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Jörg Faust is a senior researcher at the German Development Institute, who joined the Institute in 2003. His research concentrates on the relations between political institutions and economic development, international political economy and aid effectiveness. His regional focus is on Latin America.

Tulpenfeld 4, 53113 Bonn
☏ +49 (0)228 94927-0
🖷 +49 (0)228 94927-130
E-Mail: die@die-gdi.de
www.die-gdi.de

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Abstract

This paper reveals how political institutions within OECD countries affect those countries' foreign policies towards the developing world. For identifying the overall development orientation, the paper uses an index, which aggregates different foreign policy fields such as development assistance, trade, investment and environmental policies, which reflect a rich country's commitment to development in poor countries. The results of simple Ordinary Least Square (OLS) regressions demonstrate, that the varying quality of democracy among 21 OECD countries explains a large part of the differences between those countries' overall commitment to development promotion. Furthermore, variables measuring political transparency and the amount of checks & balances are also significantly related with the quality of overall external development promotion. Thus, the existence of inclusive and democratic participation is not only important in developing countries because it increases politicians' accountability and orients domestic policies towards encompassing interests of society. Additionally, the same logic applies for rich countries' policies towards poor countries. These findings are consistent with the liberal school of foreign policy analysis according to which a country's foreign policy is strongly influenced by its domestic institutions. Moreover, these findings suggest that a driving force behind the coherence of development-oriented foreign policies in OECD-countries is the domestic political context.

1 Introduction

During the last decade, cross-country studies have provided mounting empirical evidence in support of the argument that political institutions matter for economic development. In this context, inclusive and democratic participation is increasingly considered as an important condition for reducing the impact of narrow interest groups and for orienting politicians towards the collective interests of society. Where politicians are held accountable through the means of liberal democracy, political systems are institutionally well equipped for crafting policies according to the encompassing interests of the citizenry, thus substantially reducing the most serious collective action problems of modern societies.

This increasing recognition of democracy's benefits for domestic development seems to correlate well with the comparatively cooperative external behaviour of democracies. More than 200 years ago, Immanuel Kant set the theoretical foundations of one of the most robust findings in international relations: consolidated democracies do not go to war which each other. There are several theoretical arguments, which are linked together in order to develop a dyadic theory of the “democratic peace”. From an institutionalist perspective, the most important consists in the institutional setting of democracies that make governments more responsive towards a broader set of interest groups than in autocracies. Those who rule in democracies depend on an encompassing majority and thus are less able to shift the risks and costs of war onto the average citizen than in autocracies. Explanations of the “democratic peace” have also been extended towards trade cooperation and technology transfer. Again, democracies tend to be more cooperative than autocracies.

Against this background, this paper shows how those virtues of democracy can be expanded to another field of foreign policy: namely rich countries' attempts to foster development in poor countries. It will be shown that political institutions in OECD countries affect those countries' foreign policies towards the developing world. More concretely, the varying level of democracy among those countries explains a major part of the variance of a new aggregate index, measuring rich countries' commitment to development. The significant and strong relationship between a rich country's quality of democracy and its dedication to development towards poorer regions of the world remains, even if controlling for other variables, such as population size or income per capita. Furthermore, the amount of checks & balances (veto-players) is also significantly linked to the overall quality of development promotion.

These findings can be explained by recurring on those strands of the collective-choice literature that concentrates on the impact of special interest groups under different institutional settings. From such a perspective, there are good reasons to believe, that economic development in poorer countries is mostly in the collective interest of rich societies too. Nevertheless, an increasing body of literature reveals, how special interest groups in rich countries strongly influence policies, which are of crucial importance for the development of poor countries. For instance, development assistance is increasingly criticized for often responding more to the needs of bureaucratic interests of the aid industry or special economic groups within donor countries than to the needs of the recipients (Easterly 2002). Beyond development assistance, rich countries policies in areas such as trade, environment, and technology transfer are also often accused of protecting well-organized domestic interests and rising additional barriers for development in poor countries.

Thus, narrow interest groups in rich countries are often motivated to diverge from coherent strategies to effectively promote development in poor countries. Nevertheless, the peculiarities of policies towards the developing world do vary among rich countries. From the perspective of liberal foreign policy analysis, this variance should be strongly influenced by differing domestic characteristics, namely the varying level of democratic voice and accountability. Stated differently, while promoting development in poor countries should also be in accordance with the interests of an encompassing majority of citizens in rich countries, it is to a much lesser degree in harmony with special interest groups. Therefore, higher rates of democratic voice and accountability should also come together with more development oriented foreign policies because higher levels of democracy come along with comparatively lower impacts of special interest groups.

In the remainder of the paper, chapter two provides a theoretical framework for the empirical investigation. In a first step, arguments on the importance of "good" governance and democracy for domestic development will be reviewed. In a second step, these findings will be connected with arguments that focus on the external behaviour of democracies. Hereafter, recent critiques of rich countries policies towards the developing world are discussed followed by the deduction of a hypothesis, which links a rich country's quality of democracy with its overall commitment to development. Chapter three operationalises major variables of interests and then tests the formulated hypothesis with OLS cross-section regressions. The results confirm the central hypothesis of this study: A rich country's overall quality of democracy matters for the overall quality of its policies towards the developing world. While the political variables are only in some cases significantly linked to specific policy variables, the significance and strength of these variables increase substantially, when aggregate variables are used that bundle together several policy fields. Chapter four summarizes the findings and gives an outlook for further research.

