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A Paradox of Redistribution in International Aid? The Determinants of Poverty-Related Official Development Assistance

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Abstract

Donors differ in the amount of official development assistance that is dedicated to poverty reduction. We investigate the causes for the cross-national and cross-temporal variation by employing both a regression approach with aggregate data on bilateral aid and two short country studies on Germany and the United Kingdom. We find that even after controlling for other explanations there is a tradeoff between the total amount of money given, and the amount of money given to poor countries. The tradeoff is similar to the so-called paradox of redistribution of targeting vs. redistribution in rich welfare states. Case-study evidence illustrates how countries have tried to manage this tradeoff.

Introduction: Poverty Orientation in Aid¹

‘There are, of course, many grounds for development assistance: among others, the expansion of trade, the strengthening of international stability, and the reduction of social tensions. But in my view the fundamental case for development assistance is the moral one. The whole of human history has recognized the principle - at least in the abstract - that the rich and the powerful have a moral obligation to assist the poor and the weak.’

Robert McNamara, Address to the Board of Governance, World Bank Group, Nairobi,
24th of September 1973

In recent years, the focus on poverty reduction has returned to the center stage of donor rhetoric. The World Bank revived poverty eradication in the 1990s (Birdsall & Lonondo, 1997; Finnemore, 1997). OECD’s Development Co-operation Directorate (OECD, 2007) re-shifted its focus towards pro-poor growth and poverty reduction. And the United Nations have launched the Millennium Development Goals in which poverty eradication reaches top priority. Bilateral donors have followed this trend (DFID, 2012). However, the focus on poverty shows cycles over time (Easterly, 2007). Until the 1970s, when Robert McNamara, president of the World Bank, declared poverty alleviation a key priority for the Bank’s activities, poverty orientation was much less of an issue than development (Finnemore, 1997; Riddell, 2007). In the 1980s the poverty focus eclipsed again, as structural adjustment took its toll on poverty orientation. Only since the 1990s poverty eradication has made a come-back.

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The poverty focus in aid has generated intense policy debate. Paul Collier (2007), for instance, has suggested to concentrate on the ‘bottom billion’ countries. Among others, Andy Sumner (2010) argues that rather than focusing on the poorest countries, one should focus on the poor people themselves. There is much less debate about why donors differ in the degree to which they concentrate their official development assistance (ODA) on the poorest countries. Most of the literature on the politico-economic determinants of donor motives investigates the overall level of aid (but see Tingley 2010, Neumayer 2005, Hoefler & Outram 2011). We are more interested in why this money is sometimes targeted to the poor and why sometimes it

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is not. There is also enormous variation between donors' implementation of the poverty focus. Countries such as Sweden have focused on poorest countries all along, others such as the UK have increased their focus over time, while others such as Japan barely seems to be concerned at all (Riddell, 2007).

Our major suspicion is that there is a tradeoff between the total amount of aid and the focus on the poor. We base this idea on the literature about welfare states in rich countries. In this literature, the so-called paradox of redistribution figures prominently (Korpi & Palme, 1998; Mkandawire, 2005). The tradeoff implies that higher levels of targeting effectively lead to less overall spending on the poor. The reason is that targeting leads to political and social stigmatization and a decline in the interest of supporting poor people.

We compare this explanation with approaches that were developed for explaining bilateral donors' total amount of aid: the importance of domestic (partisan) politics and institutions (Noel & Therien, 1995; Therien & Noel, 2000; Tingley, 2010); the role of domestic economics and foreign economic policy (e.g. Lundsgaarde et al., 2007; Maizels & Nissanke, 1984); and considerations of foreign and security policy (Bueno de Mesquita & Smith, 2009; Dreher et al., 2009). We test these claims for 23 donor countries in the period 1960-2010. We find evidence for a tradeoff between total aid and the aid given to poorest countries. This trade affects the relevance of other determinants such as partisan politics. To show how this tradeoff was managed we present two brief case vignettes on British and German development policy. The countries differ in the domestic politics and also in the way how they dealt with the tradeoff, but in both cases it seems that the tradeoff is hard to avoid in the long run.

The paper makes three contributions to the political economy of bilateral aid. First, we directly focus on the poverty orientation of aid, whereas most of the literature on the determinants of Official Development Assistance (ODA) explains the total amount of development. Second, we suggest a measurement that is different from the standard OECD and World Bank measures and is rather based on health than wealth. Third, we use quantitative and qualitative evidence to show the causal complexity between determinants such as partisan ideology, welfare states and the nature of ODA. We start with measurement in the next section. The third section provides for a discussion of the literature. The fourth section develops our main argument. The fifth section includes our econometric results and the two small case studies. The final section concludes.

How to Measure Poverty-Orientation in Development Aid

Measuring poverty orientation of development aid is a complex issue. Three different sets of approaches have mainly been used in research and by donor organizations: project-level, sectoral-level, and country-level measures (White, 1996). None of the three approaches is free of serious shortcomings. Consequently, the choice of a particular measurement of poverty orientation is always a trade-off between validity of the instrument and availability of data. In this section we provide for a brief discussion of the existing measure and present our preferred measure of poverty orientation of development aid.

The project approach identifies those aid projects that are targeted towards the poor and presents the amount of these projects as a ratio of total spending on development. The question, however, is how to define poverty orientation of a project and how to disentangle multi-component projects (White, 1996). Mosley (1981) defines a project as poverty oriented if it raises the living standards of the poor. His definition requires precise data on the income distribution of the target population and a standardized threshold above which the living standard of the poor may be qualified as being increased by the projects. To overcome these problems the World Bank (1988) defined pro-poor projects as those which are targeted to rural areas, as they cover a higher share of poor people. Introducing sector criteria to the project level, however, increases the risk of leakage, because even projects strictly targeted toward rural areas may disproportionately benefit higher income groups in the rural area (Coady et al., 2003; Mosley & Dahal, 1985).

