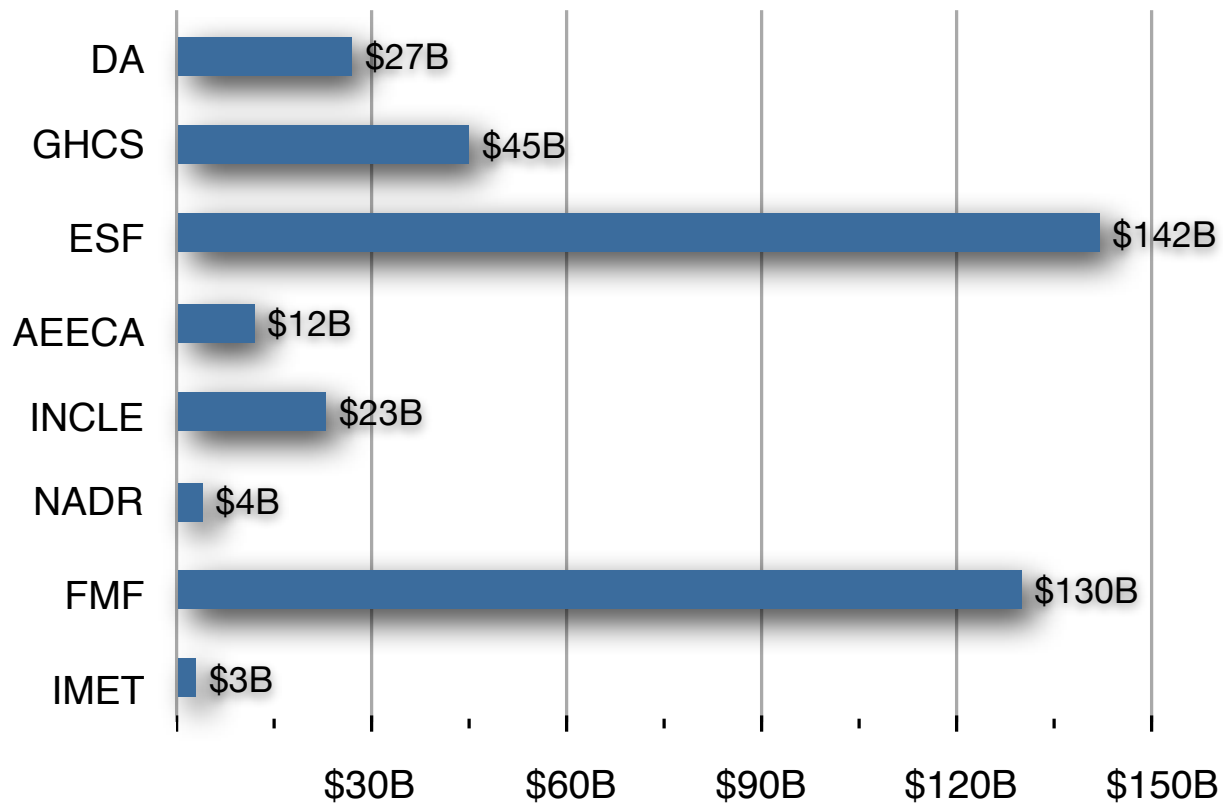
<b>Category</b>	<b>Account</b>	<b>Authorizations</b>
Development	DA	development (general)
	GHCS	development (health)
Political	AEECA	development, economic, political, security
	ESF	development, economic, political, security
	INCLE	political, security (narcotics)
	NADR	political, security (terrorism)
Military	FMF	security
	IMET	security

Table 4.1 summarizes the accounts included in this analysis. Figure 4.1 compares the total appropriations for each account from 1962-2010.

The first category is for development assistance. While these funds may help address other foreign policy concerns, the primary focus of these funds is to promote economic development in the recipient countries. The Development Assistance (DA) account is among the oldest foreign assistance accounts. DA is authorized specifically for “sustained support of the people of developing countries in their efforts to acquire the knowledge and resources essential to development and to build the economic, political, and social institutions which will improve the quality of their lives”(USAID, 2005). From 1962 to 2010 the US obligated

about \$27 billion in DA funds (USAID, 2013).

Figure 4.1: Appropriations by Account, 1962-2010



In the 1990s, the US created a new Child Survival and Health (CSH) account to “expand basic health services and strengthen national health systems to significantly improve people’s health, especially that of women, children, and other vulnerable populations” (Adams and Williams, 2010). In 2003, President George Bush proposed a massive increase in healthcare development aid, particularly focused on HIV/AIDS (Radelet, 2003). These funds were appropriated under various titles until being consolidated with CSH funds under the new Global Health and Child Survival (GHCS) account in 2010. From 1962 to 2010 the US obligated about \$45 under the various headings within the GHCS account (USAID, 2013).

The second major category of US foreign assistance is for political or strategic accounts. While these accounts may help to promote economic development, that is not their sole justification under the authorizing legislation. The largest of these accounts is for Economic



Support Funds (ESF), created in 1978 to support the Middle East peace process and continued since then to address other strategic issues (Adams and Williams, 2010). While ESF funds are counted as development assistance, the ESF authorization language specifically recognizes that “under special economic, political, or security conditions, the national interest of the United States may require economic support for countries in amounts which could not be justified solely for development purposes” (USAID, 2005). In fact, substantial portions of ESF aid are delivered as budget subsidies to recipient countries, which allows those countries to transfer funds in their own budget to address strategic or security needs (Adams and Williams, 2010). From 1962 to 2010, the US obligated about \$142 billion in bilateral ESF funds (USAID, 2013).

Following the collapse of the Soviet Union and the end of the Cold War, new assistance accounts were created to help newly independent states transition to democracy and free market economies. The Support for East European Democracies (SEED) account was created in 1989 and focused on South and Central Europe. The Freedom Support Act (FSA) was created in 1992 and targeted the newly independent states of the former Soviet Union. These accounts subsequently were combined under the Assistance to Europe, Eurasia and Central Asia (AEECA) account. While funds from these accounts are authorized for economic development, Congress also authorizes them as a means to stabilize the strategically important Eurasian region and to promote US economic interests (USAID, 2005). From 1962 to 2010, the US obligated almost \$12 billion under the AEECA and its predecessors (USAID, 2013).

Foreign aid in the political category also includes accounts that make no specific claim to promote economic development. The International Narcotics Control and Law Enforcement (INCLE) account is one example. The authorizing legislation for the INCLE account prioritizes “fighting international crime and drug trafficking and strengthening law enforcement overseas” and “the suppression of the illicit manufacture of and trafficking in narcotic and psychotropic drugs, money laundering, and precursor chemical diversion, and the progressive

elimination of the illicit cultivation of the crops from which narcotic and psychotropic drugs are derived” (USAID, 2005). At certain times specific accounts have been created to serve similar purposes, such as the Andean Counterdrug Initiative (ACI) that targeted narcotics from Latin America. From 1962-2010, the US obligated close to \$23 billion under the INCLE and related accounts (USAID, 2013).

Finally, the Nonproliferation, Antiterrorism, Demining, and Related Programs (NADR) account was created in 1996 (Adams and Williams, 2010). Again the justification for this account is not focused on economic development goals. Rather, NADR funds are authorized to enhance the ability of “law enforcement personnel to deter terrorists and terrorist groups from engaging in international terrorist acts such as bombing, kidnapping, assassination, hostage taking, and hijacking” and “to halt the proliferation of nuclear, chemical, and biological weapons, and conventional weaponry [and to establish] verifiable safeguards against the proliferation of such weapons” (USAID, 2005). From 1962 to 2010, the US obligated about \$4 billion in funds under the NADR account (USAID, 2013).

In addition, there are separate accounts for military aid that do not address to any development objectives. The Foreign Military Financing (FMF) account was created in 1989 to replace the Military Assistance Program (MAP) (Adams and Williams, 2010). It provides assistance to “finance the procurement of defense articles, defense services, and design and construction services by friendly foreign countries” (USAID, 2005). In essence, FMF funds are given to a recipient government to purchase military equipment from the United States (Tarnoff and Lawson, 2009). From 1962 to 2010, the US obligated about \$130 billion in bilateral FMF and MAP funds.

In addition, the U.S provides funds under the International Military Education and Training (IMET) account for “training on a grant basis to students from allied and friendly nations” (USAID, 2005). Essentially, these funds serve as scholarships that allow foreign military personnel to attend training in the United States or through US-sponsored training programs overseas. From 1962 to 2010, the US obligated about \$2.7 billion in bilateral IMET

funds (USAID, 2013).

Overall, the authorization language for the various accounts makes clear that US foreign aid is not homogeneous. Some funds are set aside for economic development concerns, but much of the foreign aid budget is directed explicitly at non-development foreign policy objectives.

## 4.3 Literature Review & Theory

Numerous studies examine the factors influencing the allocation of US foreign aid. McKinlay and Little (1977) examine aid allocations from 1960 to 1970 and find that the US focuses more on its own international security interests than on the development or humanitarian needs of recipient countries. Alesina and Dollar (2000) examine allocations from 1970 to 1994 and find that the US distributes more aid to poorer countries, but also rewards countries with better domestic institutions, those with more open economies, allies in the Middle East, and countries that vote with the US in the United Nations. Looking only at aid to Africa in the 1980s, Schraeder, Hook and Taylor (1998) find that US aid was predominately driven by security and trade interests.

Many researchers attribute the link between foreign aid and US security interests to the strategic concerns of the Cold War. Meernik, Krueger and Poe (1998) examine the period from 1977 to 1994 and find that the focus of US aid policy shifted from international security concerns to a focus on domestic institutions in the recipient countries as the Cold War wound down. Bearce and Tirone (2010) examining aid from 1965 to 2001, Bermeo (2011) from 1992 to 2007, and Dunning (2004) focusing on aid to Africa from 1975 to 1997 all reach similar conclusions. In sum, the literature shows that US aid policy addresses a number of concerns beyond mere humanitarian or economic need, and that these policy concerns have changed over time.