2 Democracy and commitment to development

2.1 Governance, democracy, and the encompassing interest

On the one hand, societies are large and heterogeneous groups, which are hardly in a position to organize collective goods such as secure property rights, macroeconomic stability or social safeguards in a fully decentralized manner. Instead, collective action problems make it necessary to create a public organization with a monopoly for contract enforcement and the capacity for crafting such collective goods. On the other hand, the demand for such an entity creates the challenge of institutionally constraining the members of this organization in order to prevent them from using their power to provide themselves or their supporters with private privileges (Weingast 1997; Easterly 2006, 117).[1] Supposing, that economic prosperity and productivity is in the collective interest of a society, political institutions have gained mounting importance as explanatory variables for economic performance across countries (Keefer / Knack 1997; Acemoglu / Johnson / Robinson 2002).

1 Nearly every policy field can be crafted in a way that well organized groups profit over proportionally. However, as Bueno de Mesquita et al. (2002, 562) cautiously note, "in reality all policies contain aspects of public and private goods". Thus the importance of studying political institutions consists in identifying the relative mix of collective goods and private rents, which result out of specific policy measures.

Secure property rights, political stability and high levels of political transparency respectively low levels of corruption have been identified as institutional contexts, which effectively constrain the influence of special interest groups on policy formulation.[2]

There is less agreement with regard to the economic virtues of democracy. Traditionally, democracy has often been sceptically perceived with regard to its potential for overcoming barriers to development. Seymor Lipset (1959) famously stated that economic development generally is a pre-requisite for stable democratic order. Others have tried to demonstrate that authoritarian developmental states in Asia, not confronted with the uncertainty of democratic competition, were especially apt to direct resource flows in highly productive sectors (Wade 1990).[3] Furthermore, much comparative work has long been concentrated on democracies only, focusing on the negative impact of distribution coalitions on economic performance (Olson 1982; Weede 1986).

Even if scepticism about democracies superior economic performance compared to autocratic rule remains, more recent research has made stark arguments in favour of a democratic dividend. While autocracies are conceived as exclusionary regimes able to repress the interests of major parts of the population, democracies are characterized by inclusive, yet competitive political participation (Dahl 1971, 4–5). Thus, free and fair elections together with free press and the freedom to build political associations makes political leaders more responsive to the encompassing interests of a society. Since democratic political leaders depend on a more encompassing interest than autocrats, they will prefer to provide collective goods instead of supplying private rents to special interests (Olson / McGuire1996). From a regulatory perspective, democracy's competitive and inclusive regulation of the state monopoly tends to orient politicians towards the provision of collective goods, while autocracies discretionary grasp at the natural monopoly of the state enables them to enjoy higher prices for the provision of less amounts of such goods. More recent empirical evidence supports the claim that more democratic regimes provide more inclusive policies and at the same time are less affected by rent-oriented supply of special interests.[4] Thus, in contrast to autocratic order, the inclusive but at the same time competitive nature of liberal democracy offers fewer opportunities for well-organized special interests to enrich themselves at the cost of collective development.

Yet, all democracies are not the same. Especially emerging democracies are often confronted with strong democratic defects such as high levels of corruption respectively low levels of political security and the rule of law. Democratisation as a process of deep institutional transformation comes along with severe distribution conflicts and coordination problems, which often lead to political instability, short-term oriented policies and macroeconomic vulnerability (Haggard / Kaufmann 1995). Moreover, even among consolidated OECD democracies, there are still significant differences with regard to political transpar-

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2 This assumption is backed by evidence, which demonstrates a significant relationship between these factors and overall productivity growth (Olson / Sarma / Swamy 2000; Lambsdorff 2003).

3 However, economic analysis has contradicted these findings (Krugman 1994; Young 1995, 2003) and has shown that impressive growth rates under several authoritarian regimes in Asia were primarily driven by factor accumulation and only to a much lesser extent by productivity gains.

4 Even democracies in poor countries generally outperform autocracies in terms of growth and broader measures of well being, such as life expectancy or literacy rates (Halperin / Siegle / Weinstein 2004). Furthermore, there is evidence suggesting, that increasing levels of democracy improve education levels, public health services (Baum / Lake 2001, 2003) and productivity growth (Faust 2006).

ency and levels of corruption. Beyond those differences regarding informal institutions, democracies also differ with respect to their formal institutions and partisan characteristics. More traditional approaches have concluded that consensus democracies are closer to the encompassing interests of the citizenry than majoritarean democracies (Lijphart 1984, 1999). Yet, these findings have been subject to intense debate in the light of more recent differentiations, which focus on the varying number of veto-players (Tsebelis 1995, 2002), veto-points (Kaiser 1997) or checks and balances (Keefer / Stasavage 2003). While there is a consensus that an increasing amount of veto-players makes policy-changes more difficult, there is dissent about the linkage between the amount of veto-players and the quality of policies in democracies. While one strand of the literature tends to perceive an increasing amount of veto-players as a means to prevent political leaders from discretionally serving special interests (Keefer / Stasavage 2003; Andrews / Montinola 2004), others have argued, that a high amount of veto-players offers many channels of influence for special interests (Franzese 2002). Thus, while increasing quality of democracy should make governments more accountable to the encompassing interests of a society, it remains unclear, whether there is an overall relationship between the number of veto-players of a polity and its orientation towards collective good creation.