A sectoral approach does not require detailed information about the poor. Instead, it defines specific sectors which are assumed to benefit the poor more than other sectors. In this vein the leading donors such as the OECD or the World Bank define projects in agriculture and rural development, water supply and sanitation and health and education as 'pro-poor' aid. Although intuitively appealing, the sectoral approach runs into similar problems as the project approach. First, 'leakage' of aid money towards higher income groups may occur in the sectors. Second, sector classification may be arbitrary and may also differ between countries. For instance, a rural road construction could be classified as transport, agriculture or trade.

The country approach measures how much aid goes to poor countries. Here the assumption is that most poor live in the poorest countries and that higher shares of

development aid that go to poor countries will also benefit the poor. As White (1996:9) put it, “[...] in a very poor country anything you do helps the poor whereas in a comparatively rich one you must make more strenuous efforts at targeting in order to reach the poor.” The problems of mis-specification is less prevalent in the country approach, and data is better documented than for projects or sectors. However, the country approach still risks problems of leakage and undercoverage (Nunnenkamp & Thiele, 2006). Sumner (2012) shows that undercoverage can be a serious problem: By now the majority of the global poor now live in Middle Income Countries (MIC). Upgrading China, India, Indonesia and Nigeria alone, shifted over 700 million poor people into this category.

The best known country approach measuring the share of development aid that goes to less or least developed countries as defined by the DAC and the World Bank that define income per capita thresholds and allocate countries to income groups. In the following analysis, however, we abstain from this version. One reason is that that the DAC revises the country list every three years and eliminates countries that exceed the UN poverty threshold from the list. Since 1970 55 countries have left the list and only 17 were added.² This shrinkage of the list is caused by increasing global prosperity, which implies that some two-thirds of the global poor risk being delisted from ODA (Sumner, 2012). The drift automatically decreases donors’ aid share towards the poorest countries over time, and implicitly based on an absolute rather than relative notion of poverty. Using the DAC list may also lead to miscalculation of the number of the global poor.

For these reasons, we opt for a modified country approach in which poverty-orientation is the share of a donor’s development aid that goes to the poorest quartile of countries as percentage of the total budget for development aid. We use the lowest quartile because bilateral and multilateral donors increasingly use such thresholds to select recipient countries. For instance, DFID gives 90 percent of its aid to Low-Income Countries, which corresponds to the lowest quartile (Sumner, 2012). Whereas the DAC list uses GDP/income per capita as criterion of poverty, we use health instead of wealth as indicator of poverty. Income measures do not take adequately into account the distribution of wealth within a country and thus wrongly estimate the number of poor people. Instead, we follow Sen (1998), who argues that mortality rates are a better variable to measure economic success for poor people, because it is sensitive to problems of income inequality, and has essential intrinsic

² http://www.oecd.org/document/55/0,3746,en_2649_34447_35832055_1_1_1_1,00.html#Updates. Retrieved on July 25, 2012.

importance of survival and capabilities and serves as a proxy variable for failure and achievements. Also, for very poor countries health statistics has higher validity and better availability across countries and time.

We calculate our measure as follows. For every year in our sample we compute the threshold value of child mortality within the first five years after birth that marks the top quartile of highest mortality for all recipient countries. We then determine for every year the group of countries that falls below the threshold value in terms of child mortality. Finally, we sum up the amount of aid that every donor country gives to this specific group of countries and compute its percentage share of the total amount of a donor's development aid. Our measure is not a proxy measure of the real distribution of the global poor, nor does it aim to be such a measure. Rather, it represents a country list that donors who are serious about poverty orientation would use (Wood, 2008). The following table summarizes the values of our 23 donor countries in 5-year averages. Table A-2 in the appendix shows a statistically strong, but far from perfect correlation between this measure of poverty-related aid and the standard DAC measure. Hence, there is a noteworthy difference between aid to poorest countries on basis of health or wealth.

Table 1 about here

Table 1 reveals that on average the share of development aid that goes to the poorest countries has increased over time. Between 1960 and 1964 only 8 per cent of development aid was dedicated to the poorest countries. The share went up to 40 per cent after the end of the Cold War and since then has stayed on that level. There are substantial differences between donor countries, as we can see from the standard deviation. In the last observation period 2005-2009, for instance Britain gives 63 per cent of its development aid to the poorest countries, whereas Australia dedicates only 8 per cent to this country group. The differences in poverty-orientation, thus, are substantial, and seek explanation.

The Political Economy of Donor Motives

The determinants of ODA have earned widespread attention (Maizels & Nissanke, 1984; McKinlay & Little, 1979). Yet, most of the quantitative studies focus on the various measures of total expenditures of bilateral or multilateral aid (Alesina & Dollar, 2000; Bueno de Mesquita & Smith, 2009; Lundsgaarde et al., 2007; Neumayer, 2003a; Schraeder et al., 1998; Tingley, 2010; Tsoutsoplides, 1991), whereas fewer studies also discuss the determinants of poverty orientation (Nunnenkamp & Thiele, 2006; Tingley, 2010). In this literature different donor motives are related to different causal determinants. For the sake of simplicity, we distinguish three major types of determinants: domestic politics, commercial interests, and foreign and security issues.

The first group consists of determinants that represent domestic politics in the allocation of aid. Some authors apply the literature on partisan politics to the field of ODA. They claim that left (or central) governments spend more money on ODA (Noel & Therien, 1995; Tingley, 2010), but others did not find strong partisan effects (Lundsgaarde et al., 2007). Another idea is to relate differences in ODA spending to different domestic welfare states, in as much as these institutions 'reveal' normative or ideological differences (Noel & Therien, 2002; Therien & Noel, 2000). Other authors investigated the role of public opinion and individual preferences for international redistribution and poverty assistance, but the empirical evidence is somewhat inconclusive (Lumsdaine, 1993; Noel & Therien, 2002; for a discussion see Riddell, 2007).