Despite the recognition that US aid addresses multiple policy objectives, most of the

research on foreign aid has relied on aggregate Official Development Assistance (ODA) data as reported to the Organization for Economic Cooperation and Development (OECD). This is a suitable measure for many research questions and facilitates easy comparisons between different donors. However, there is increasing evidence that aggregate aid measures obscure important differences between the types of foreign aid that governments give (Tierney et al., 2011). For example, Finkel, Perez-Linan and Seligson (2007) collect a unique dataset on US aid to promote democracy. They find that greater levels of democracy aid lead to better governance in recipient countries, but there is no significant effect for greater levels of aggregate aid; cf., Nielsen and Nielson (2010). And, Mavrotas and Ouattara (2006) finds that recipient governments respond differently to different types of foreign aid. In some cases governments will use aid for the intended purpose, but in other cases governments simply divert the aid to their own purposes. So, there are important reasons to isolate the types of aid that governments provide and not just to rely on aggregate aid data. Yet, with a few notable exceptions, e.g., Poe and Meernik (1995) focusing on US military aid in the 1980s and Drury, Olson and Van Belle (2005) focusing on US humanitarian aid from 1964 to 1995, researchers on the determinants of foreign aid have based their analysis on aggregate aid data. Consequently, none of these studies have been able to investigate the connection between international determinants and the decision over what type of aid to provide.

While academic researchers usually assume the purpose of foreign aid is to promote economic development in the recipient country, the policy literature on foreign aid takes a more pragmatic approach, acknowledging that development often is not the primary or even secondary rationale for foreign aid (Lancaster, 2007; Adams and Williams, 2010). This is an important distinction to make when considering whether aggregate OECD aid data is an appropriate measure. The OECD defines ODA as funds “administered with the promotion of the economic development and welfare of developing countries as its main objective” (OECD, 2013). At first glance, it might appear that most US aid meets this general definition. After all, the legislation governing foreign aid, the Foreign Assistance Act of 1961 (P.L.87-195),

states that a “principal objective of the foreign policy of the United States is the encouragement and sustained support of the people of developing countries in their efforts to acquire the knowledge and resources essential to development, and to build the economic, political, and social institutions that will improve the quality of their lives” (Lawson, 2013). However, that original legislation has been amended multiple times to include additional goals, including the suppression of international narcotics trafficking, the alleviation of suffering caused by natural disasters, the enhancement of anti-terrorism capabilities, and the solidification of bilateral ties (Lawson, 2013). These funds may have little to do with economic development, but with the exception of designated military aid, the US reports much of this aid to the international community as ODA.

The core premise of this paper is that these foreign aid accounts are an important mechanism by which the US government prioritizes aid among these various foreign policy objectives. Two theoretical rationales explain why these accounts would be important in foreign aid policy. First, foreign aid is appropriated through the budgetary process, where incremental policy making is the norm. The incremental model of policymaking posits that policy makers operate under conditions of bounded rationality. Policy issues are too complex for true zero-based decision making, so policy makers rely on standard operating procedures to move policy incrementally in the desired direction (Davis, Dempster and Wildavsky, 1966).

Indeed, there is reason to believe that the foreign policy implications of foreign aid have gradually been overshadowed by budgetary concerns in recent years. The Senate Foreign Affairs Committee or the House Committee on International Relations regularly attempt to reform foreign aid policy through authorization bills, but these bills have failed to find traction on the floor. Even though federal law requires an authorization bill to be passed every two years, Congress routinely waives this requirement. In fact, no comprehensive foreign assistance authorization bill has been passed since 1985 and only five ad hoc foreign assistance authorization bills were passed from 1990-2010 (Tarnoff and Lawson, 2009). In the absence of oversight from the foreign policy committees, the appropriations committees have

come to dominate foreign assistance policy (Adams and Williams, 2010). This suggests that foreign aid allocations will follow a pattern of budgetary incrementalism in which allocations among foreign aid accounts remain fairly stable.

Budgetary incrementalism might explain the persistent importance of foreign assistance accounts, but it tells us nothing about the factors that causes changes in the allocation of funds among these accounts. Policy outcomes are not uniformly incremental, but often exhibit periods of incrementalism punctuated by major policy shifts (Jones and Baumgartner, 2005). Davis, Dempster and Wildavsky (1974) acknowledged the existence of these shifts, attributing them to exogenous changes in the policy environment. Baumgartner and Jones (2009) argue further that the causes for these shifts can be endogenous to the decision making process due to institutional friction. Large policy changes require active bargaining, which carries heavy transactional costs. With limited resources, policymakers can focus attention on a limited number of issues. When sufficient attention is focused on an issue, transactional costs can be overcome and large shifts may occur.

This suggests a second reason for the importance of foreign aid accounts. The authorization of a new account is an important tool for Congress to impose *ex ante* controls on executive branch policies. *Ex ante* controls are procedural and structural rules made at the time of delegation that constrain executive branch agencies' discretion in the future. These rules help Congress overcome informational disadvantages and ensure agencies respond to the needs of important constituents (McCubbins, Noll and Weingast, 1987).

The authorization language for each foreign aid account dictates the purposes for which the aid can be used and places restrictions on its use, such as those prohibiting aid to governments with major human rights abuses. Authorizing language also provides instructions for how the aid is to be implemented, including "tied aid" instructions that require the executive branch to procure the aid through US suppliers. Thus, Congress can be expected to take these accounts seriously and use the allocation of money among the accounts as a means of ensuring that the executive branch follows its preferences on aid spending. Knowing that new

authorizations for foreign aid are rare, Congress will pay careful attention to the language it uses when creating a new account. Because new authorizations have proven difficult to pass, any new authorizations are likely to dictate the terms by which the aid will be provided far into the future. For both reasons—the tendency toward budgetary incrementalism and the value of account authorizations as *ex ante* controls—foreign aid should constrain foreign aid spending and limit the purposes for which it can be used.

The theory to be tested is simple. I posit that foreign aid accounts are effective constraints on foreign aid spending and that the authorizing language of each account dictates the acceptable uses for the money appropriated to the accounts. In practice, this means that the international determinants of US aid will vary with the objectives for each account. Aid authorized under the economic development accounts should go primarily to countries with greater development needs and not to countries of strategic importance to the US. At the other extreme, aid authorized under the security accounts should go primarily to countries that are strategically important to the US regardless of economic need. The political accounts should fall somewhere in between, responding to both development and strategic factors.

## 4.4 Methods & Data

I use an original dataset covering US bilateral foreign aid from 1990-2010 to test the theory that foreign aid accounts matter. Data on the US foreign aid budget comes from two sources: the USAID Greenbook (USAID, 2013), which tracks obligations of US foreign assistance, and the Congressional Budget Justifications (CBJs) submitted by the US Department of State and US Agency for International Development each year. These CBJs provide data on the president’s request for foreign aid by country and account. The CBJs also provide data on the amount of foreign aid that Congress appropriates by country and account.

In total, there are 188 countries and overseas territories, 8 accounts, and 21 fiscal years in the dataset. The data is hierarchical and non-nested, so that there is a separate observation

for each *country-account* combination in each fiscal year. For convenience, I refer to each *country-account* combination as a “program” in this paper. Thus, the dataset contains 1,504 programs per year for a total of 31,584 observations overall. However, many countries never receive any foreign aid during the time period covered by the dataset. To focus the analysis more clearly on countries actively considered for foreign aid, I restrict the dataset to those programs for which the president requested funds, Congress appropriated funds, or funds ultimately were obligated during the current or two prior fiscal years. This reduces the dataset to 14,703 observations.<sup>1</sup>

In addition, the dataset measures aid at three distinct stages of the budgetary process: the president’s request to Congress, the final levels approved by Congress, and the amount actually obligated for delivery to foreign countries. The final obligations provide the most accurate measure of foreign aid outputs in a given year. This is the money that has been spent by the end of the fiscal year.<sup>2</sup> However, the other measures are useful for discerning the preferences of the different political actors in the process. The president’s request most closely captures the preferences of the executive branch on the distribution of foreign aid. The enacted level represents the amount approved by Congress after the appropriations bill is passed, when the executive branch and Congress negotiate the details of the foreign aid allocation through a procedure known as the “653 process” (USAID, 2005). Because the 653 process is a negotiation, the final results do not necessarily reflect the pure policy preferences

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<sup>1</sup>Selection bias is an issue for foreign aid research, because a large number of countries receive no foreign aid at all. As a result, many researchers model donor decisions on foreign aid as a two stage Heckman model involving an initial decision on whether to give any foreign aid and a secondary decision on how much aid to give (Dreher, Sturm and Vreeland, 2009; Vreeland, 2011; Meernik, Krueger and Poe, 1998; Drury, Olson and Van Belle, 2005; Poe and Meernik, 1995). However, there is no well established method for applying the Heckman correction to a multilevel model. Limiting the dataset to active aid programs is a means to approximate the second-stage decision of how much aid to give without considering the first-stage decision of whether to provide aid. While imperfect, this method is appropriate given the assumption that the first-stage decision is relatively static and the group of countries receiving aid does not change considerably over time.

<sup>2</sup>In reality, an obligation merely means that the US government has made a contractual obligation to pay some amount in the future, but actual expenditures have only recently been made available to the public, and this data only begins in 2005. Consequently, obligations are the closest approximation to programmatic expenditures available for all of the years in the dataset.



of Congress. However, Congress has the final veto in the 653 process, and so it is reasonable to assume that these final allocations are at least an approximation of Congressional will.

