

Watering, not Transplanting: The Case for Democracy Assistance

Steven Finkel

University of Pittsburgh
finkel@pitt.edu



Aníbal Pérez-
Liñán

University of Pittsburgh
asp27@pitt.edu



Mitchell A.
Seligson

Vanderbilt University
m.seligson@vanderbilt.edu



C. Neal Tate

Vanderbilt University
n.tate@vanderbilt.edu



Can institutions be transplanted? At the purely formal level, the question seems trivial: institutions have traveled – via diffusion or imposition – across polities for centuries. The key question, however, lies at a deeper level: do the behavioral effects of formal rules travel equally well across political systems?

In behavioral terms, institutions are reinvented every time they are trans-

planted. New actors decode the rules in a new setting, creating a coalition or a critical mass of local players that interpret norms in a particular way. (For instance, a stop sign means “stop” for a driver in Pittsburgh but it means “yield” for a driver in Buenos Aires.) Because rules solve coordination problems, violating the interpretation held by a dominant coalition may be dangerous. Formal institutions only have similar consequences when dominant behavioral coalitions embrace equivalent interpretations of the rules in each local setting.

The establishment of democracy constitutes a major historical example of this process. For example, Latin American countries adopted republican institutions in the early nineteenth century, before many European counterparts, and yet they took longer in establishing viable democracies. Rulers in Latin America often celebrated elections and kept legislatures open, but those regimes were highly unstable (Przeworski 2009). Formal republican procedures did not ensure that dominant coalitions in Latin America embraced effective competition and respect for civil liberties until the second half of the twentieth century. Similarly, in other parts of the world contemporary authoritarian leaders now distort republican procedures to create a façade for non-democratic politics.

The adoption of particular institutions (elections, legislatures, universal suffrage, and so on) is therefore a necessary but not a sufficient condition for the establishment of democracy. What is also needed is a behavioral coalition willing to embrace a liberal interpretation of the formal rules in each country. Such logic appears to be compatible with the numerous activities undertaken in recent decades by agencies in the US and elsewhere that are involved in international democracy assistance: while

some programs from international donors focus on institutional design, electoral rules, and so forth, a far greater number focus on empowering agents – individual citizens, politicians, elected officials, NGOs, judges and political parties – that struggle for democratic change in the domestic arena. The problem in the field is not how to transplant democratic institutions, but how to water their roots.

But, are such efforts at democracy assistance likely to achieve their intended goals? Can international donors really empower the local actors willing to embrace a progressive democratization agenda? And will such empowerment transform the dominant behavioral coalition to the extent of having an impact on aggregate levels of political rights and civil liberties for the whole country? Our answer to those questions, based on the results of a four-year study undertaken to evaluate the global impact of all USAID democracy assistance programs from 1990-2004, is a qualified “yes”.

Beginning in 2004, our research team at the University of Pittsburgh and Vanderbilt University conducted analyses of the effects of US foreign assistance on democracy world-wide during the post-Cold War period (Finkel, Pérez-Liñán, and Seligson 2007; Finkel et al. 2008). The project was conducted as an independent study in the context of the Strategic and Operational Research Agenda, a comprehensive effort by the Bureau of Democracy, Conflict and Humanitarian Assistance at the US Agency for International Development (USAID).¹ Our results indicated that democracy assistance has a moderate but significant positive impact on levels of democracy, that this kind of investment has a stronger impact at lower levels of human development, in contexts of political instability, and in ethnically divided societies, and



Symposium

16

APSA-CP Vol 19, No. 2

that democracy programs have a smaller (and statistically insignificant) impact in countries that constitute geo-strategic priorities for the United States.

Findings of the World-Wide Study

Our dataset covered 165 countries between 1990 and 2004. We relied on an original database reporting 44,958 activities conducted by all USAID sectors. Each entry in the database reported the purpose of the activity, the total amount appropriated for the project, and the recipient country. We aggregated the data at the country-level to assess the impact of USAID Democracy and Governance programs (USAID DG) on aggregate levels of democracy. USAID DG assistance was measured as appropriated funds in constant 2000 dollars, both as an aggregated total for each country, and also broken down into four main areas: 1) Elections and Political Process; 2) Rule of Law; 3) Civil Society; and 4) Governance. A fifth category covering regional and sub-regional programs was also included.