The second group consists of arguments about (foreign) economic policies and the idea that development assistance should serve domestic economic purposes. Milner and Tingley (2011), for instance, show how domestic problem pressure and interest-group representation affect the overall pattern of US aid. Maizels and Nissanke (1984) find that bilateral aid follows the logic of securing trade and investment interests. Schrader et al. (1998) find that in three out of four major donor countries the size of bilateral trade has an impact on the amount of aid granted. Lundsgaarde et al. (2007) turn this argument on its head by showing that governments use trade and aid as policy substitutes and find that an increase of imports from poorest countries leads to a reduction in ODA. Finally, Berthelemey (2006) shows that countries differ in the degree to which they link ODA allocation to trade. He finds that in cases such as Sweden this degree is very low, whereas in Japan, France and the U.S. the degree is very high.

The third group uses considerations of foreign and security policy. McKinlay and Little (1977; , 1978) make this case for the spending patterns of the United States and the United Kingdom. Bueno de Mesquita and Smith (2009) argue that donor countries use aid to elicit cooperative behaviour of recipient countries. Aid is given to those (often autocratic) countries where politicians can be bought more easily. The authors call these 'aid-for-policy' deals. Similarly, Dreher et al. (2009) suggest that the World Bank gives aid on the condition that the recipient countries votes in accordance with voting patterns in the UN security council. Other studies have discussed the link of ODA to political conditionality on issues such as human rights, democracy and good governance (Dollar & Levin, 2006; Neumayer, 2003b; Nunnenkamp & Thiele, 2006; Winters, 2010). Donors' quality of governance also seems to matter, as Faust (2008) argues. Other studies have shown that foreign aid follows military alliances and a common colonial past (Alesina & Dollar, 2000; Schraeder et al., 1998).

Compared to the literature on overall ODA there are fewer studies on poverty-orientation. Tingley (2010) shows that partisan ideology only matters for the share of aid that is devoted to least developed countries. But this is a measure of overall generosity, rather than of poverty orientation. Neumayer (20005) focuses on a sectoral approach using only food aid. He finds a relatively small effect for donor interests as opposed to recipients' needs. Hoeffler and Outram (2011) test for 'need'

as opposed to 'merit' and 'self-interest' as major motivations of aid, but again, the major variation is about total and not relative importance of poverty.

A Paradox of Redistribution in International Aid?

In this section we argue that it is not straightforward to apply the previous body of literature on total to aid to the case of poverty orientation. As an inspiration we look at the comparative politics of welfare states in rich countries. An important thesis from this literature is the so-called paradox of redistribution (Korpi & Palme, 1998, pp. 681-682): "The more we target benefits on the poor only..., the less likely we are to reduce poverty and inequality." This tradeoff is based on the empirical observation that universalistic welfare states such as Sweden tend to have higher expenditure levels and more redistribution and poverty reduction as opposed to those welfare states such as the U.S. that targeted the poor more strictly.

The causal mechanism for this observation is somewhat underspecified. Korpi and Palme believe that targeting the poor excludes large parts of the population from welfare benefits. This will lead to a declining support for the welfare state in general (Bergh, 2004). Exactly how this 'dis-enchantment' works is a topic of debates among advocates and critiques of targeting (Besley & Kanbur, 1990; Van Oorschot, 2002). Costs of targeting, stigmatization effects or problems of absorbing money can all lead to declining popularity of targeting.

There is some debate as to how strong the actual tradeoff is (Kenworthy, 2011; Nelson, 2007). Evidence seems to suggest that the paradox has become less severe in recent years (Marx et al., 2013). Yet, substantively the tradeoff has strong resonance with the political economy of mature welfare states. It is related to Lindert (2004)'s Robin Hood paradox – redistribution happens the least where it is most necessary. The paradox has also strong resonance with another stylized finding: the famous median-voter theorem (Meltzer & Richard, 1991) does not seem to apply in developed countries (Iversen & Soskice, 2006; but see Milanovic, 2000). Finally, it has also resonance with debates on welfare states in many less developed countries in which both universalism, and strong redistribution are difficult to achieve (Goni et al., 2011; Mkandawire, 2005), and targeted programs seem to blossom (e.g. Sugiyama, 2011).

For these reasons we believe that the paradox of redistribution also bears relevance for ODA. Increasing the focus on poor countries could mean that aid becomes more stigmatized. It may also mean that it will be less effective in terms of economic growth, if there is an equity vs. efficiency tradeoff in aid (Easterly & Pfütze, 2008).

Finally, if more and more money goes to poorest countries the political coalition of those supporting growth might shrink. This may happen if other motives for giving aid are strong, for instance those based on self interest.

For all these reasons we believe that poverty orientation may backfire: more focus on the poor will lead to less spending on ODA in total and vice versa. If this is the case we need to modify our assumptions about the major determinants of ODA when we look at poverty orientation. Two sets of determinants are particularly interesting in this respect. First, arguments based on partisan politics are much more complex, if the paradox of redistribution applies. Right-wing parties could propose a shift to the poorest countries as a measure of cost containment in ODA, if their overall preferences for low government expenditure are strong (Tingley, 2010). They could quite plausibly argue that developing countries cannot absorb too high levels of aid. Left-wing or center governments may face the strategic problem of either targeting the poor directly, or increasing spending in total.

Arguments about welfare state institutions are similarly ambivalent. Following the maxim that foreign policy preferences should mirror domestic preferences (Noel & Therien, 1995), we would expect that countries that target money to the domestic poor will also target their ODA money to the global poor. Yet, it is similarly plausible that domestic institutions that strengthen the universal welfare state may lead to government policies that make ODA more oriented to the poor. The reason, again, is the multi-motive character of ODA which serves purposes of efficiency, equity and strategic self-interest. In this sense, targeting the poor in ODA may be a means to reduce the proclivity to use it for other purposes.