The data, covering 21 years from 1990 to 2010, provides a good sample of US foreign assistance policy in the post Cold War era. The dataset includes years from four presidencies, divided roughly equally between Democratic and Republican administrations. It also covers aid allocations both before and after the terrorist attacks of September 11, 2001, an event that is often cited as a turning point in foreign aid policy (Lancaster, 2007). Ideally, the dataset would extend back to cover the Cold War era, as well. However, budgetary data from that era is more difficult to obtain, as electronic copies of CBJs prior to 1990 are only sporadically available. Moreover, there is considerably less detail in the earlier budgetary documents that are available. Given the general consensus that foreign aid policy shifted considerably with the end of the Cold War (Meernik, Krueger and Poe, 1998), I am comfortable that limiting the dataset to the current period provides an accurate portrait of foreign aid policy as it is currently practiced.

I modify a common approach used by researchers analyzing the determinants of US foreign aid (McKinlay and Little, 1977; Schraeder, Hook and Taylor, 1998; Meernik, Krueger and Poe, 1998; Drury, Olson and Van Belle, 2005; Alesina and Dollar, 2000) to test whether allocations differ meaningfully by account. In these models, the dependent variable, *Aid* is the log of amount of foreign aid allocated to a recipient countries in each fiscal year. Rather than using aggregate aid levels, I construct a multilevel model that fits an overall estimate while also fitting varying estimates for each of the underlying foreign aid accounts. The independent variables are characteristics of the recipient countries meant to capture the policy objectives for the aid: the recipient country's economic need, US economic interests, US security interests, and US strategic interests. Foreign aid studies typically include an exhaustive menu of explanatory variables in attempt to capture all of the intricacies of the allocation decision. However, these variables often are highly correlated with one another, creating considerable multicollinearity problems. Therefore, I rely on a simpler model that

uses a single variable to measure each policy objective. While the model loses some predictive power, the simpler model reduces collinearity and provides a clearer distinction between the objectives.

The first independent variable is the log of per capita GDP (*GDPPC*) for each recipient country. This variable captures the development needs of the recipient country. The data is obtained from the United Nations Statistics Division's website (UN, 2013). In expectation, *GDPPC* should be negatively correlated with development aid expenditures, indicating that development aid is flowing to countries where it is most needed. When trying to distinguish between aid accounts, however, measures of GDP may be less useful. Regardless of policy objectives, foreign aid is likely to go to poorer countries because richer countries are less likely to need the transfer of capital. For example, even if the US intends to use foreign aid solely as a side payment to induce a country to implement a given policy, such bribes are more likely to succeed when the recipient country desperately needs the money than when the recipient has no real need for additional capital (Bueno de Mesquita and Smith, 2009). So, it is likely that per capita GDP also correlates with higher allocations of political and security aid, although the effect should be smaller than that for the development accounts.

Given that per capita GDP is likely to correlate negatively with foreign aid for all accounts, I include average life expectancy for each recipient country, *LifeExp*, as a second measure of the recipient need for development assistance. Again, the data is obtained from the UN Statistics Division (UN, 2013). In expectation, life expectancy will correlate negatively with development aid levels, indicating that more development aid goes to countries with lower life expectancies. Unlike per capita GDP, life expectancy is not a measure of the recipient country's budgetary resources. Therefore, I expect no significant correlation between life expectancy and foreign aid allocations for security accounts. In expectation, the political accounts will vary. Both AEECA and ESF accounts specifically reference development as a policy objective, but they also list a number of non-development goals. Therefore, these accounts may show some correlation to *LifeExp*, but the effect should be weaker than

that for development accounts. INCLE and NADR accounts, in contrast, are specifically authorized for security-related purposes, counternarcotics and antiterrorism, so these accounts are not expected to correlate with *LifeExp*.

As a measure of US economic interests I include the log of US exports to recipient countries, *Exports*. The data is obtained from the UN Statistics Division (UN, 2013). In expectation, foreign aid in political accounts will be correlated with higher levels of US exports, indicating that these accounts are used to secure US policy objectives rather than to serve recipient countries' development needs. This is particularly true for the AEECA and ESF accounts, both of which list the promotion of US economic interests as an objective. I do not expect that development or security aid will correlate significantly with US exports.

I also include the log of the number of US troops stationed or deployed in a recipient country, *Troops*, as a measure of US security interests. The data for this variable is obtained from a Heritage Foundation data set through 2005 (Kane, 2006) and data for subsequent years is obtained directly from Department of Defense reports on troop deployments (DoD, 2013). In expectation, aid levels in security accounts should correlate positively with troop levels. In addition, political aid is likely to increase with troop levels, indicating that this aid is being used to address strategic security needs. In particular, INCLE and NADR funds should be correlated with *Troops*, since these accounts address specific security-related objectives. In contrast, I do not expect development aid to show any significant correlation with US troop levels.

As a measure of other US strategic interests, I include Streshnev and Voeten's UN affinity data (*UN*), a measure derived from the number of times that the recipient country votes with the US in the UN General Assembly (Voeten and Streshnev, 2013). Multiple theories have been proposed for how foreign aid and UN voting might interact. For instance, studies have found that foreign aid can be used to influence UN votes (Kuziemko and Werker, 2006). Under those circumstances, UN agreement may be expected to correlate negatively with US aid levels, since the US would be likely to use aid to buy votes from countries that

otherwise would be inclined to vote the other way. However, UN General Assembly votes are not binding, and therefore not particularly important as a US foreign policy objective. I posit that the more important foreign policy objective for the US is to support countries that share its views on international issues, and UN agreement is merely a representation of those shared views. Therefore, I use UN agreement in this paper as a general measure of the country's like-mindedness on international issues. I expect that political and security aid will correlate positively with UN agreement, indicating that the US sends more aid to countries that share US objectives. In contrast, I do not expect any positive correlation between UN agreement and development aid.

All independent variables are included to fit the overall effects in the model and as independent variables to estimate the underlying distribution for each of the separate accounts,  $\beta_a$ . I also include several control variables. I include the amount of aid obligated in the previous fiscal year,  $Lag$  to account for the incremental nature of the budget process. Overall foreign aid expenditures increased significantly after 9/11, as US foreign policy re-focused on the War on Terror. Therefore, I include a dummy variable,  $911$ , coded 1 for the years after 2001. Finally, I include varying intercepts by recipient country,  $\gamma_c$ , and year,  $\delta_y$  to account underlying variations in foreign aid distributions. The model is as follows:

$$\begin{aligned}
Aid_i &\sim \mathcal{N}(\mu + Lag_i + 911_i + GDP_{PC}_i + LifeExp_i + Exports_i + Troops_i + UN_i \\
&\quad + \beta_{a[i]} + \gamma_{c[i]} + \delta_{y[i]}, \sigma_{Aid}^2), \text{ for } i = 1, \dots, n \\
\beta_a &\sim \mathcal{N}(\mu + Lag_{a[1]} + 911_{a[i]} + GDP_{PC}_{a[i]} + LifeExp_{a[i]} + Exports_{a[i]} + Troops_{a[i]} \\
&\quad + UN_{a[i]}, \sigma_a^2), \text{ for } a = 1, \dots, A \\
\gamma_c &\sim \mathcal{N}(\mu, \sigma_c^2), \text{ for } c = 1, \dots, C \\
\delta_y &\sim \mathcal{N}(\mu, \sigma_y^2), \text{ for } y = 1, \dots, Y
\end{aligned}$$

## 4.5 Results

Table 4.2 provides the results of the fitted model. Focusing only on the fixed effects, there is very little evidence of any strategic security impetus for foreign aid allocations. The coefficient for lagged foreign aid is significant and positive, indicating that the previous year's foreign aid levels have a strong effect on the current year's decisions. The coefficient for per capita GDP is significant and negative. As expected with foreign aid, countries with lower economic production receive more assistance. In addition, the coefficient for US exports to the recipient country is positive and significant, indicating that US trade interests play an important role in the decision on where to send foreign aid. However, neither the coefficient for US troop deployments nor that for UN affinity are significant. So, aggregate US aid allocations appear to be geared primarily to addressing economic development needs in recipient countries, whether purely for the benefit of the recipients or to help improve markets for US exports.

However, the fixed effects tell only part of the story. Looking at the group-level variation in the random effects, we see that the different accounts also matter. The fiscal year variance of 0.245 and recipient country variance of 0.171 represent a relatively small proportion of the overall variance in the model. In contrast, the account variance of 7.850 is substantially larger. Simply put, the inclusion of varying intercepts for the fiscal year and recipient country have little effect on the estimates for foreign aid levels, while including variation by account explains much more of the variation in aid levels. Table 4.3 provides a breakdown of the estimated coefficients for each of the aid determinants for each account. By comparing the variation to the expectations derived from the authorizing language for the different accounts, it is possible to evaluate whether these accounts effectively constrain the ways in which foreign aid can be spent.