2.2 The cooperative external behaviour of democracies

Democracy does not only orient domestic policies towards a more encompassing interest than autocracy. For similar reasons, democratic governments behave in a similar way with regard to their foreign policies. The empirical backbone of liberal foreign policy analysis consists in an observation that *"comes as close as anything we have to an empirical law in international relations"* (Levy 1989, 270). Consolidated democracies do not go to war with each other. While this evidence needs a dyadic theory because democracies do go to war with non-democracies, institutional explanations of the democratic peace almost always emphasize the fact that leaders in established democracies have to be more responsive towards the average citizen than autocrats.[5] Because democratic governments depend on an encompassing majority of citizens, they are less able than autocrats to redistribute the costs and gains of war unequally. The seemingly paradox observation, that emerging democracies are more often involved in violent conflicts (Mansfield / Snyder 1995) can be explained by recurring to specific characteristics of many of such regimes: namely, that governments, which are selected by inclusive competitive elections but whose survival still depends on rather narrow distribution coalition *"are highly susceptible to overthrow by foreign or domestic rivals"* (Bueno de Mesquita et al. 1999, 803). This argument fits well with the observation, that gradual democratization comes along with a lower probability of violent external conflict, while countries with high regime volatility are more probable to be engaged in external conflicts (Gleditsch / Ward 2000).

Beyond issues of war and peace, foreign economic policy also reflects the orientation of democracies towards the encompassing interests of the average consumer. Abundant re-

5 The literature on explanations of the democratic peace is abundant. It broadly can be distinguished in rather sociological explanations, that focus on shared norms of compromise and cooperation among democracies (Maoz / Russet 1993; Risse-Kappen 1995) and institutional explanations that concentrate on the effect of democratic institutions on policy-making (Bueno de Mesquita et al. 1999; Levy / Razin 2003).

search on the political economy of trade has revealed *"an asymmetry between concentrated producer interests in protection and diffuse consumer interests in free trade"* (Frieden / Lake 2005, 143). Increasing levels of democracy tend to reduce this typical collective action problem (Milner / Kubota 2005). Pairs of democracies have lower levels of trade barriers than mixed regime pairs. Furthermore, democracies are more commercially cooperative than non-democratic regimes and are more willing to promote the transfer of technologies than autocracies (Mansfield / Milner / Rosendorff 2000, 2002; Milner 2006). Once more, these findings are backed by theoretical arguments, which stress the need of democratic governments to give more attention to the interests of a broader range of consumers rather than to the protective needs of specific producers.

2.3 Democracy and external development promotion

The virtues of democratic order as well as the effects of existing differences among democracies can be fruitfully expanded to another area, namely rich countries attempts to promote development in poor countries. Rich countries have long been assuring to commit themselves towards supporting economic development in poorer countries, for instance, when promising to spend 0.7 % of their income for development assistance. More recently, they made strong commitments in the context of the Millennium Development Goals, the most prominent being the goal of worldwide poverty reduction by 50 % until 2015. Beyond providing effective development assistance, the realization of such ambitious goals can include instruments for development promotion in a variety of policy areas. Liberalizing trade policies in sectors, where developing countries have competitive advantages, promoting investment and the diffusion of technology as well as helping to prevent environmental degradation are only some of the most prominent means through which sustainable economic and social development can be promoted. Effectively fostering development in poor countries thus depends on a coherent strategy of a whole bundle of policy fields.

Promoting development in poor countries seems to be in accordance with the encompassing interests of OECD countries. During the last decades an overwhelming majority of citizens in OECD countries has supported foreign policy measures related towards promoting development, reducing poverty and remedying humanitarian crises in poor regions of the world (McDonnell / Solignac / Wegimont 2003). Opinion polls have also suggested, that the public in OECD countries has preferred development assistance to go to needy countries that use it well rather than being used for serving special interests in donor countries (Lumsdaine 1993, 43).

Beyond, promoting development in poor countries is not a purely altruistic undertaking. Rather, from the perspective of a rich country, effectively promoting development in poor countries should come along with substantial benefits. On the one hand, economic development in poor countries can have some adjustment impacts on specific industries and parts of the population in rich countries. For instance, opening internationally less competitive trade sectors, promoting technology diffusion and fostering investment in poor countries can provoke temporal structural adjustments that will negatively affect certain domestic industries. On the other hand, however, effectively promoting development reduces severe negative externalities from poorer regions of the world on rich countries; a fact of which the public in OECD countries seems to be well aware.[6] Such negative externalities of poverty can consist of uncontrolled migration flows, threats from terrorism and transnational crime or global environmental risks. Economic development in poor countries also provides more sustainable international economic competition, a driving force of innovation and consumer orientation. Thus, a more integrated strategy channelled through several policy measures such as providing high quality development assistance, removing trade barriers for poor countries' typical export products, promoting investment and technology diffusion, etc. can be considered as in the collective interest of a rich country.

Unfortunately, mounting evidence does severely question the adequacy of rich countries policies to overcome development barriers in poorer regions. Instead, many policy instruments seem to be inadequate to promote development in poor countries. Even worse, such policies often tend to be captured by special interest groups. While development assistance is not the only policy field apt for development promotion, the increasingly critical assessment of this policy area is suitable to illustrate this argument. Recent work on the effectiveness of development assistance for growth paints a mixed picture at best.[7] According to critical perspectives, severe principal agent problems, inherent to the policy field, have transferred development assistance into an aid industry, whose interventions are often more guided by the special interests of donor agencies than by the needs of recipient countries (Easterly 2002).[8] The resources of development assistance have often been misused and tied to specific economic and security interests of narrow groups in donor countries. However, this rather critical assessment on development assistance should not necessarily lead to the abolition of development assistance but instead towards improving the institutional setting of the aid industry (Birdsall 2004).

The above-mentioned criticism on development assistance can be expanded, if one takes a perspective that focuses on a broader set of policies towards the developing world. In general, broad scepticism exists, as whether OECD-countries' rhetoric commitment to help developing countries is deeply reflected by their policies. Disapproval with many rich countries' policies towards the developing world often concentrates on the influence of special interest groups. From agriculture lobbies and protectionist trade unions to mighty industrial confederations, from nationalist organizations to corporate finance: rich countries' under performing commitment for development in poorer regions is mainly perceived as due to rather small but well-organized interest groups than to the average citi-

6 For instance, a 1999 opinion poll conducted in the United Kingdom revealed, that two-thirds of the public think that poverty in developing countries have negative externalities on the United Kingdom (DFID 2000).