Data description, method and empirical estimation

In the following we will test empirically, whether this tradeoff exists, and what it does to the partisan and welfare state explanations for ODA distribution. We will also control for other explanations based on foreign and domestic (economic) policy considerations. To test the propositions outlined in the previous section we use DAC data for 23 donor countries in the period of 1960-2010. Our main dependent variable is the share of development aid that goes to the poorest quartile of countries (see section 2). We control for the *number of recipient countries* of each donor country. One reason for this is that smaller donor countries give aid to few countries, which might lead outliers to drive the result. As a matter of fact, countries with small aid budgets tend to focus their aid in first line to former colonies or other developing countries with which they share some common links. We also include aid given to

multilateral donor agencies (*multilateral aid*) to control for potential substitution effects between bilateral aid for poor countries and aid given to multilateral agencies. Most importantly, we include the *total amount of aid* per donor country in percent of gross national income (GNI) to control for the tradeoff between size of aid and poverty orientation.

Our partisan variables – *left government* and *center government* – are left and centre parties' cabinet share in governments (Armingeon & etal., 2010). There is no good measure of targeting in rich welfare states. Therefore we use two proxies for its opposite, universalism: Lyle Scruggs' *generosity* index, measured as the average benefit replacement rate of major social transfer programs (2004) and the ratio of social expenditure to GDP (*social expenditure*). To test for domestic problem pressure we use GDP growth and unemployment rates. As a further test for mercantilist aid, we include the share of exports that goes to developing countries. For the hypothesis on foreign and security policy, we add a dummy variable indicating whether a donor country holds a seat in the UN Security Council. Summary statistics and bivariate correlations are shown in Appendix 1 and 2. Given the structure of the data the regressions suffer from high degrees of serial auto-correlation and cross-sectional heterogeneity. We control for this by using a fixed-effects model with a correction for first-order autocorrelation. Table 2 presents our main results.

Table 2 about here

Table 2 contains five models. Models 1-4 use our poverty orientation measure as dependent variable and test various combinations of independent variables. As a memorandum item, Model 5 uses the total amount of aid as dependent variable. Our results show that *number of recipients* has a positive sign. This corroborates the assumption that donor countries give aid in first line to slightly richer recipients, and only as they expand the number of recipient countries they include poorer recipients (Neumayer, 2003a). We also find a positive sign for *multilateral aid*. If it is true that multilateral aid has a higher poverty focus (Neumayer, 2003a), the positive coefficient in models 1 and 3 implies that this does harm the poverty orientation of bilateral donors. To the contrary, poverty orientation and multilateral aid are political complements.

In models 1-4 *total amount of aid* has a negative sign and is significant. The negative coefficient shows that higher spending on development aid leads to a lower share of aid devoted to the poorest country quartile. Hence, the paradox of redistribution seems to apply to ODA. Interestingly, it is only borderline significant in models 1 and 3. Since these regressions also include earlier years it is easy to see that the tradeoff is much clearer in recent decades. Since our dependent variable is in logs, the coefficient for the tradeoff can be roughly interpreted as a drop in 0.6 percentage of poverty orientation by every percent increase of total aid.

Left government enters with a negative, and *center government* with a positive coefficient, yet both variables are insignificant. It suffices to say that left governments don't seem to prefer poverty reduction. Contrary to the literature, we do not find much of a partisan effect for total aid (model 5), either, once we control for poverty-related aid. This might be the consequence of differences in the data and measurement. Yet, it may also be the result of strategic tradeoffs for left and right parties, when it comes to jointly decide total aid and the amount going to the poorest countries.

The second model tests for the impact of a country's welfare system on the poverty orientation of its development policy. *Overall generosity* of the welfare state has a positive sign and it is significant. Hence countries with a more generous and universalistic welfare state also orient their development policy towards poorer countries. The variable *social expenditures*, by contrast, is not significant and has a substantially weak effect. Thus, the structure of the welfare state rather than the total level of spending affects a donor country's poverty orientation. What we see in model

5 is that generosity also increases total amount of aid. Universalistic welfare states seem to be a determinant that mitigates the consequences of the tradeoff between poverty orientation and total aid. Interestingly, social expenditures have a negative effect on total aid, once we control for generosity. The more a country invests in social spending the less it will invest in international aid. This shows that social spending catches many more motives than redistribution and equity (Noel & Therien, 1995). In our case it even seems to work against international aid.

The other models tests alternative explanations. Model 3 controls for a donor country's economic conditions by including the *unemployment* and *growth rate*. The unemployment rate is not significant in model 3, but it is in the full specification for poverty-related aid (model 4). The negative sign in model 4 shows that high levels of unemployment in a donor country reduce the amount of development aid that goes to the poorest countries: domestic problem pressure distracts from international aid. Development budgets seem to be more easily cut for the poorest countries, which may be of less strategic and commercial importance to donor countries. To test the mercantilist proposition more directly, we ran additional specifications including a variable on exports to developing countries. The coefficient for this variable bears the right sign, but is insignificant, and greatly reduces the degrees of freedom. Therefore we refrain from showing the result. Interestingly, *growth rate* has the expected positive sign, but is insignificant in all specifications.

We also experimented with the impact of a country's influence in the UN system. As suggested in the literature, dominant powers distribute development aid according to strategic imperatives. The share that goes to the poorest countries should thus be lower. We find indeed a negative sign for the dummy variable for Security Council membership, but it is not significant. We also tried different operationalizations of membership in the security council (permanent, nonpermanent) and size of the donor country (Riddell, 2007; Schraeder et al., 1998). Finally, some literature suggests that changes in the international environment have altered the motives for aid. Nowadays, so the argument goes aid is more and more about solving security problems of failing states (Collier, 2010). We split the sample to differentiate between the Cold War period and thereafter. Neither of these tests produced interesting results, so we refrain from reporting these results.