Before turning to the determinants themselves, it is important to note that all of the accounts demonstrate a substantial degree of incrementalism, although the effect of last year's aid levels varies by account. Compared to the fixed effects estimate for *Lag*, the

Table 4.2: Overall Effect of Determinants on Allocation of US Foreign Aid

<b>Overall Estimates:</b>			
		Estimate:	Std. Error:
(Intercept)		3.596	1.056 *
<i>Lag</i>		0.580	0.036 *
<i>911</i>		0.393	0.213
<i>GDPPC</i>		-0.413	0.090 *
<i>LifeExp</i>		0.011	0.013
<i>Exports</i>		0.113	0.059 *
<i>Troops</i>		0.643	0.035
<i>UN</i>		0.010	0.026
<b>Group-level Variation:</b>			
		Variance	St. Dev.
Country	(Intercept)	0.245	0.495
Fiscal Year	(Intercept)	0.171	0.413
Account	(Intercept)	7.850	2.802
	<i>Lag</i>	0.010	0.010
	<i>911</i>	0.062	0.249
	<i>GDPPC</i>	0.047	0.217
	<i>LifeExp</i>	0.001	0.032
	<i>Exports</i>	0.022	0.150
	<i>Troops</i>	0.007	0.081
	<i>UN</i>	0.004	0.063
AIC: 58195		Log Likelihood:	-29051
12244 Observations	179 Countries	21 Fiscal Years	8 Accounts
<i>Note: * indicates statistical significance at to above the 95% level.</i>			

random effects estimates for the DA, AEECA, and IMET accounts show greater levels of incrementalism, while ESF, NADR, and FMF show lower levels of incrementalism. The effect of *Lag* in the GHCS and INCLE accounts are about the same as for the fixed effects. The amount of aid given in the previous year remains a strong predictor of aid levels in the current year for all accounts. However, the individual determinant variables do have significant effects on aid levels even after controlling for the incremental nature of the budget

The first determinant variable is per capita GDP. As noted previously, it is difficult to

Table 4.3: Account-level Estimates for Effect of Determinants on Allocation of US Foreign Aid

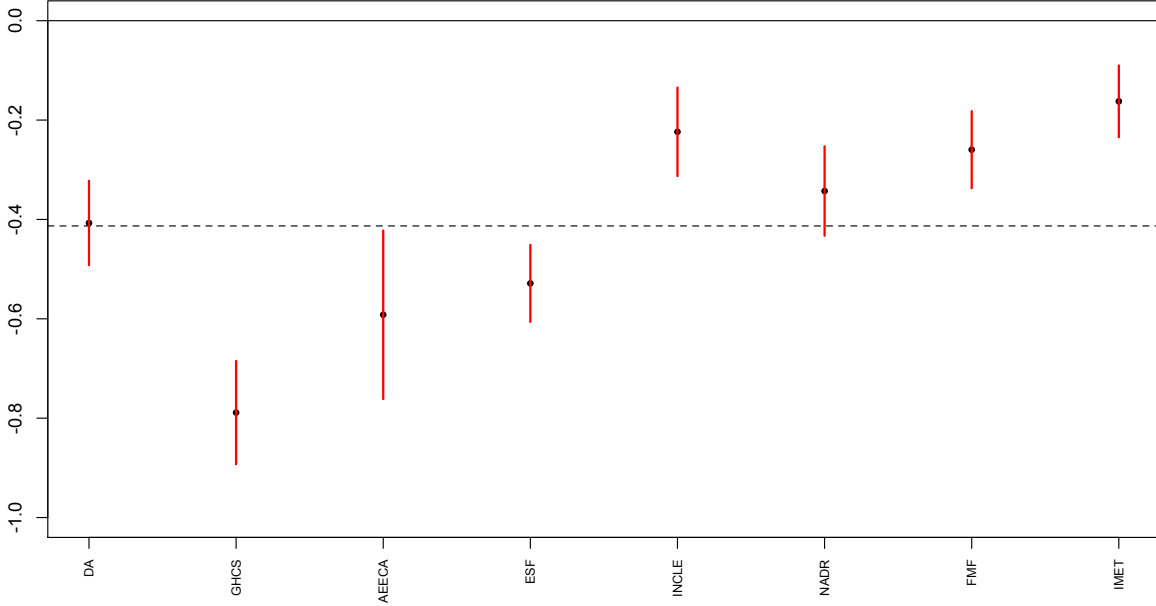
Account	DA	GHCS	AEECA	ESF	INCLE	NADR	FMF	IMET
(Intercept)	4.94	8.55	5.77	4.11	1.41	2.19	0.39	1.38
<i>Lag</i>	0.70	0.57	0.68	0.47	0.55	0.49	0.47	0.67
<i>911</i>	0.22	0.32	-0.086	0.55	0.60	0.62	0.55	0.33
<i>GDPPC</i>	-0.40	-0.78	-0.59	-0.52	-0.22	-0.34	-0.26	-0.16
<i>LifeExp</i>	-0.02	-0.04	0.02	0.01	0.01	0.02	0.06	0.02
<i>Exports</i>	0.20	0.37	-0.05	0.19	0.13	-0.04	0.04	0.04
<i>Troops</i>	-0.05	-0.00	0.04	0.12	0.07	0.13	0.18	0.01
<i>UN</i>	0.01	-0.05	0.05	-0.00	0.01	-0.09	0.10	0.05

form concrete expectations about the effect of *GDPPC*, because it is presumed that all foreign aid will be more effective when it goes to countries with a stronger budgetary need, regardless of whether that aid is intended to promote economic development or non-development policy goals. Nonetheless, there should be a stronger negative correlation between aid levels and *GDPPC* for the development accounts, as the authorizations for these accounts establish development objectives as the sole foreign policy goal. In contrast, the effect for *GDPPC* should be considerably weaker for the security accounts, where the authorization language does not reference development objectives at all. The political accounts, which reference both development and strategic goals, are expected to fall somewhere in between.

Figure 4.2 depicts the variation in the effect of per capita GDP by account. The solid horizontal line indicates a coefficient of 0, while the dashed line indicates the overall fixed effect estimate for the coefficient. Coefficients for each account are indicated by a point with a vertical line depicting a 95% confidence interval. Accounts highlighted in red are statistically significant and less than 0, while those in blue are statistically significant and greater than 0.

The results for account-level variation on *GDPPC* largely supports the theory that accounts constrain aid spending. As expected, the coefficient for all accounts is negative and significant. Moreover, both security accounts demonstrate a markedly weaker nega-

Figure 4.2: Account-Level Variation in  $\text{Aid} \sim \text{GDP per capita}$



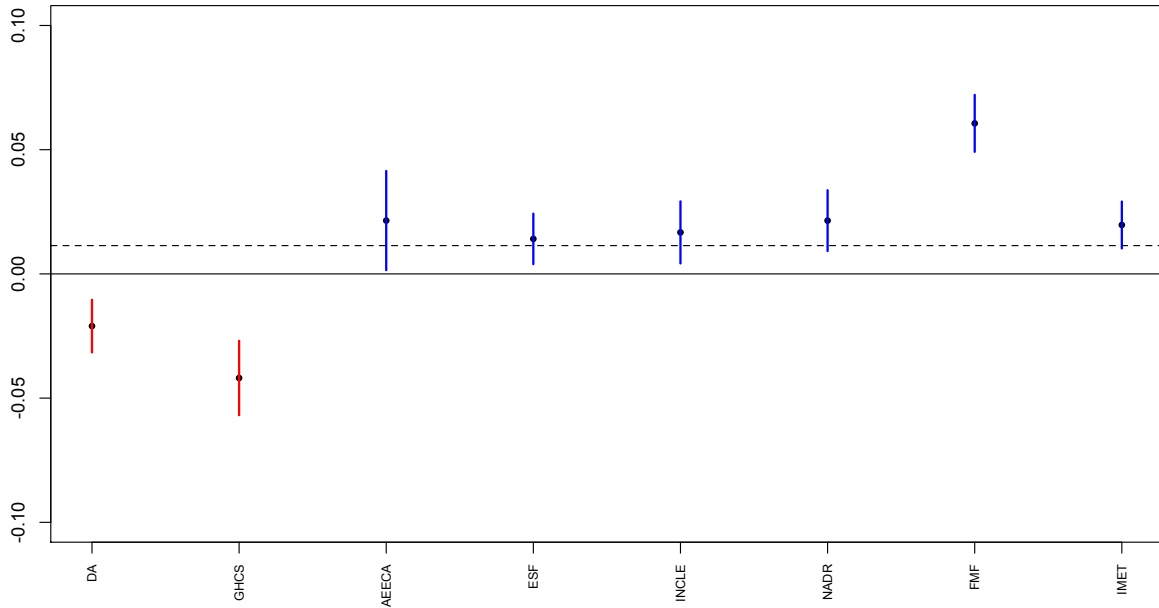
tive correlation with per capita GDP. The effects for the NADR account, which focuses on anti-terrorism, and the INCLE account, which focuses on counter narcotics, are also considerably weaker. GHCS, a development account, shows the strongest negative correlation with  $GDPPC$ , and the two political accounts that reference development goals, AEECA and ESF, also show stronger negative correlations. However, there is one important caveat. The effect of  $GDPPC$  on the DA account is weaker than expected. While the coefficient for DA is lower than the security accounts, it does not differ significantly from the fixed-effects estimate for  $GDPPC$ .

The next determinant variable, *LifeExp*, provides an alternative means to gauge recipient countries' need for foreign assistance, so the expectations for each account are the same as those for the  $GDPPC$  variable. Table 4.3 depicts the account-level estimates for *LifeExp*. These results are entirely consistent with expectations. Only the two development accounts, DA and GHCS, show a negative correlation with life expectancy. As might be expected, the GHCS account, which focuses on healthcare related aid, shows the strongest correlation, but



the effect of *LifeExp* on DA aid levels is also significant. In contrast, all of the political and security accounts have a positive correlation, indicating that they are not targeted to the countries with the greatest need.