The main indicator of democracy used in the study was the Freedom House index, but we replicated the results using the Polity IV index and some composite measures of specific democratic dimensions (free elections, freedom of the press, respect for human rights, an independent civil society, and effective governance).

Following the democratization literature, our study incorporated several control variables, including total investment in other USAID programs, US military assistance, bilateral non-US foreign assistance, the country's level of economic development, economic growth, social conflict, state failure, democratic diffusion, years of prior democracy, population, income inequality, the size of the country, eth-

nic fractionalization, and human development.² Some models also included indicators of political culture based on survey data (institutional trust, personal satisfaction, and social engagement), plus measures of constitutional rights, threats to the ruling elite, and the role of international governmental and non-governmental organizations.³

The dataset included time-varying and time-invariant (i.e., country-level) covariates. We employed a hierarchical growth model to predict each country's level of democracy as a function of a latent democratization trend, unique to each country, plus our battery of predictors and controls.

Our initial findings indicated that that democracy assistance increases national levels of democracy among recipient countries by a small but significant amount. We also found that this impact was stronger in a sample covering 1990-2003 than in a sample including data for 2004. Further analysis using a "jackknife" procedure indicated that this difference was explained by the unusually high level of USAID DG investment in Iraq in 2004, because the extreme levels of democracy assistance (approximately 31% of all US democracy assistance) was not accompanied by an equivalent positive change in democracy scores. Once the "Iraq effect" was controlled for (using a dummy for this observation), democracy assistance had a positive impact such that \$10 million of USAID DG funding would produce an increase of more than one-quarter of a point (.29 units) on the 13-point Freedom House democracy index in a given year.⁴ Although apparently small, this effect represents a five-fold increase in the amount of democratic change that the average country would be otherwise expected to achieve, *ceteris paribus*, in any given year.

Under Which Conditions Does Democracy Assistance Work?

The report also analyzed the conditions under which USAID DG assistance is more effective. We computed conditional coefficients for USAID DG in interaction with the degree of Ethnic Fractionalization (Fearon 2003), the Human Development Index (UNDP 2006), a dichotomous State Failure Indicator (Political Instability Task Force 2006), a measure of Volatility in US democracy funding (based on the stability of investment during the period), and the level of US Military Assistance, measured as the percentage of the total US military assistance worldwide invested in a particular country in any given year (USAID 2006).

The analysis of conditional coefficients indicated that the marginal effect of a million dollars invested in democracy is greater in countries that are in greater need of external assistance: countries that are poorer, socially divided, and suffer from lower levels of human capital. As shown in Figure 1, above a certain level of development – roughly HDI levels achieved by Brazil or Tuvalu – the effect of USAID DG is statistically indistinguishable from zero.

Democracy assistance also makes a stronger contribution under conditions of state failure. Although this may be surprising, given the uncertain conditions that prevail in failed states, related analyses tend to support this insight.

By contrast, democracy assistance is less effective in countries that receive a substantial percentage of US military assistance. In Figure 1, the coefficient for USAID DG is insignificant for any country receiving more than 1.1 percent of the total US military assistance in any given year. This pattern explains the "Iraq Effect"