Table 3 about here

Table 3 presents tests of robustness with other measures of poverty-oriented aid: the share of aid going to least developed countries as defined by the DAC list (model 1); the share of aid that going to poverty related sectors (model 2); and the share of GNI that is given to multilateral agencies (model 3). The tradeoff between total and poverty-oriented aid is (borderline) insignificant in model 1, but significant in model 2 with the measure based on sectors. Interestingly, left government is significant in model 1, but with a negative sign, i.e. left governments are less likely to pursue a poverty orientation. This is consistent with a story about tradeoffs for political parties. The coefficient for left government disappears in models 2 and 3. In model 2 we see again a paradox of redistribution between aid to poverty-related aid and total aid. In model 3 there is no such paradox with aid transfers to multilateral donors. Generosity remains robust both in terms of statistical significance and magnitude of effect.

Table 4 about here

As final tests of robust we present three different model specifications with our main dependent variable in Table 4. The first model just replicates the model 4 of Table 2 using random effects instead of fixed effects. In the second model, we include a lagged dependent variable in the model, and in the third model we use a full set of country dummies and panel-corrected standard errors. What we can see is that the tradeoff between total and poverty-related aid does not depend on econometric specification. Also *generosity* remains relatively robust in all specifications, bordering significance in the model with a lagged dependent variable.

Case Study Evidence on Germany and the United Kingdom

In the previous section, we saw evidence for a tradeoff, but the question remains what exactly causes the relationship between the macro-aggregate variables. In the following we will investigate the causal mechanism of this tradeoff with the help of a comparative case study between Germany and the UK. We choose these two countries because both are large donors. This facilitates a comparison because in both countries mixed motives for giving aid are likely. For instance, small countries might find little reason to use ODA as a means of foreign or economic policy. However, the two countries clearly differ however in welfare state effort as Germany has a much more generous domestic welfare state than the UK.

We hasten to add that these are short vignettes, not holistic or encompassing descriptions of the development policy in the two countries. Rather, we exploit evolution over time, especially with changes in the partisan composition of governments, but also in welfare state institutions to understand its relationship with total and poverty-oriented aid. We find that both governments managed at times to avoid the paradox of redistribution (e.g. Germany in 1970s or the UK in 2000s), but also that there were strong political and structural pressures to 'regress to the mean', i.e. reverting to the paradox again (e.g. UK in 1980s, Germany in 2000s).

In the German case we see that the focus on poverty increases till the 2nd oil crises of the early eighties. Between the 1980s and 2000s the poverty orientation stagnates or even decreases. Thereafter it recovers somewhat. Total aid moves through some periods in tandem with poverty orientation, especially in the 1970s and 1980s, first increasing then decreasing. However, we also see episodes which push Germany back to the tradeoff, so for instance in the late 1990s or late 2000s.

To understand the political dimension of these episodes 'on' and 'off' the tradeoff, we need to take two important aspects of the context into consideration. In the eyes of governments and many experts, Germany defines its international role as a "Civilian Power". The concept of "Civilian Power" entails not only a peaceful and multilateral approach towards international relations, but also the notion of global socio-economic justice (Harnisch & Maull, 2001; Tewes, 2002). Thus one should expect that the dimension of social justice also translates into Germany's development agenda (Schrade, 1997). Also, as we show below, the self-image of Germany as a civilian power is stable across centre-left and centre-right parties, which lend a significant amount of stability towards the country's development orientation. Only with the liberal party joining the government was Germany leaving its equilibrium path and dropped its emphasis on domestic social justice and external poverty orientation.

There is a second aspect explaining the 'stickiness' of Germany's development policy: the landscape of development agencies is quite fragmented. The BMZ commands 50 percent of Germany's development aid at best. Other important donors are the federal states, churches and NGOs. The government has no or only limited influence on how other donors distribute their money (Nunnenkamp & Öhler, 2011). As a matter of fact, this fragmentation is inertia is part of a more general aspect of German political and welfare state institutions that privileges slow and incremental change (Pierson, 1996).

Till the early 1980s political process gave more and more attention to the issue of poverty in ODA. The Social Democratic chancellor Brandt put emphasis on the redistributive character of international aid. His government (1969-74?) changed both

the size as composition of aid. This policy was uncontested. Even the opposition supported more ODA and a focus on poorer countries, as long as ODA was a multi-purpose vehicle that also benefitted German companies and global peace (literature? Maybe one or two quotes). This period also marked a late blooming of the welfare state in both size and generosity (Lyle Scruggs, 2004).

Rather ironically, the best description of the dominant attitude for this period comes from the Brandt report written in 1983(?), at a time when the governments across OECD had already reversed the trend (Riddell, 2007). The 2nd oil shock had markedly changed the situation. The conservative-liberal governments of Helmut Kohl led to a stagnation or even decrease poverty orientation and a drop in total aid by 50 percent. The period is therefore in line with classic partisan arguments (stimmt das, muss gucken was mit Laenderliste etc. lost ist?). It also revealed a close correspondence between domestic welfare state policies and ODA. The Kohl government undertook a series of reforms cutting levels of social benefits and reducing other types of social expenditure (Zohlnhoefer, 2001). The focus on poverty took a further hit after reunification when Germany's attention moved decidedly towards Eastern Europe and the former Soviet Republics. This cemented the bias in German ODA towards countries in the 2nd quartile of poverty (Nunnenkamp & Thiele, 2006).