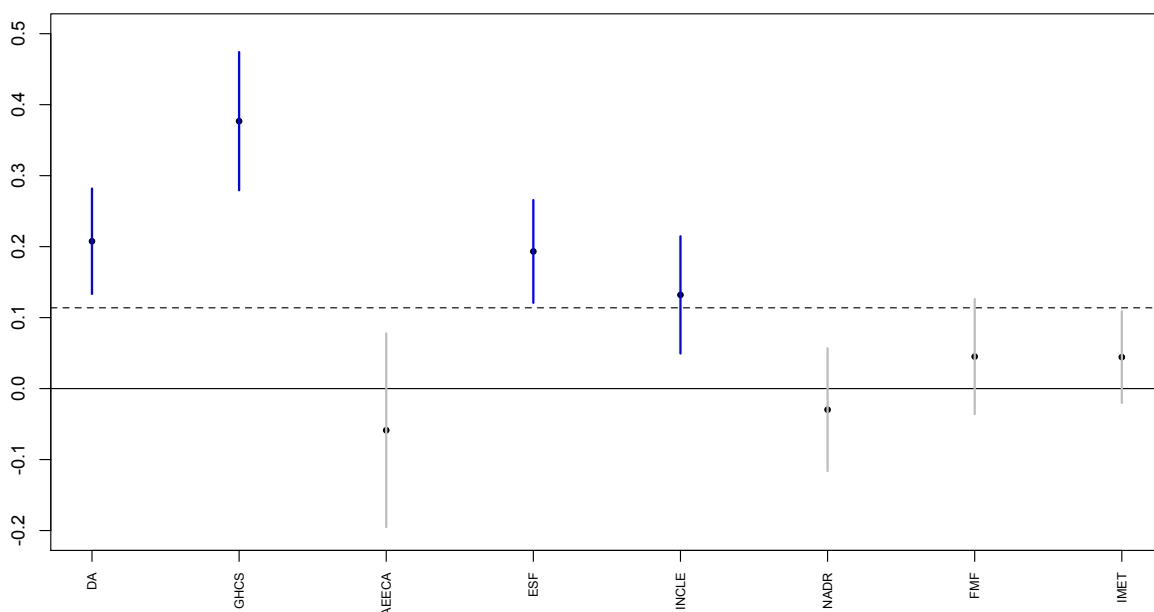
Figure 4.3: Account-Level Variation in Aid  $\sim$  Life Expectancy



The third determinant, *Exports*, captures the importance of each recipient as a market for US exports. This variable is unique in the model because it is an economic variable, but it focuses on the needs of the US rather than on the needs of the recipient country. Since the authorizing language for the development accounts focuses only on the economic development needs of the recipient, there is no expected correlation with *Exports* for the development accounts. Likewise, there is no expected correlation with *Exports* for the security accounts, because these accounts only reference strategic security and not economic goals. Two of the political accounts, INCLE and NADR, do not reference any economic goals. Therefore, only the political accounts that reference both development and strategic goals, AEECA and ESF, should be positively correlated with *Exports*.

Figure 4.4 shows account-level variation for the *Exports* variable. The results are mixed.

Figure 4.4: Account-Level Variation in Aid  $\sim$  US Exports

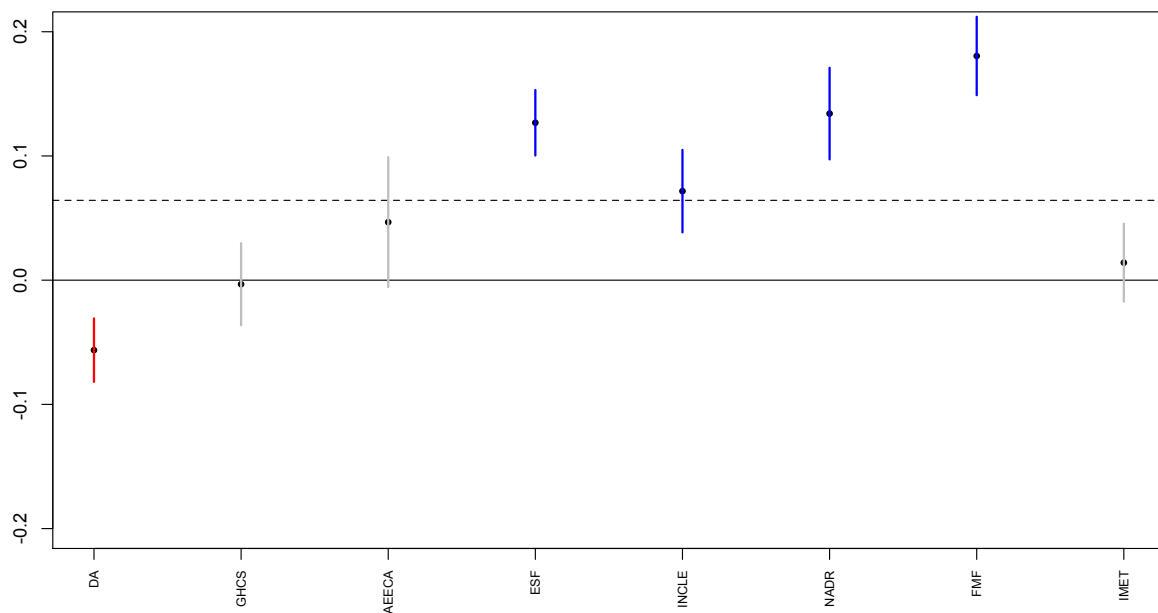


As expected, neither security account shows a significant positive correlation. However, both development accounts show a high level of correlation with *Exports*. Of course, the fixed-effects results for aggregate aid showed a positive relationship between *Exports* and US foreign aid overall, but the coefficients for the development accounts show a statistically significant deviation even from the fixed-effects estimate. So, there is strong evidence that US development aid is used to benefit US trade interests in addition to the recipient's development needs. This is not necessarily surprising, as contributing to the economic development of these countries improves markets for US exports. However, there is no specific authorization in the DA or GHCS accounts that directs aid to be used in this way.

Turning to the political accounts, ESF account references a broad array of US interests including specific reference to promoting US economic interests, and there is indeed a positive correlation with US exports. However, the AEECA account, which specifically references promotion of US exports as one of many policy objectives, is negatively correlated with *Exports*, suggesting that other considerations dominate the decision making process for

this account. The NADR account focuses on anti-terrorism and does not reference economic interests. As expected, there is no correlation between NADR funds and *Exports*. However, INCLE funds—focused on international narcotics—are positively correlated with *Exports*. This effect is likely due to the geographic concentration of the US War on Drugs. A large proportion of INCLE funds is directed to countries in Latin America, which are geographically near to the US and, therefore, represent an important export market.

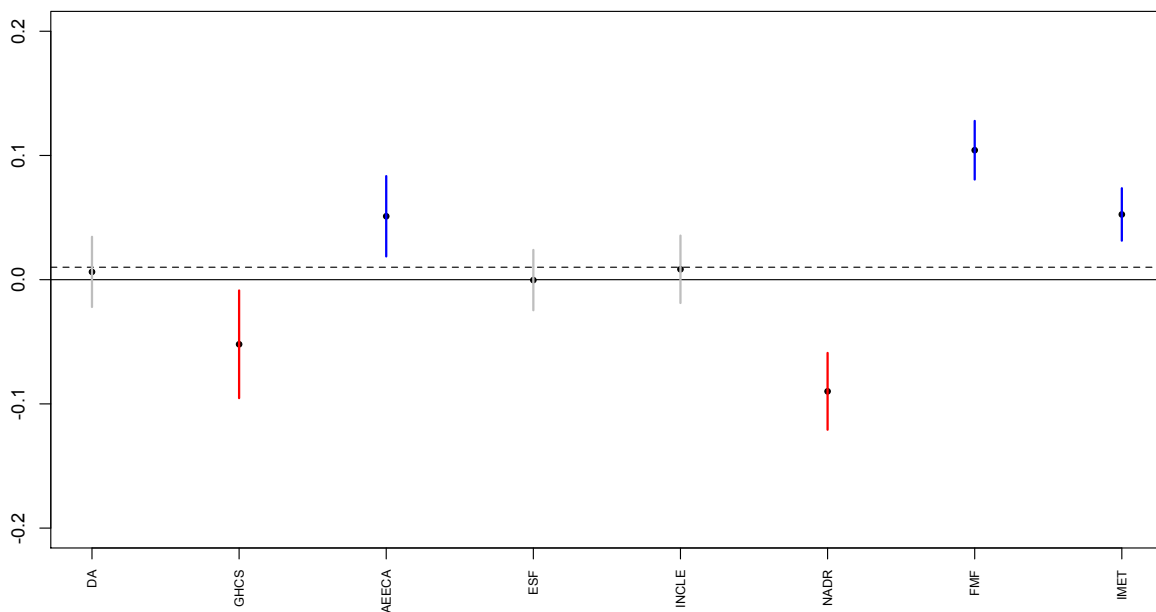
Figure 4.5: Account-Level Variation in Aid  $\sim$  U.S Troop Deployment



The fourth variable is the number of US troops deployed in the recipient country. This is an indicator of US security concerns in the country, so security aid should be correlated with increased security concerns and development aid should not. Political aid, which references a number of objectives, is expected to fall somewhere in between. Figure 4.5 depicts account-level variation for this variable. As expected, neither development account is positively correlated with this variable. DA funds show a significant negative correlation and GHCS funds are not statistically distinguishable from 0. Both security accounts are positively correlated with *Troops*, although the coefficient for IMET is not statistically significant. It

is unclear why the IMET account would not show a more positive effect, although it may be that there are differing strategies in how to provide aid to these countries—some receive more US troop deployments and others receive more training for their own troops. All political accounts also correlate positively with *Troops*. The effect for AEECA is not statistically significant, probably due to the geographic concentration of these funds in the former Soviet Union or Eastern Bloc, which results in fewer observations and less precision in estimating the coefficient. Overall, these results are strongly supportive of the theory that accounts constrain foreign aid spending.