7 On the controversy on aid's effect on growth see Burnside / Dollar (2000); Dalgaard / Hansen (2001); Easterly / Levine / Roodman (2004) among others. There is also evidence that increasing aid dependency provokes higher levels of corruption, an inadequate increase of the public sector and declining levels of bureaucratic quality (Alesina / Weder 2002; Knack 2001, Remmer 2004).

8 From a principal agent perspective, the executive of a donor country acts as an agent of two principals (Martens et al. 2002); first, the taxpayer in rich countries, who expects his money to be spend effectively and efficiently for promoting poorer countries' development; second, citizens of the recipient country, who expect aid to reflect their needs and to promote development. Unfortunately, these collective interests from the principals (taxpayers and citizens in the partner country) do not necessarily match with the interests of their agents: namely special interests of governments, aid bureaucracies and consultants.

zens, consumers or tax-payers. For instance, the unwillingness of many rich countries' governments to open trade sectors is linked to the resistance of specific domestic producers rather than to the average consumer, who would profit from liberalization through lower prices. Similar remarks could be made to environment policies, where organized interests in highly developed nations from fishery associations to oil companies have over proportionally influenced policy-making.

However, from a micro perspective of individual donor countries, such general conclusions are undifferentiated because policies among rich countries are more heterogeneous than generalized criticism suggests. With respect to development assistance, some donor countries have kept their promises with regard to the amounts of money spend on development assistance while others have not. Some countries have allocated their aid flows much more in accordance to poverty and institutional performance criteria than others (Alesina / Weder 2002; Gates / Hoeffler 2006). Some donor countries are more willing to coordinate their actions with other donors and to re-orient their modes of delivery towards more effective instruments.[9] The same applies to other areas such as trade, investment and migration policies, which are of importance for promoting development in poorer regions. Thus, one has to differentiate among several policies within one country. For instance, while Norway is said to conduce development assistance in accord with many development-oriented standards, the same country strongly protects its agriculture sector. Beyond, specific policies and the overall commitment for development promotion can also substantially differ among rich countries.

Given this latter need for differentiation among rich countries one can develop the hypothesis, that a rich country's overall commitment to development will be strongly influenced by its domestic institutions, namely the quality of democracy. Such a hypothesis is based on three major assumptions, which have been outlined before: Firstly, in contrast to autocratic order, liberal democracies are institutionally well-designed to prevent severe collective action problems in policy-making by reducing the impact of narrow interest groups and by directing policy-makers toward the more encompassing interests of society. Secondly, from a rich country's perspective, an integrated and effective promotion of development in poor countries, which includes a variety of measures from different policy fields, will produce more overall benefits than costs. Finally, one can assume that special interests within rich countries are at least partly responsible for creating the observed tension between a rich country's collective interest of promoting development in poor countries and the observed deficiencies with regard to combining several policy fields into a coherent and effective strategy of development promotion. Joining these three assumptions leads to the hypothesis, that the varying level of democratic quality in rich countries should at least partly be responsible for the varying efforts of these countries to bundle together aspects from several policy areas into a coherent strategy of development promotion. Therefore, the overall commitment to development in rich countries should be effected by the quality of their democracy.

9 The Peer Reviews of the OECD-Development Assistance Committee on OECD (DAC) members development assistance clearly reveal, that there is great heterogeneity among DAC members with regard to their efforts of improving harmonization among donors and modes of delivery.

One may counter this hypothesis with the argument, that all major rich countries are established democracies with strong institutions, guaranteeing high levels of democratic voice and accountability. While this observation is partly correct, there are still substantial differences among rich countries with regard to the quality of democracy. For instance, some indicators such as Transparency International find considerable variation among highly developed countries. With regard to the quality of rule of law and political transparency, narrative evidence also supports the need for differentiation: in Italy, the Berlusconi-government has been criticized for attempting to dismantle the principles of free and impartial information, while in countries such as Japan and Greece political transparency is an issue of major concern. In contrast, some Scandinavian countries are frequently praised for their political transparency and democratic accountability. Therefore, while recognizing that those countries' political systems demonstrate on average a comparatively high quality of democracy, the still existing differences make it plausible to formulate the above stated hypothesis.

3 Empirical evidence

3.1 Variables of interest

With regard to a rich country's foreign policy, several policy fields could be ranked according to the country's dedication to development in poorer regions and then be aggregated into a single indicator. The Centre for Global Development has established such an aggregate indicator, which ranks highly industrialized OECD nations according to their quality of policies with regard to development in poor countries. The *Commitment to Development Index* (CDI) includes seven policy components; each component is scaled so that 5 is the average. Then the CDI is constructed by building the average of all components (Roodman 2005). The policy areas include development assistance (aid), trade, investment, migration, environment, security and technology. Table 1 gives a short overview of the content of each policy area.[10] All policy areas are weighted equally, which is the most pragmatic approach because there is neither a theoretical nor otherwise guided consensus on how to adequately weight the relevant policy areas. As such, the CDI represents an innovative undertaking to rank rich countries' commitment to development and bundles a variety of policy fields in one combined index. The CDI only exists for three consecutive years (2003–2005) and the data are taken from sources, which span the 2000–2004 period. Nevertheless, the bundle of policies reflected by the CDI only changes slowly, the correlation coefficient between the 2003 and the 2005 CDI being 0.91.