Things changed again with Gerhard Schröder and his new red-green coalition government (1998-2005). The coalition treaty of first cabinet gives the poverty reduction and international solidarity a prime role in ODA (Koalitionsvereinbarung, 1998). The government also strengthened the status of development vs. foreign policy by giving the ministry, the Bundesministerium für wirtschaftliche Zusammenarbeit (BMZ) the lead in all matters related to EU-development policy and by co-opting the ministry into the National Security Council (Koalitionsvereinbarung 1998: 48). The second cabinet Schröder continued and increased the focus on poverty alleviation. It committed itself to implementing the Millennium Development Goals (Koalitionsvereinbarung, 2002, p. 82). The poverty orientation was also reflected in the ministry's White Book (BMZ, 2000) defining a list of 70 partner countries. The country selection criteria are made explicit according the four dimensions, the first of which is the neediness in terms of poverty of the partner country (BMZ, 2000: 30).

Against these evolutions it is quite remarkable that the Schröder government's most significant reforms came in the form of welfare state retrenchment and deregulation. The government cut generosity rates for (long-term) unemployed drastically, and introduced some other cuts in spending (Kemmerling & Bruttel, 2006), a reform

package that eventually lead to the demise of the government and the formation of a grand coalition between Social and Christian Democrats led by Angela Merkel. [However, the generosity measures underestimate the universalistic character of the German welfare state (Bergh, 2004; Egle & Zohlnhöfer, 2007). German reforms have led to an expansion of welfare state beneficiaries in recent years (Schmidt, 2010). Hence we see that institutional aspects play a significant role in linking welfare statism and ODA in the case of Germany. They corroborate Therien and Noel's (2000) idea that partisan effects happen at most indirectly by linking both institutions closer to each other.] In the beginning the new government continued its idea of a civilian power and the need for the reduction of global poverty (Koalitionsvereinbarung, 2005).

However, once the international financial crisis hit Germany, 'poverty orientation' became more of an ambivalent concept. Suddenly, shrinking the list of eligible countries (BMZ 2008: 344) could also be interpreted as a way of reducing overall commitment. This became evident with the new government of 2009, a conservative-liberal coalition. Already in its manifesto the Liberal Party made clear that further retrenchment of the welfare state was necessary (FDP, 2009). Similarly, the future minister of development publically flirted with the idea of abolishing BMZ completely. Given the institutional inertia, the coalition quickly changed strategy and rather than decreasing aid, it starting compromising the focus on poverty. The coalition all but mentions the importance of poverty orientation, and upgraded the role of other motives, including self interest (Koalitionsvereinbarung, 2009, p. 55).

The British commitment to ODA shows a pattern that is roughly similar to the German one. The ratio of total aid to GDP eclipses around 1980, only to recover in the late 1990s. The share of poverty related aid rises in the 1970s, but even more so in the 1980s. After a brief period of stagnation it rises again after 2000. Thus one can again see periods of a paradox, most remarkable during the 1980s and periods of no such tradeoff (e.g. the late 1990s and early 2000s). Compared to Germany, however, the paradox is visible much more strongly.³

Again the institutional context is very important for the country comparison. Compared to Germany, the UK seems to oscillate between a 'progressive avant-garde' (OECD, 2006) and a the 'realist' legacy of its colonial past (Breuning, 1995). Whereas the UK has nowadays one of the most transparent systems of ODA

³ A simple pairwise correlation of total and poverty-oriented aid gives a coefficient of -0.11 for Germany vs. -0.31** for the UK.

allocation with a strong focus on poor countries (Easterly & Pfutze, 2008), other studies have found that commercial and foreign policy interests loom large into its decision making (Berthelemey, 2006; McKinlay & Little, 1978).

The other aspect, the institutionalization of ODA also differs from the German case. Decision making is much more centralized. The major political decision about ODA was therefore whether it should be delegated to an independent office, or held under close 'ministerial' and thereby political scrutiny. The latter facilitated to infusion of foreign-policy goals into ODA than an independent organization (Burnell, 1998). Again, this reflects that fundamental characteristics of a political and welfare state system that allows for change more rapidly than the German case (Rhodes, 2000).

Till the 1980s, the focus of poverty steadily increased. This is, in part, due to the strong historical commitment of the UK in its former African colonies (Burnell, 1998). However, it got accentuated under labour governments: 'We believe that the socialist axiom "From each according to his ability, to each according to his need" is not for home consumption only' (Labour Party Manifesto 1964, but see McKinlay & Little, 1978: 330). In contrast, the Conservative parties argued for both cutting domestic benefit levels, and shifting the focus of aid from poverty to other purposes (Conservative Party 1964). Labour party manifestoes demonstrate its rhetoric leadership throughout the 1970s.⁴ A clear indication of partisan differences is the fate of the British Overseas Administration. Labour governments (1964, 1974) converted it into an independent Ministry of Overseas Development, whereas Conservative governments (1970, 1979) subordinated it back to the Foreign and Commonwealth Office (DFID, 2012).

The best example for a paradox of redistribution comes from the 1980s. The Thatcher 'shock' clearly left its mark on ODA leading to a steep decline of the overall amount of aid (Riddell, 2007, p. 61). With the decline came an increase in targeting aid to the poorest countries. The Thatcher government was hostile to the use of ODA for other, commercial purposes, but used the focus on poverty as an argument for an overall retrenchment (Cite party manifesto). On the rhetorical level the Conservatives even overtook Labour and the Liberal Democrats in their focus on poverty-related aid (Budge et al., 2001, and footnote XX).

The next Labour government under Tony Blair managed to minimize the tradeoff again. Over time the focus on the poorest countries has increased (OECD, 2001, 2006, 2010). The government created again an independent agency, the Department for International Development (DFID). The department also shifted the way how

⁴ We performed a simple word count of the words 'development' and 'poverty' on basis of the party manifestos of the three main parties from 1972 onwards. Results are available on request.

poverty-orientation is achieved from the older sectoral approach to a system of general budget support with a strong monitoring component (DFID, 2012). The focus on the poor has not come at the cost of a lower total level of aid; to the contrary the UK ratio of ODA to GNI has been increasing in the last 20 years (OECD, 2010). All this came with a slight recovery of the welfare state, even if in a new disguise (Glyn & Wood, 2001; Lyle Scruggs & Allan, 2008).