Figure 4.6: Account-Level Variation in Aid  $\sim$  U.N Affinity



The final determinant variable is the measure of foreign policy affinity derived from votes in the UN. This is an alternative measure of US strategic concerns in the recipient country, indicating that countries have shared interests with the US in international politics. Figure 4.6 shows the account-level variation for this variable. As expected, the two security accounts have a significant positive correlation with *UN*. Also as expected, neither development account shows a significant positive correlation. The results for the political accounts

are mixed. There is a significant positive effect only for the AEECA account. It is not necessarily surprising that the INCLE and NADR accounts show no positive effect for *UN*. These accounts target specific concerns—narcotics and terrorism—that may be more prevalent in countries that tend not to share the US perspective in the UN. However, it is surprising that ESF funds do not have a stronger correlation with UN affinity. Given that the ESF account authorization language references US strategic interests, it was expected that more ESF funds would go to US allies. This may be due to mixed motives in the distribution of aid. While some ESF aid goes to support allies who vote with the US in the UN, other ESF aid may be used as a side payment in an attempt to win votes or for some unrelated purpose.

Overall, the models of account-level variation are consistent with the theory that US foreign aid accounts constrain the purposes for which they can be used. There is a clear delineation between the development accounts—DA and GHCS—and the security accounts—FMF and IMET. The political accounts fall in between and vary according to the specific purposes for which they are authorized. INCLE and NADR, accounts that focus on narrow, security-related concerns, are more similar to the security accounts. AEECA and ESF, accounts that reference a wide variety of US policy objectives, respond to a mix of economic and strategic variables.

However, the results are not entirely consistent with expectations. In particular, the development accounts have an unexpectedly strong correlation with US trade interests. In contrast, AEECA, an account that specifically authorizes the promotion of US exports, does not correlate with *Exports*. The relationship between US aid and trade interests bears further examination. Neither is the effect for the *UN* variable as consistent as expected. Future research should consider the alternative uses of aid to promote international strategic interests. Nonetheless, the results on the whole demonstrate that accounts place meaningful and predictable constraints on how the executive branch can use the allocated aid.

## 4.6 Discussion

The preceding analysis is the first meaningful attempt to quantify how foreign aid accounts may constrain decisions over foreign aid allocation in the US. More work can and should be done to refine and continue to explore how these accounts help shape US foreign aid policy. Nonetheless, the initial results already shed light on US foreign aid patterns that researchers have observed in the aggregate ODA data for many years. The foreign aid literature has shown that both development and international strategic concerns influence aggregate US ODA allocations. This effect may have diminished after the Cold War, but most agree that security concerns re-emerged as an important foreign aid consideration after September 11, 2001. By examining the account-level variation in US foreign aid allocations, it becomes clear that this effect is due largely to the overlapping definitions of development aid that the US employs.

The OECD defines development aid as “primarily intended for economic development” OECD (2013). However, most of the aid the US reports as ODA to the international community is in fact intended to achieve a wide range of objectives. Only for the two development accounts—DA and GHCS—does the authorization language strictly meet the OECD’s definition of ODA. And for these accounts, we indeed see that US strategic security interests have no significant effect on aid allocations. Security aid shows a strong correlation with the security determinants, but the US does not report this aid as ODA. However, the aid channeled through the political accounts—aid that also is reported to the international community as ODA—does show a significant effect for these non-development determinants. So, the influence of US security concerns in foreign aid policy is really more a case of the US double counting political aid as development aid, and not a case of the US using development aid to address security concerns.

In addition, these results point to a new method for evaluating preferences over different foreign aid policy objectives. An open question in the foreign aid literature is whether and how the partisan ideology of donor governments affects decisions to give foreign aid. Cross-

national studies suggest that, in keeping with broader ideological preferences over income redistribution, liberal governments support foreign aid more than conservative governments. Liberals favor both domestic and international redistribution, while conservatives oppose both forms of redistribution (Therien and Noel, 2000). However, US aid allocations appear to challenge this theory, as Republican presidential administrations often give more foreign aid than Democratic administrations. One explanation that has been offered for this phenomenon is that the political parties in the US favor different foreign aid objectives (Tingley, 2010). Republicans may provide more aid in the aggregate, but the additional aid is directed to US economic and strategic security objectives rather than to international development objectives. Using the allocation of aid by accounts provides a means to test this theory empirically, as it is possible to observe variations in the funds allocated to the different types of accounts when partisan control of the government varies. I test this approach in the following section.

## 4.7 Using Accounts to Evaluate Partisan Differences

In order to evaluate partisan preferences over foreign aid accounts, I modify the original model in several ways. First, I focus on the amount of aid requested by the president instead of the final amount obligated. Unlike obligations, which capture the final policy output, the president’s budgetary request is a closer approximation of the president’s policy preferences before bargaining with Congress. So, the dependent variable, *Request*, is the amount of money allocated by program in the president’s initial budget request to Congress

Second, I include dummy variables for the party of the president and both houses of Congress. The primary variable of interest is the party of the president making the budget request, *Party*. The Congressional party variables, *House* and *Senate*, are included as controls. I interact the *Party* variable with the amount of money enacted by Congress for the program in the previous fiscal year, *Lag*. This approach helps control for the incrementalism

inherent in the budget process and emphasizes the difference in the president's request over the previous year's allocation. Finally, the *Party* and *Lag* variables are interacted with a categorical variable for the *Account* so that the amount allocated can be compared across the different aid accounts.

Finally, I include all of the the independent variables used in the previous account-level models as control variables. Given the length of the budget process, I lag these variables by two years. the president's foreign aid budget is based on the budget proposal presented to the White House by the State Department and USAID, preparation for which begins two calendar years ahead of time (e.g., agency level proposals for the FY2010 budget were prepared in calendar year 2008). The fiscal year actually begins in the October of the preceding calendar year (e.g. FY 2010 began in October of 2009), and the president is required by statute to present the budget by February of the preceding calendar year (e.g., the president's FY2010 budget was presented to Congress in February of 2009). Thus, the majority of the foreign aid request is based on international policy inputs that take place two years ahead of the fiscal year in which the funds are spent. Given the substantial lead time built into the budget process, it makes sense to include two-year lags for all of these variables. I also include multilevel random effects to account for variation by fiscal year and country. The model is as follows:

$$\begin{aligned}
Request_i &\sim \mathcal{N}(\mu + Lag_i : Party_i : Account_i + House_i + Senate_i + 911_i + GDPPC_i \\
&\quad + LifeExp_i + Exports_i + Troops_i + UN_i + \gamma_{c[i]} + \delta_{y[i]}, \sigma_{Request}^2), \\
&\quad \text{for } i = 1, \dots, n \\
\gamma_c &\sim \mathcal{N}(\mu, \sigma_c^2), \text{ for } c = 1, \dots, C \\
\delta_y &\sim \mathcal{N}(\mu, \sigma_y^2), \text{ for } y = 1, \dots, Y
\end{aligned}$$

The theoretical expectation is straightforward. Controlling for the country-level variation in the international determinants, Republican presidents should request more aid than



Democratic presidents in the political and security accounts; Democratic presidents should request more aid than Republican presidents in the pure development accounts.

Table 4.4 presents the results for the fitted model. Overall, presidents of both parties are responsive to a number of international determinants. Neither of the control variables for partisan control in Congress are significant. However, there are significant increases in presidential requests for foreign aid after 9/11. As with the first model, the coefficient for *GDPPC* is negative and significant, and the coefficient for *Exports* is positive and significant. The presidents' requests also show significant positive correlations with *LifeExp* and *Troops*, indicating that presidents focus on international security concerns, as well.

Even after controlling for these changes in international events, we can observe important differences in the accounts that presidents use to address these events. Figure 4.7 depicts the variation in foreign aid by account for each of the political actors. The estimate for each account is highlighted in blue for Democratic control and red for Republican control.<sup>3</sup>

These results present a mixed picture for the partisan effect on account preferences. The theoretical expectation is that aid for development accounts is greater under Democratic control and aid for political and security accounts is greater under Republican control. The DA account is in keeping with expectations. Democratic presidents requested more DA funds than Republicans and the difference is statistically distinguishable at a 95% confidence interval. In contrast, Republican presidents requested more GHCS funds, although the difference was not statistically significant. The GHCS results probably stem from President George Bush's massive request for GHCS money to fund the President's Emergency Plan for AIDS Relief (PEPFAR) in 2003. It is interesting to note that even with the PEPFAR funds there is no significant difference between the parties. This suggests that without that one-time surge in development funding under a Republican administration, the results might look different.

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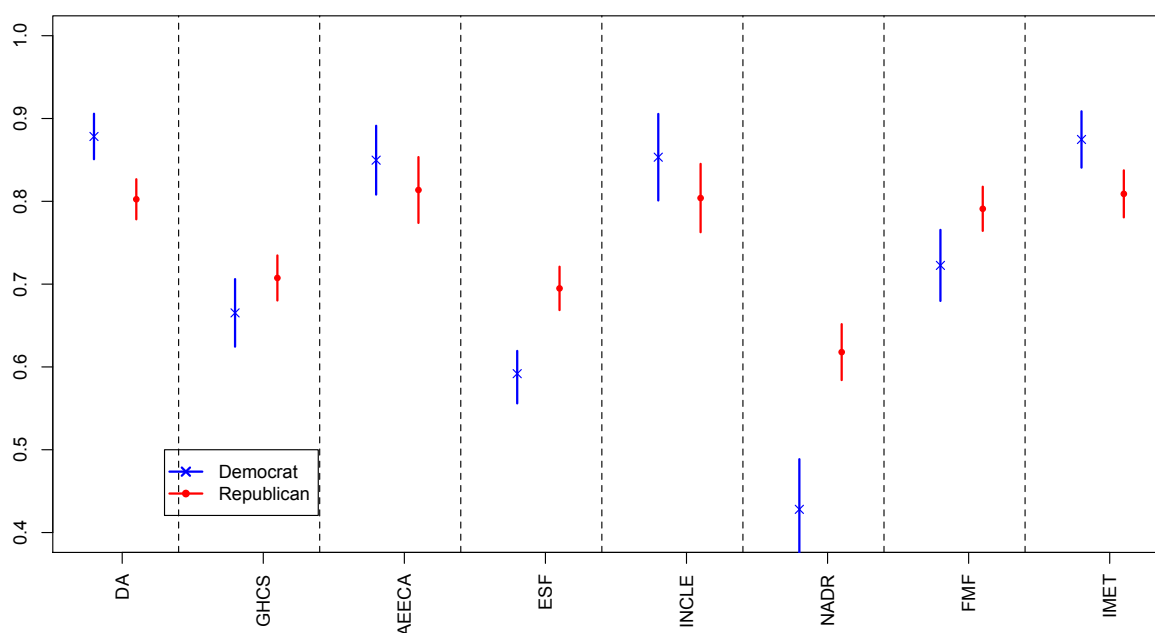
<sup>3</sup>In a black and white printed version, the left-hand estimate is for Democratic control and the right-hand estimate is for Republican control.