With regard to the independent variable of major interest, the quality of democracy, most indicators used in comparative studies are not apt for the comparison of established OECD-democracies. Most OECD-democracies achieve the highest possible value in these rankings, so it is not possible to identify still existing differences among OECD democracies. Therefore, this study recurs to the *voice & accountability* variable from the World Bank Governance Indicators. These indicators draw on different information from a vast

10 For a more detailed description see Roodman (2005) and several background papers for each individual compenent available at the Centre for Global Development.

Table 1: Component variables of the commitment to development index
The *aid component* ranks countries according to the quantity and quality of their development assistance. The index starts with the net amount of aid and then makes several adjustments: it penalizes tied aid and weights aid flows according to selectivity, mainly determined by a recipient country's neediness (poverty) and quality of governance. Furthermore, it penalizes project proliferation because many small projects tend to create administrative burdens and increase transaction costs for the recipient country.
The *trade component* ranks countries according to their level of protectionism with regard to developing countries typical export products. The component has two parts. The first – weighting 75 % – measures the aggregate level of protection by tariffs, non-tariff-barriers and subsidies for domestic production. The second factor consists of the share of imports from developing countries as a percentage of the importer's Gross Domestic Product (GDP).
The *investment component* is based on a survey of government policies. The survey checks, whether rich countries' governments apply investment friendly standards in five areas, four of them concentrating on foreign direct investment and one on portfolio investment. Such investment friendly standards include for example political risk insurance encouraging companies to invest in poor countries, procedures to prevent double taxation or engagement against bribery practices linked to investment abroad.
The *migration component* rewards liberal immigration policies. It combines several indicators such as non-DAC immigrants as a percentage of the country's total population and total immigrants, the share of foreign students from non-DAC countries and contributions for supporting refugees and asylum seekers.
The *environment component* contains indicators in three areas, each one differentiated into several sub components: 1) global climate, which includes among others greenhouse gas emissions, gasoline taxes and Kyoto protocol ratification; 2) fisheries, which covers subsidies and ratification of specific UN agreements, 3) biodiversity and global ecosystems, which compromises issues such as imports of selected species, ratification on biodiversity agreements and tropical timber imports.
The *security component* looks at three aspects of the security-development nexus. It accounts for finan-cial/personnel contributions to peacekeeping operations and forcible humanitarian interventions, which have been approved by multilateral organizations such as the U.N. Security Council or NATO. Addition-ally, it rewards countries that base naval fleets where they can secure sea lanes vital to international trade. Finally, the index penalizes arms exports to undemocratic nations that spend heavily on weapons.
The *technology component* rewards not only technology creation but also technology diffusion. A country score is diminished, if policies include issues such as protective forms of patenting, the lack of limitations on patent rights, Intellectual Property Rights that that go beyond Trade Related Aspects of Intellectual Property Rights (TRIPS) standards in preferential agreements between developed and developing coun-tries and anti-circumvention rules as unnecessarily restrictive measures.
For a more technical description of the methodology see Roodman (2005).

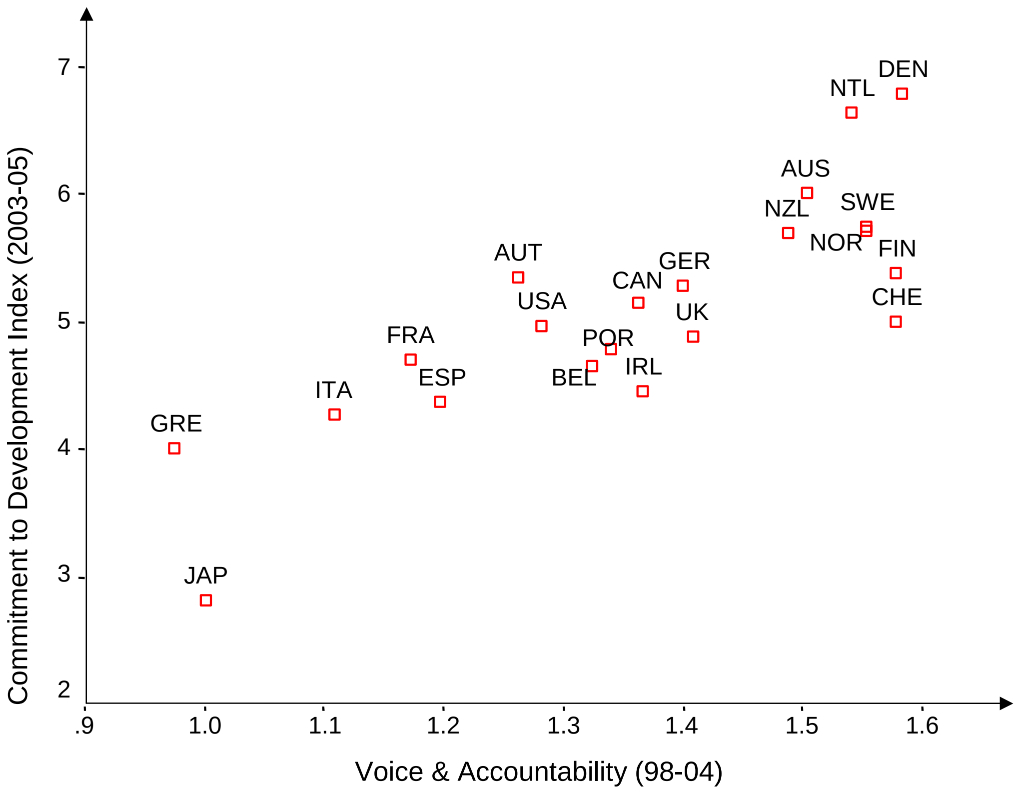
amount of secondary sources to produce their indices thereby increasing the validity and reliability of the indices (Kaufmann / Kraay / Zoido-Lobatón 2003).