The current conservative government has maintained the poverty focus, but has had more troubles maintaining total aid in recent times. In this sense, dropping India from the list of aid recipients is clearly a move towards focusing and streamlining aid (The Guardian, 9th of Nov., 2012). Electoral pledges between Labour and the Conservatives do not differ dramatically in recent years. In the 2000s, both parties pledged to pursue the millennium development goals. Going back in time the manifestoes reveal that the partisan divide is much clearer on the commitment to the target in overall spending of 0.7 percent of national GNI. Similar to the German case, it is therefore to be seen whether the focus on poverty is not conducive to 'retrenchment by stealth' in the long run.

The comparison between Germany and the UK shows interesting parallels as well as differences. Political changes happen more quickly in the UK where political and administrative institutions facilitate swings from one extreme to another. This partly explains why the paradox is stronger in the UK. A second, deeper reason relates to the previous section: the overall level of generosity is higher in Germany and domestic targeting plays less of a role. This leads politicians to agree on the redistributive purpose of ODA. Compared to this, the UK traditionally has strong focus on targeted aid to the poorest and to schemes of minimal income assistance (Esping-Andersen, 1990; Immervoll, 2010; Immervoll et al., 2007; Lyle Scruggs & Allan, 2008). Here, incentives to use targeting as stealth retrenchment seem stronger. The partisan story confirms these strategic battles. In both countries left parties try to increase both total and poverty-orientated aid, but they risk shrinking the coalition of those supporting aid.

Conclusion: How to Shift the Tradeoff to a Higher Level

The recent trend in the global public discourse towards a focus on poverty clearly has a lot of merits. Nevertheless, as this article argues, it can only work if it also changes the fundamental political support for ODA in general. To the contrary, one may interpret the current renaissance of poverty-oriented aid as a consternated

acceptance that the more ambitious target of 0.7 percent ODA of GDP has proved politically unfeasible. We investigated the roots of the variation in poverty-related aid over time and donors. And we showed evidence that there is a paradox of redistribution: the more you target aid, the less aid you will spend.

We use insights from the literature on national social policies and welfare statism to see that for bureaucratic and political reasons, spending levels grow with less rather than more targeting of the poor. More specifically, donor countries that give aid to more recipient countries in general also give more aid to the poorest countries. By contrast, donor countries that give less total aid are more likely to concentrate aid on the poorest countries. Finally, countries with a generous welfare state, which does not necessarily imply high social expenditures, are also more poverty oriented in their foreign aid policies. We corroborated and refined these results by a comparative case study of Germany and the UK.

Naturally, the tradeoff is not set in stone. The case studies have given evidence that governments time and again can shift the level of the tradeoff towards more poverty-oriented and higher total aid at the same time. The investigation of the tradeoff also left many technical and conceptual questions unanswered. For instance, we did not investigate in how far the recent move towards 'good institutions' and 'good governance' affects the paradox. Conditionality requirements by donors may have an impact on their poverty orientation. If good governance is a precondition of receiving foreign aid quite a few of the poorest countries might be foregoing part of available foreign aid. In how far conditionality alters our results might be explored in future research. Neither have we done justice to the international dimension of poverty orientation. The odds are high that the shifting focus on poverty orientation is subject to policy diffusion and spillovers in norms and ideas (Meseguer & Gilardi, 2009; Sugiyama, 2011). These are important points for future research.

Nonetheless our paper has important implications. For instance, the paradox of redistribution in ODA has testable predictions on public opinion. If the stigmatization effects are large, we would expect public opinion to be more skeptical about ODA in donor countries that target their domestic poor directly (Noel & Therien, 2002). Moreover, the link between partisan ideology and poverty reduction is a complicated affair, and the decision whether and why to focus on the poorest nations is a complex decision. If poverty orientation, for instance, implies cost efficiency and less overall spending, right governments might prefer poverty orientation more than left governments. Another implication is that the paradox works differently on the national and international level: national targeting is often one of cost containment and effectiveness. International targeting, however, can be used to concentrate the use of

money for poverty reduction and redistribution. In this respect, universal welfare states seem to be able to shift the tradeoff rather than 'walking on it': they do little targeting at home, but more targeting abroad.

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Table 1: Percentage share of total aid to poorest countries, five year averages since 1960

	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	00-04	05-09
Australia		.005	.040	.059	.101	.081	.104	.110	.042	.083
Austria	.041	.038	.149	.215	.062	.147	.372	.203	.368	.276
Belgium	.280	.349	.708	.686	.672	.750	.575	.563	.695	.651
Canada	.008	.052	.214	.334	.416	.423	.425	.366	.481	.511
Denmark		.123	.275	.338	.511	.541	.580	.453	.469	.564
Finland			.111	.154	.473	.526	.458	.365	.423	.501
France	.077	.332	.345	.443	.451	.504	.525	.472	.534	.476
Germany	.138	.158	.220	.319	.274	.301	.321	.279	.358	.367
Gr. Britain	.121	.169	.133	.213	.266	.400	.447	.427	.470	.631
Greece								.046	.076	.169
Ireland			.067	.148	.333	.524	.639	.765	.815	.788
Italy	.092	.508	.161	.281	.510	.544	.330	.496	.712	.421
Japan	.005	.002	.044	.203	.186	.180	.145	.131	.114	.302
Korea						.400	.360	.080	.063	.136
Luxembourg							.459	.307	.342	.394
Netherlands		.054	.124	.237	.333	.372	.411	.389	.466	.559
New Zeal.d	.009	.183	.187	.227	.464	.559	.615	.464	.471	.551
Norway			.109	.063	.037	.018	.032	.076	.117	.124
Portugal		.910				.685	.814	.750	.469	.342
Spain						.183	.145	.217	.141	.227
Sweden	.039	.192	.225	.248	.441	.496	.488	.413	.446	.523
Switzerland	.353	.178	.329	.381	.517	.527	.485	.366	.327	.374
U.S.	.102	.079	.162	.345	.163	.180	.197	.246	.308	.3887
Average	.084	.208	.200	.272	.345	.397	.406	.347	.379	.407
Std.Dev.	.109	.232	.154	.146	.180	.201	.193	.197	.212	.184

Data Source: see text; own calculations on basis of DAC, Table 2a ODA disbursements, and World Development Indicators' data on child mortality five years after birth.