Table 4.4: Partisan Variation in President's Request by Account

<b>Overall Estimates:</b>				
	Estimate:		Std. Error:	
(Intercept)	1.016		0.314	
<i>House</i>	0.280		0.284	
<i>Senate</i>	-0.500		0.311	
<i>911</i>	0.523		0.193	
<i>GDPPC</i>	-0.199		0.040 *	
<i>LifeExp</i>	0.010		0.005 *	
<i>Exports</i>	0.067		0.021 *	
<i>Troops</i>	0.044		0.017 *	
<i>UN</i>	-0.010		0.011	
<i>Party</i>	<i>Democrat</i>		<i>Republican</i>	
	Estimate	Std. Error	Estimate	Std. Error
<i>Lag:DA</i>	0.878	0.014 *	0.802	0.012 *
<i>Lag:GHCS</i>	0.664	0.020 *	0.708	0.014 *
<i>Lag:AECA</i>	0.50	0.021 *	0.814	0.020 *
<i>Lag:ESF</i>	0.592	0.180 *	0.695	0.013 *
<i>Lag:INCLE</i>	0.853	0.026 *	0.804	0.021 *
<i>Lag:NADR</i>	0.428	0.030 *	0.618	0.017 *
<i>Lag:FMF</i>	0.722	0.021 *	0.792	0.014 *
<i>Lag:IMET</i>	0.875	0.017 *	0.809	0.014 *
<b>Group-level Variation:</b>				
	Country	(Intercept)	Variance	St. Dev.
	Fiscal Year	(Intercept)	0.138	0.371
AIC: 55754	LL: -27849	11895 Observations	179 Countries	20 Years
<i>Note: * indicates statistical significance at to above the 95% level.</i>				

Turning to the security accounts, the results again are split. As expected, Republicans favored military aid through FMF, and the difference was significant. On the other hand, Democratic presidents requested more security funds for the IMET account. It is worth remembering that the FMF account with \$130 billion appropriated from 1962 to 2010 is substantially larger than the IMET account with only \$2.7 billion appropriated over the same time period. Accounting for this difference, Republicans request considerably more in

Figure 4.7: Partisan Variation in President's Request by Account



military aid.

The results for the political accounts also are mixed. There are no significant differences between the parties for the AEECA and INCLE accounts. However, Republican presidents requested substantially more funds for the ESF and NADR accounts. Again, it is worth noting that ESF is the largest US foreign aid account, with \$140 billion appropriated from 1962 to 2010. So, the partisan difference here represents a substantial difference in the amount of foreign aid money allocated.

On the whole, then, these results do not show a clear breakdown between the parties by the categories for the aid accounts. There is no clear evidence that Democrats prefer more development aid than Republicans. Those results are no doubt influenced by the PEPFAR initiative and further research is warranted to investigate this effect. There is somewhat better evidence that Republicans favor more aid in political and security accounts, particularly if the size of the accounts is considered. The ESF and FMF represent the largest US foreign aid accounts, so these differences in preferences are likely to have a profound

impact on the overall allocation of US foreign aid. Beyond account categories, however, there is a more clear pattern of Republican preferences for foreign aid that correlates with US troop deployments. There are clear Republican preferences for ESF, NADR, and FMF funds, and as shown in Figure 4.5, these three accounts also had the strongest correlations with US troop levels. So, the partisan differences do not break down neatly by account category, but there is a clear Republican preference for those specific aid accounts that are linked to US troop deployments.

It remains to be seen whether these presidential preferences have an effect on the final policy outcomes. Presidential requests first must go through Congress, and much can change in the two years between the formulation of the president's request and the final obligation of foreign aid funds. To determine whether these processes mitigate the president's preferences, I return to the aggregate model of foreign aid obligations and include measures for partisan control of each political institution. The main dependent variable for each model is the amount obligated by program. The independent variables are the same measures used to capture policy objectives in the first model: per capita GDP, life expectancy, US exports, US troop levels, and UN affinity. These variables are interacted with the president's party variable to determine whether the final obligations vary differently in response to the international determinants. I also include control variables for 9/11, the party in control of both houses of Congress, and random intercepts to control for variation by country, fiscal year, and account. The model is as follows:

$$\begin{aligned}
Aid_i &\sim \mathcal{N}(\mu + Lag_i + 911_i + House + Senate + (GDPPC_i + LifeExp_i + Exports_i \\
&\quad + Troops_i + UN_i) : Party + \beta_{a[i]} + \gamma_{c[i]} + \delta_{y[i]}, \sigma_{Aid}^2), \text{ for } i = 1, \dots, n \\
\beta_a &\sim \mathcal{N}(\mu, \sigma_a^2), \text{ for } a = 1, \dots, A \\
\gamma_c &\sim \mathcal{N}(\mu, \sigma_c^2), \text{ for } c = 1, \dots, C \\
\delta_y &\sim \mathcal{N}(\mu, \sigma_y^2), \text{ for } y = 1, \dots, Y
\end{aligned}$$

Table 4.5 presents the results of the third model. None of the control variables are statistically significant. Looking at the effect of the determinant variables, there are some important variations. The coefficients for *GDPPC* are negative and significant for both parties. The coefficients for *Exports* are positive and significant for both parties. These results are consistent with the results for the nonpartisan model in Table 4.2. The coefficient for *LifeExp* is positive for both Democrats and Republican presidents. This coefficient is statistically significant only for Democratic presidents, but the substantive effect of this variable is extremely small. So, there is little evidence to show that partisan differences in the presidency have much effect on how much foreign aid is devoted to development or economic policy objectives.

Table 4.5: Partisan Variation in Obligations  $\sim$  Determinants

<b>Overall Estimates:</b>				
	Estimate:		Std. Error:	
(Intercept)	2.974		0.370	
<i>House</i>	0.184		0.362	
<i>Senate</i>	-0.197		0.364	
<i>911</i>	0.284		0.220	
<i>Party</i>	<i>Democrat</i>		<i>Republican</i>	
	Estimate	Std. Error	Estimate	Std. Error
<i>GDPPC</i>	-0.338	0.057 *	-0.310	0.048 *
<i>LifeExp</i>	0.016	0.007 *	0.015	0.006
<i>Exports</i>	0.123	0.028 *	0.096	0.026 *
<i>Troops</i>	0.018	0.025	0.084	0.022 *
<i>UN</i>	0.050	0.015 *	0.000	0.015
<b>Group-level Variation:</b>				
			Variance	St. Dev.
	Country	(Intercept)	0.137	0.370
	Fiscal Year	(Intercept)	0.190	0.436
	Account	(Intercept)	0.181	0.425
		AIC: 55754	LL: -27849	
12244 Observations		179 Countries	21 Fiscal Years	8 Accounts

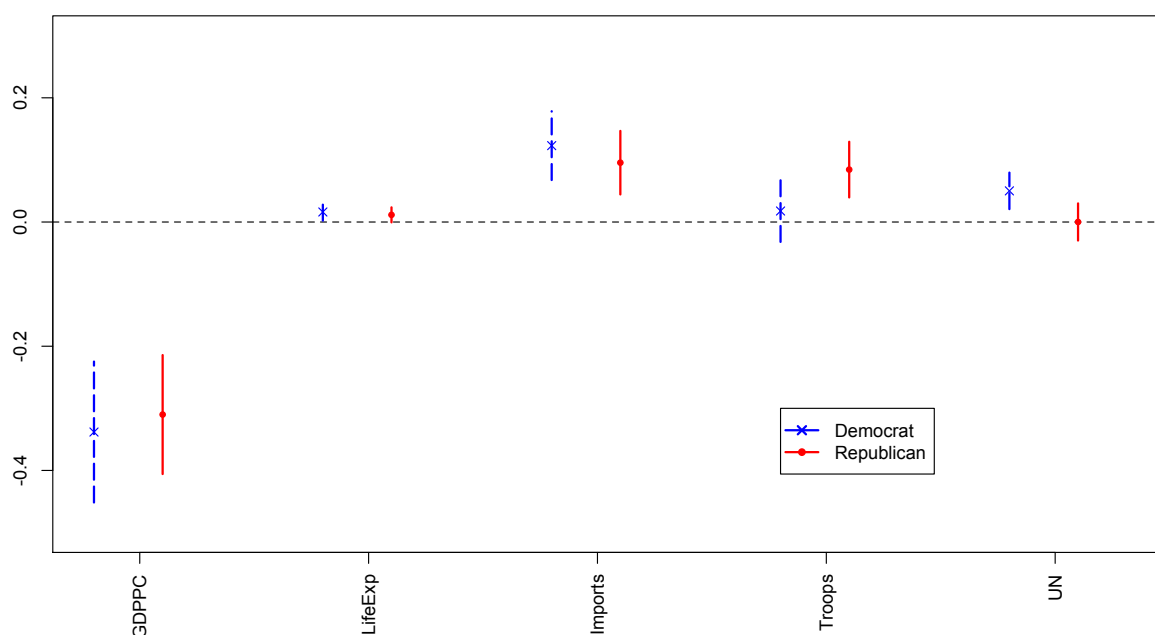
Note: \* indicates statistical significance at to above the 95% level.