In addition, two alternative measures for the quality of domestic institutions respectively important features of democratic governance have been used to test the robustness of the results. The first alternative measure is a combined governance variable (*Governance*) that includes all six governance indicators from the World Bank, which are constructed in the same way as the voice & accountability variable. As the other indicators offer measures on corruption control, political stability, the rule of law, government effectiveness and the quality of regulation, the average of these indicators for the 1998–2004 period provides a broader measure of "good" governance in OECD-countries. (Kaufmann / Kraay / Zoido-Lobatón 2003). Furthermore, the variable *Transparency* has also been used as an alterna-tive measure: Transparency is a single index, which focuses on political transparency and the level of corruption. It consists of the average values of the corruption perception index published by Transparency International in the 1998–2004 periods. The index is ranked on a scale from 1 to 10, higher values indicating higher levels of transparency respectively lower levels of corruption. Again, these additional variables change very slowly, the correlation coefficients for the values of 1998 and 2004 being 0.92 respectively 0.95.

3.2 Estimations and interpretations

Due to the high correlation of the dependent variable at different points in time and the relatively short time covered, OLS cross section regressions were chosen as the most appropriate estimation technique. Because time-series-cross-section regressions are inappropriate under the given circumstances, the statistical challenge consists in the fact, that the limited number of observations restricts the inclusion of control variables. As shown in Graph 1, a simple bivariate regression provides an amazingly strong and significant relation between the overall CDI and the democracy variable. Accordingly, two thirds of the differences among rich countries' overall commitment to development are explained by their quality of democracy.

Graph 1: Democratic quality and commitment to development



Corr R^2 = .67***, Coefficient = 3.92 (t=6.41***)

Table 2 presents the results of a more systematic test with several other variables and alternative measures of "good" governance and political transparency. Up to four control variables enter the regressions: the size of a country measured by its population (log); the level of income measured by GDP per capita (log) in power purchasing parity, government expenditures as a percentage of GDP and the amount of checks and balances respectively veto-players.[11] The variable *checks & balances* (Keefer / Stasavage 2003) is a more objective measure of the varying institutional context within established OECD democracies. Following the veto-player framework by George Tsebelis (1995, 2002), the authors estimate the feasibility of policy change through identifying the number of institutional and partisan actors, whose agreement is necessary before policies can be changed. Moreover, as the denomination of the variable suggests, this variable also provides information about the possibility of political actors to formulate policies according to their specific interests. Therefore, an increasing amount of checks & balances could make it more difficult to craft policies in accordance with the specific interests of a single veto-player.

Table 2: Regressions for 21 donor countries

Dependent Variable	CDI	CDI	CDI	CDI
Voice & Accountability	4.01 (6.51)***			
Governance		2.06 (4.48)***		
Transparency			.38 (3.78)***	
Checks & Balances	.44 (3.41)***	.44 (2.70)**	.39 (2.14)**	
Population (Log)	.17 (1.84)*	.10 (.83)	.01 (.06)	-.29 (-2.00)*
GDP/capita PPP (Log)	-1.52 (-2.20)**	-1.60 (-1.76)*	-1.03 (-1.08)	1.67 (1.78)*
Government Expenditures	.03 (2.36)**	.04 (2.35)**	.03 (1.76)	.03 (1.26)
CONSTANT	9.01 (1.48)	12.99 (1.63)	9.43 (1.1)	-8.48 (-.85)
Corr R2 N	.81*** 21	.70*** 21	.64*** 21	.24* 21

OLS-regressions, coefficients (t-values in parenthesis), ***=significant at 1 %, **=significant at 5 %, *=significant at 10 %. Countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States.

The results of table 2 demonstrate, that governance variables exert a highly significant influence on the overall commitment for development of rich countries. Above all, the democracy variable is the most significant and most influential of those governance variables. Additionally, the amount of checks & balances also has a significant and positive effect on the dependent variable. In the last model of table 2, political variables on domes-

11 Economic variables were taken from the World Bank Development Indicators 2005 except for government expenditures, which has been taken from OECD statistics.

tic institutions are excluded in order to see whether size, wealth and government consumption alone can explain a similar part of the variance of the CDI. This is not the case. The results fall far below compared to those, which integrate variables on domestic political institutions. The results presented in table 2 have been further tested with regard to possible outlier-bias, the exclusion of relevant control variables and problems of heteroscedasticity. Robust regressions controlling for outliers and heteroscedasticity have been performed; the highly significant and positive relation of the democracy variable remained. Specifications with different control variables such as military expenditures or external trade as a share of GDP did not result in substantial changes with regard to the governance variables. Beyond, different specifications have also included a variable controlling for EU-membership because European integration might have led to harmonization of foreign policies, thus reducing the influence of domestic institutions in member countries. Finally, a dummy variable for the colonial heritage of OECD countries has been included, distinguishing between major colonial powers (France, Portugal, Spain, United Kingdom) and others. Nevertheless, the consideration of these variables had no impact on the significance of the variables regarding domestic institutions in OECD-countries. Therefore, the results of table 2 do support the hypothesis that OECD countries' domestic institutions, and especially the level of democratic voice & accountability, significantly influence the overall quality of their external development promotion.