Table 2: Regressions for poverty orientation and total aid

	(1) Parties	(2) Welfare State	(3) Domestic Pressure	(4) Combined	(5) Total Aid
Total amount of aid	-24.374* (12.605)	-40.917** (17.968)	-22.768* (13.019)	-38.990** (18.273)	
Poverty-related aid					-.0003** (.0001)
Nr of recipients (log)	.320*** (.101)	.356*** (.128)	.370*** (.099)	.408*** (.129)	.0004 (.0003)
Multilateral aid (log)	.156*** (.035)	-.049 (.059)	.147*** (.037)	-.072 (.061)	.0003* (.0001)
Left Government	-.001 (.001)			-.001 (.001)	-.000 (.000)
Center Government	.000 (.001)			.001 (.001)	.000 (.000)
Overall generosity of welfare state		.024** (.012)		.019 (.012)	.0001*** (.0000)
Social		-.004		.019	-.0001**

expenditures		(.013)		(.016)	(.0000)
Unemployment			.001	-.201**	.0002
(log)			(.041)	(.092)	(.0003)
GDP growth			.008	.01	-.000
			(.007)	(.01)	(.000)
Constant	1.196***	1.813***	0.965***	1.673***	.0001
	(.174)	(.271)	(.169)	(.262)	(.0001)
Observations	780	381	753	378	378
Number of	22	18	22	18	18
countries					

Dependent variable is percentage share of ODA for poorest countries (1-4) and total aid (5); standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Table 3: Regressions with Alternative Dependent Variables

Dependent variable	1 Aid to least developed countries	2 Sector spending	3 Aid to multilateral institutions (log)
Total Aid	-16.609 (15.169)	-51.639*** (12.920)	8.701*** (1.422)
Number of recipients (log)	0.460*** (0.090)	0.744*** (0.082)	0.014 (0.009)
Left government	-0.001** (0.001)	-0.001 (0.001)	-0.000 (0.000)
Right government	0.001 (0.001)	0.001 (0.001)	-0.000 (0.000)
Generosity	0.021** (0.010)	0.017** (0.009)	0.004*** (0.001)
Soc. expenditure	-0.015 (0.013)	0.012 (0.012)	-0.001 (0.001)
Unemployment(log)	-0.096 (0.073)	-0.054 (0.065)	0.013* (0.007)
GDP growth	0.010 (0.009)	0.005 (0.007)	-0.002** (0.001)
Constant	0.814*** (0.192)	-0.059 (0.123)	-0.070*** (0.023)
R2	0.166	0.466	0.747
Observations	374	356	378
Number of countries	18	18	18

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Table 4: Regressions with Alternative Model Specifications

	RE	Lag	PCSE
Lagged dependent variable		.398*** (.047)	.343** (.141)
Total amount of aid	-38.294** (17.246)	-41.997*** (14.931)	-41.576** (17.358)
Number of recipients (log)	.263* (.155)	.159 (.112)	.183* (.11)
Multilateral aid (log)	-.015 (.052)	.001 (.051)	-.001 (.065)
Left Government	-.001 (.001)	-.001 (.001)	-.001 (.001)
Center Government	.001 (.001)	.001 (.001)	.001 (.001)
Overall generosity	.020* (.011)	.015 (.009)	.015** (.008)
Social expenditures	.006 (.014)	-.005 (.011)	-.004 (.01)
Unemployment (log)	-.087 (.078)	-.070 (.058)	-.079 (.051)
GDP growth	.014 (.01)	.010 (.009)	.011 (.008)
Constant	1.966*** (-.711)	1.401*** (-.504)	.757** (-.352)
R ²		.250	.784
Country dummies	No	No	Yes
Observations	396	396	396
Number of countries	18	18	18

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Appendix 1: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Source
Share of ODA to Poorest Countries (Health)	981	0.322	0.221	Own calculations on basis of WDI and DAC
ODA to GNI	895	0.0047	0.0027	DAC
Share ODA to Least-Income Countries	819	0.182	0.107	DAC
Share of Aid to Specific Sectors	702	0.442	0.160	DAC
Share of Aid to multilateral donors	864	0.001	0.001	DAC
No. of Recipients	1173	71.5	46.3	Own calculations
Size of Multilateral Aid	864	691.7	935.7	DAC
Left Government	1059	33.0	37.7	Armingeon et al.
Central Government	1059	25.1	31.7	Armingeon et al.
Seat in UN Security Council	1196	0.21	0.41	Own calculations
Overall Welfare State Generosity	574	27.22	7.42	Scruggs
Social Expenditure Ratio	602	21.3	5.3	Armingeon et al.
Unemployment Rate	1086	5.5	3.9	WDI
GDP Growth	1070	3.4	2.6	WDI
Share of Exports to Developing Countries	1150	15.8	8.2	WDI

Appendix 2: Bivariate Correlations

	(1)	(2)	(3)	(4)	(5)	
ODA to GNI (1)	.063					
Share to Least-Income Countries (2)	.568	.228				
Share to Specific Sectors (3)	.105	.007	.115			
Share to multilateral donors (4)	.114	.790	.278	.090		
No. of Recipients (5)	.220	.066	.070	.080	.007	
Size of Multilateral Aid (6)	.054	.033	.165	.112	.047	.608