The real partisan differences show up in the strategic security determinants. The coefficient for *Troops* is positive for both parties, but it is only significant for Republican presidents. In contrast, the coefficient for *UN* is only positive and significant for Democratic presidents. This suggests a defined split between the parties in how they use aid to address security concerns. The pattern is consistent with the general trend of foreign policy in recent years, with Republicans more likely to use unilateral military force and Democrats more likely to pursue multilateral diplomatic solutions.

However, the partisan effect on policy outcomes should not be overstated. Figure 4.8 depicts the partisan variation in the effects of each determinant. Again, the coefficient estimate for Democrats is highlighted in blue (left-hand side) and the estimate for Republicans is highlighted in red (right-hand side). The 95% confidence intervals for *Troops* and *UN* overlap between the two parties, so it is not possible to distinguish completely between the two parties. The effect of partisan difference on the final obligation of foreign aid funds is much less pronounced than the differences that were evident in the president's requests in Figure 4.7. This suggests that the president's partisan preferences are mitigated through the political process. In particular, it appears that the Congressional preferences for incrementalism reign in large shifts in aid priorities from the president. Still, the president's partisan preferences do seem to have a predictable, if marginal, impact on the final distribution of US foreign aid obligations.

In summary, these partisan models demonstrate some important findings. First, they show consensus by both parties for certain foreign aid objectives. Presidents of both of parties support the use of foreign aid to address development concerns and to promote US economic interests. Second, these findings are consistent with existing theory that suggests that political ideology affects the type of aid that governments favor. The evidence that Democrats view development aid more favorably than Republicans is, at best, weak. But, there is stronger evidence that Republicans favor the use of foreign aid to address security concerns. The effect also appears to be additive. Republicans don't necessarily cut de-

Figure 4.8: Partisan Variation in Aid Obligations  $\sim$  Determinants



velopment aid, but they do provide additional funds for security aid. This would explain the previously observed pattern in which Republican governments actually provide more aggregate foreign aid than Democrats.

The evidence that Democrats are more likely to use foreign aid to support UN allies is interesting and deserving of further study. The source of this effect is not clear. In the non-partisan models, only FMF, IMET, and AEECA showed a significant correlation with UN agreement (Figure 4.6). Of these, FMF represents a much larger share of aid funds and showed the largest substantive correlation. And, Republicans favored the FMF account. So, if preferences over accounts were the only determinant factor, then we would expect to see a stronger correlation with UN agreement under Republican control. Because the Democratic preference for UN agreement only shows up in the obligations stage, this result may be driven by an omitted variable that is closely correlated with UN agreement.

Adherence to human rights norms is a likely candidate. The authorizing language for most foreign aid accounts includes some version of a prohibition against obligating funds to

countries that violate human rights. However, these clauses often include an escape clause that allows the president to waive the restriction when it is in the national interest. Republican presidents may be more willing than Democratic presidents to issue such waivers. If there is a significant correlation between human rights violations and countries that disagree with the US in the UN, then that would explain the existence of a Democratic preference for countries with high UN agreement, particularly one that shows up only at the obligation stage.

## 4.8 Implications

At a minimum, incorporating the role of budgetary accounts provides a more complete understanding of aggregate US foreign aid allocations. As previous research has found, aggregate US ODA is influenced as much by the economic and security concerns of the US as it is by the development needs of recipient countries. However, this paper demonstrates that the influence of non-development concerns—especially security concerns—varies predictably by foreign aid account. Thus, the common finding that US development aid focuses on security interests is not entirely accurate. In fact, this effect is the result of double counting—foreign aid that is authorized domestically for security objectives is nonetheless reported to the OECD as pure economic development aid. In contrast, the aid that goes to the development accounts is, in fact, used to promote economic development rather than security. Consequently, policy advocates that prefer a US foreign aid policy that is better focused on international development concerns would do well to direct move beyond aggregate ODA levels to focus on how US aid is allocated by account.

For academic researchers, incorporating the role of foreign aid accounts promises to open up new avenues for research into the domestic determinants of US foreign aid policy. As this paper demonstrates, Democratic and Republican presidents exhibit important differences in foreign aid policy, and these differences can be observed by looking at the accounts that each



party favors. But, partisan differences are just one aspect of domestic politics; many more questions could be answered using foreign aid accounts. Are different assistance accounts more or less vulnerable to budget cuts in times of economic austerity? Do different accounts respond more to media coverage or higher salience among the general public? Which accounts are most sensitive to interest group pressure? The answers to these questions will have important implications for our understanding of US foreign aid policy.

Much more work is needed before we truly understand foreign aid accounts. First, my initial dataset should be extended further back to account for the Cold War era. This is essential for making more definite comparisons with previous work and for determining whether there has been a substantial shift in the use of foreign aid accounts over time. Data on obligations by account are readily available, but the data on budget requests and enactments are not complete prior to 1990. Presumably, these records still exist in archives and can be digitized to complete the dataset.

In addition, more work is needed to understand the politics surrounding the creation of new foreign aid accounts. Once the account is created, the distribution of aid into that account is largely incremental. That means that punctuated shifts in foreign aid policy occur primarily through the authorization of new foreign aid accounts. Focusing on these events can help us to understand what factors drive major increases in US foreign aid.

Finally, the present paper is limited to the US. Presumably, other aid donors have similar mechanisms for allocating foreign aid among different policy objectives. Compiling this data will require significant effort to understand the budgetary processes of multiple countries and identify common cross-country categorizations of aid. However, donors already report on the different purposes of aid projects at the international level (Tierney et al., 2011), so it is likely that their domestic budgets contain similar means to constrain the use of foreign aid. Opening up the research agenda to other donor countries will provide more generalizable theories of foreign aid decision making. Canada and the United Kingdom are likely first candidates for this expansion, as there has been significant coordination between

the US and these countries, so many of the institutional mechanisms may be similar.

## 4.9 Conclusion

I have shown that foreign aid accounts are a useful measure of US foreign aid policy goals. Models of the determinants of foreign aid by account indicate that the US uses the different accounts to address different foreign policy concerns, and these accounts serve as constraints on how the aid may be used. The allocation of development aid primarily responds to economic factors, while political and security aid respond to US strategic concerns. Using budgetary data about these accounts, I also have shown that there are clear differences between the preferences of political parties on the different aid accounts. Republican governments direct more funds than Democrats to those foreign aid accounts with a strong security focus. Finally, these partisan differences over accounts result in markedly different foreign policy outcomes under different governments. In the aggregate, both parties use foreign aid to promote economic development and US trade interests. But, Republicans direct more aid to countries where US security concerns are in play, while Democrats direct more aid to countries that agree with the US in the UN.

These results provide an initial proof of concept for a research agenda focusing on the politics of foreign aid accounts. Further work can help to help answer more of the persistent puzzles in the foreign aid and, more broadly, the foreign policy literature. A first step to furthering this agenda is to expand the dataset to include budgetary data on foreign aid accounts back through the Cold War era. A second step is to focus on the politics surrounding the creation of these accounts. Finally, the geographic scope should be expanded as much as possible to incorporate the budgetary processes of other donor governments. With further effort, a foreign aid research agenda that focuses on budgetary accounts can yield greater insights into the domestic politics of foreign policy and help improve policy-relevant assessments of foreign aid effectiveness.

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## Chapter 5

# Conclusion: Moving forward with the Research Agenda



This dissertation represents the beginning stages of a research agenda that will take several years to complete. Applying a particular research approach, I have uncovered additional evidence to help resolve lingering puzzles in foreign policy areas as diverse as trade protection and foreign aid. These results show that a greater attention to the details of the policy process can identify mistaken assumptions and overlooked variables that may have important effects on our understanding of the relationship between the political actors in foreign policy. Of course, I can (and will) apply this approach to other areas of foreign policy, but there are three more pressing efforts to undertake before moving on to other issues.

First, additional data collection is needed to distinguish whether the phenomena observed in these essays are constants in US foreign policy or whether they are new developments within the last twenty years. In both the ITC and the foreign aid research, I rely on novel data to test my hypotheses. This is possible because the government has digitized a large number of records in recent years. However, many years of data, both ITC case records and foreign aid budget documents, remain as hardcopies that have not yet been scanned. Retrieval of this information will require physical travel to the government archives to track down and record the data. Until this is done, it is impossible to discern whether the novel findings in my research hold true beyond the more recent decades for which I have collected data. This is an important point. If the patterns have changed over time, then my institutional arguments may be overshadowed by shifts in public opinion, coalitions, or other factors not covered in my initial theories.

Second, it will be important to take these findings to policy practitioners for further feedback. I have made every effort to approach these questions from the viewpoint of the practitioner, but quantitative data can only go so far. It is important to share these findings with the people who deal with the issues on a daily basis in order to get feedback and continue to validate my own assumptions about the process.

Finally, my research has focused solely on the United States. It takes a considerable amount of time and effort to gain a complete understanding of the policy processes at work

and the institutional dynamics that are important. Limiting the focus to the US has allowed me to accomplish that goal in the few short years available for the researching and writing a dissertation. However, much could be learned by expanding the research agenda to include comparisons between the foreign policy institutions in different countries. My theories center on the dynamics between the executive and legislative branches in a presidential system. How might those dynamics differ in a parliamentary system or in a system with multiple viable political parties? Answering these questions will require significant research to become familiar with the intricacies of these policy processes in other countries. This work could be possible through collaboration with co-authors who live and conduct research in other countries.

It is my hope that these initial essays can serve as something of a calling card to build further contacts in government and abroad who can assist with further research and to demonstrate the validity of the approach in order to secure research funds. There is much more to be done, and I look forward to developing this agenda further in the years to come.