Nevertheless, the above-mentioned results could be driven by a few components of the CDI only. To test for such an alternative explanation, the CDI has been disaggregated into its seven components. Table 3 reveals the results, when applying the same model as in table 2 but using the seven individual components as dependent variables. Only with regard to three of these seven components (aid, investment and migration), the democracy

Table 3: Regressions for 21 donor countries

Dependent Variable	AID	TRA	INV	MIG	ENV	SEC	TEC
Voice & Accountability	6.61 (2.12)*	4.20 (1.32)	4.76 (3.44)***	7.13 (1.82)*	2.36 (1.74)	.73 (.33)	2.21 (1.61)
Checks & Balances	1.01 (1.57)	.70 (2.03)*	-.11 (-.38)	-.54 (-.66)	.04 (.16)	1.80 (3.90)***	.16 (.54)
Population (Log)	-.27 (-.57)	.50 (1.36)	.99 (4.69)***	-.19 (-.32)	.08 (.37)	-.36 (-1.07)	.48 (2.28)**
GDP/capita PPP	1.51 (0.43)	-5.66 (-2.04)*	-1.11 (-.72)	3.65 (.83)	-1.92 (-1.26)	-5.71 (-2.31)**	-1.38 (-.90)
Government Expenditures	.16 (2.57)**	-.001 (-.04)	.02 (.89)	-.03 (-.40)	.04 (1.56)	-.02 (-.51)	.03 (1.13)
Constant	-26.21 (-.85)	45.81 (2.03)*	-7.32 (-.54)	-34.88 (-.90)	18.36 (1.36)	61.54 (2.81)**	5.84 (.43)
(corr) R2	.61***	.23 robust	.53***	.14	.13	.54***	.05

OLS-regressions, coefficients (t-values in parenthesis),***=significant at 1 %, **=significant at 5 %, *=significant at 10 %. Wherever the Breusch-Pagan/Cook-Weisberg test indicated problems of heteroscedasticity estimations with robust standard errors have been performed as indicated.

variable exerts a significant influence. Furthermore, F-tests indicate, that the overall results of several regressions are not significant. Still, the democracy variable has the expected positive sign in all specifications and t-values are at least above 1 in all regressions except for security. Additionally, while all other variables change their signs dependent on specific CDI-components, the democracy variable is the only variable, which does not.

While at first glance, the results of table 3 seem to contradict the major claim of this paper, there are several explanations for these results, which do not necessarily stand in contradiction to the main hypothesis. Probably no democracy will be free from the influence of special interests. Even in countries with comparatively high levels of democracy, single policy areas can be distorted by the impact of small groups, historic or other reasons. However, on average, increasing levels of democratic voice & accountability should come along with a lower overall impact of narrow interest groups. Thus, using an aggregate bundle of policy areas, the effect of domestic political institutions should become more visible. This consideration makes it more appropriate to combine several policy areas into an aggregate variable in order to test the influence of domestic institutions on OECD-countries' overall commitment to development in poor countries. Furthermore, single components of the CDI are rather simple measures of development orientation in a specific policy field, so that a clear differentiation between different economic and political variables via regression analysis becomes less viable; especially with a limited number of observations. Again, aggregate variables should at least in part solve such a problem. Finally, the control variables used in table 2 and 3 are especially apt for explaining the overall commitment to development of rich countries. Thus, model specifications of table 2 might well exclude specific variables necessary for explaining the outcome of single policy areas. However, deducing theoretic models for each component of the CDI and providing adequate variables for testing such models is beyond the scope of this article. Consequently, the overall impact of democracy on rich countries' commitment to development can best be observed when using indicators, which pack together a whole set of policy areas.

Nevertheless, the CDI as an aggregate variable might be strongly influenced by one or two of its components or might represent a coincidental statistical artefact. Therefore, in table 4 different aggregates from the CDI components are used as dependent variables. Using different aggregates with different amounts of CDI components is a suitable approach for testing concerns about over proportional influence of single components or the existence of statistical artefacts. In a first step, four different aggregates were constructed that include every CDI component but one: namely they exclude those components on which the democracy variable exerted significant influence: aid, investment and migration (CDI-AID; CDI-INV; CDI-MIG). As demonstrated, the democracy variable exerts a highly significant and strong influence on these aggregates. In a second step, two aggregates were build of different components, which normally rank high among scholars of development studies (AID+TRA, AID+TRA+INV+TEC). Again, the examination of aggregates rather than single policy-fields shows a highly significant influence of the democracy variable and the variable checks & balances. The democracy variable even then exerts significant influence, when the individual components of the aggregate have not been strongly correlated with the democracy variable. For instance, when considering the policy fields of aid and trade alone, only one of the two components has been significantly linked to the democracy variable. In the aggregate indicator AID+TRA, however, the coefficient of the democracy variable turns out to be much higher and more significant. In the last model of

Table 4: Regressions for 21 donor countries						
Dependent Variable	CDI–AID	CDI–INV	CDI–MIG	AID+TRA	AID+TRA+INV+TEC	TRA+ENV+SEC+TEC
Voice & Accountability	3.57 (2.99)***	3.87 (5.45)***	3.48 (4.96)***	5.40 (3.93)***	4.44 (5.40)***	2.37 (2.11)**
Checks & Balances	.34 (2.20)**	.53 (3.58)***	.60 (4.11)***	.86 (3.00)***	.44 (2.57)**	.67 (2.92)**
Population (Log)	.25 (1.63)	.04 (.35)	.24 (2.19)**	.11 (.54)	.424 (3.37)***	.173 (1.01)
GDP/capita PPP	-2.02 (-1.89)*	-1.59 (-2.00)*	-.238 (-3.03)***	-2.08 (-1.35)	-1.66 (-1.80)*	-3.67 (-3.21)***
Government Expenditures	.01 (.34)	.03 (2.09)*	.04 (2.78)**	.08 (2.88)**	.05 (3.25)***	.01 (.60)
Constant	14.89 (1.84)*	11.75 (1.67)	16.34 (2.78)**	9.80 (.72)	4.53 (.56)	32.89 (3.66)***
(corr) R2	.57** robust	.81***	.76***	.73***	.71***	.55**
Governance	1.91 (3.70)***	2.03 (4.15)***	1.57 (2.96)**	2.30 (2.34)**	2.07 (3.30)***	1.06 (2.19)**
Transparency	.34 (3.68)***	.37 (3.49)***	.31 (2.96)***	.44 (2.19)**	.41 (3.25)***	.21 (2.52)**

OLS-regressions, coefficients (t-values in parenthesis),***=significant at 1 %, **=significant at 5 %, *=significant at 10 %. Wherever the Breusch-Pagan/Cook-Weisberg test indicated problems of heteroscedasticity estimations with robust standard errors have been performed as indicated.

table 4 the t-values of the democracy variable are still above 2, even if the aggregate variable included only those areas, where the democracy variable had no significant influence on the single components (TRA+MIG+SEC+TEC).

Again, all model specifications of table 4 have been replicated with alternative measures of governance. As is demonstrated by the coefficients and t-values of these variables in the lower part of table 4, these alternative measures are also significantly and positively related with the dependent variable. Alternative specifications made use of more outward oriented control variables, such as military expenditure, trade as a percentage of GDP and a trade openness indicator from the Fraser Institute (Gwartney / Lawson 2001). Again, model specifications with other control variables also did not change the positive influence of the democracy variable. Neither did the inclusion of the EU-membership variable. Still, one should cautiously interpret low significance levels of control variables because of possible problems of multicollinearity due to the limited number of observations. Yet, this study is not so much about modelling and testing an overall theory on the commitment for development but rather about the influence of domestic institutions, especially different levels of democracy on the dependent variable. As such, the results do support the main hypothesis presented here, namely that the level of democratic voice and accountability in OECD-countries is *one* crucial factor explaining the variance of the overall quality of development promotion of those countries. Beyond, these findings also suggest that a rising level of democratic voice and accountability increases the overall coherency of these countries' foreign policies with regard to development promotion.

4 Conclusion and outlook

Macro-quantitative research since the early 1990s has shown, that a society's prosperity is strongly influenced by its political institutions. In this context, more recent work has also revealed evidence on the virtues of democratic order for economic development. These findings are theoretically sustained by formal and informal models, which suggest, that democracy drives governments towards the encompassing interests of society rather than orienting policies towards providing special interests with private goods. They are also in accord with evidence from the liberal school of foreign policy, namely the "democratic" peace and the more cooperative economic behaviour of democracies in the international system. Like the former, the latter evidence is often grounded on theoretical arguments that emphasize democratic governments' comparatively high commitment towards the average citizen, consumer or taxpayer.

Against this background, this study has expanded the discussion of democracy's external effects to the field of "north-south" relations. The use of simple OLS regression analysis has demonstrated a strong and significant link between a rich country's quality of governance, especially democratic voice and accountability and its overall commitment for development in poorer regions of the world. Again, these findings are guided by theoretical considerations that point to democratic governments' responsiveness towards collective interests. From a collective action perspective, the effective promotion of development in poorer countries via a broad set of foreign policy instruments should also be in the collective interest of a rich country. Nevertheless, rich countries' foreign policies affecting the development of poor countries such as development assistance, trade, environment, and investment policies are often accused of serving special interest groups in rich countries rather than truly aiming at development promotion in less developed nations. Accordingly, if the political influence of such special interest groups gets more constrained by higher levels of democratic voice and accountability, than the overall commitment for promoting development in poorer countries should increase.

The presented evidence supports this hypothesis. Rich countries with stronger democratic institutions produce foreign policies, which are at the same time more compatible with the encompassing interests of the rich countries' society while at the same time more adequate to promote development in poorer countries. These findings have important implications for the discussion centring on questions of the effectiveness of development promotion. For instance, former results of regression analysis, that suggested a strong link between a recipient country's policies and aid effectiveness (Burnside / Dollar 2000) did not survive several robustness tests (Easterly / Levine / Roodman 2004). The evidence presented in this paper does support the latter scepticism of such a one-way-explanation of aid effectiveness. If the quality of political institutions not only effects the quality of policies in recipient countries but also exerts strong influence on the quality of development promotion of rich countries, than there is a need for dyadic explanations of aid effectiveness and overall development promotion. Thus, further research has not only to investigate, whether the effectiveness of development promotion is influenced by the quality of governance in poor countries. Research has also to take into account the quality of domestic institutions in rich countries.

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Appendix

Descriptive Statistics					
Variable	*Observations*	Mean	Std. Dev.	*Min*	*Max*
CDI	21	5.08	.89	2.81	6.78
AID	21	5.02	3.12	1.82	13.80
TRADE	21	5.15	1.69	-.48	7.93
INVESTMENT	21	5.11	1.26	2.51	7.46
MIGRATION	21	4.98	2.64	1.76	11.32
ENVIRONMENT	21	5.45	.92	3.40	7.64
SECURITY	21	4.89	2.05	1.19	8.19
TECHNOLOGY	21	4.92	.88	2.77	6.54
DEMOCRACY	21	1.37	.19	.99	1.61
GOVERNANCE	21	1.52	.32	.79	1.93
TRANSPARENCY	21	7.82	1.49	4.53	9.77
CHECKS &BALANCES	21	4.19	.99	2.57	6.14
POPULATION (LOG)	21	16.71	1.25	15.16	19.46
GDP/CAPITA PPP (LOG)	21	10.16	.19	9.76	10.48
GOVERNMENT EXPENDI-TURE (% GDP)	21	44.72	7.22	33.35	58.74

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