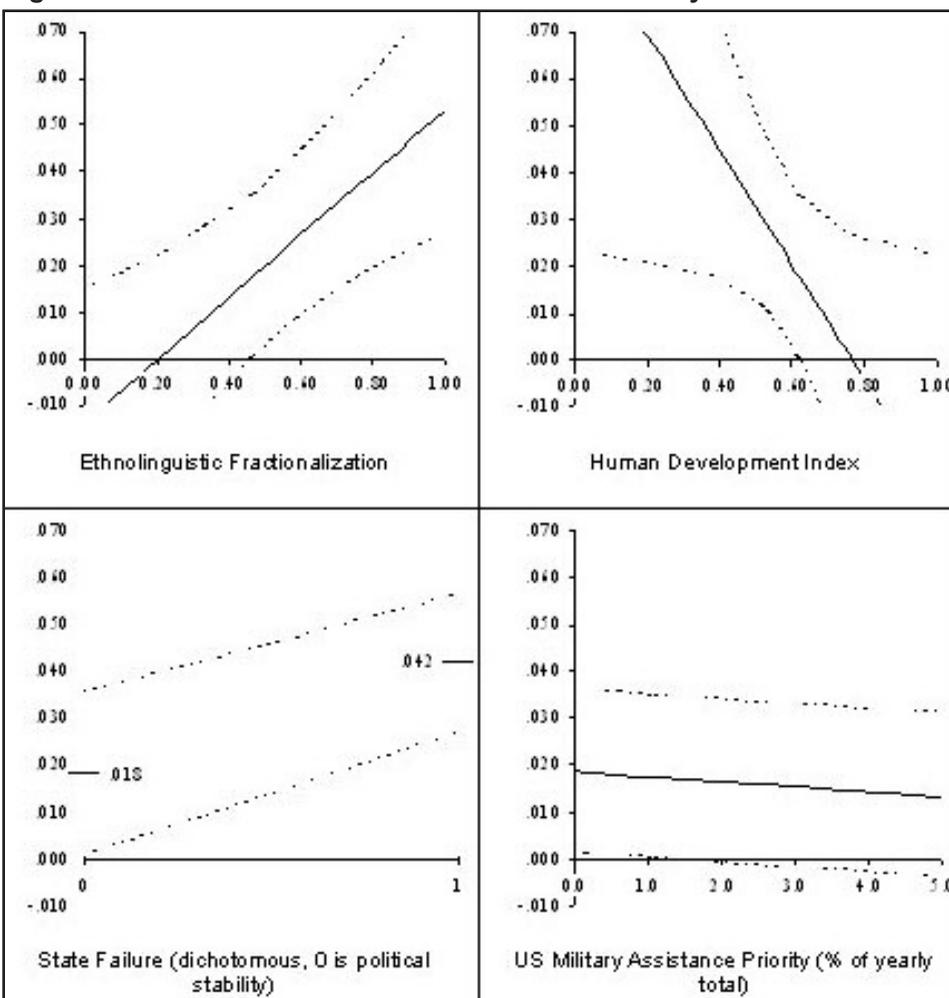
described above. Because Iraq represented a foreign policy priority mainly for security reasons in 2004 (it received 23 percent of all military assistance in 2004, vis-à-vis 0.6 percent for the average eligible country) and it was also the largest recipient of democracy assistance (31 percent of all USAID DG funds spent in 2004), the overall impact of USAID DG was depressed when compared to a model including data for 1990-2003. In fact, once we allowed the effect of USAID DG to be conditional on US military assistance, the impact of the Iraq 2004 dummy lost its statistical significance, indicating that Iraq was an extreme manifestation of a more general pattern by which democracy assistance is less powerful when the overall policy towards the recipient country is driven by security concerns.

Our analysis also found that democracy assistance is less effective when investment is unstable, that is when funds allocated to the recipient country vary considerably from one year to the next. The findings suggest that in about half of the recipient countries the level of uncertainty in democracy investment may be high enough to compromise its impact. In addition, our analysis showed the democracy assistance is more effective when surveys reveal a political culture in which citizens are more trusting, satisfied and engaged.

Reverse Causality, Long-Term Effects, and Sub-Sectors

We devoted much attention to the potential problem of the endogeneity of USAID DG assistance, that is, the possibilities that either unobserved variables were causing both funding allocations and democratic outcomes, thus producing a spurious relationship between the two, or that funding allocations were the direct *effect* (and not the cause) of the democratization

Figure 1. Conditional Coefficient for USAID Democracy Assistance



Notes: Based on a multivariate hierarchical model; the dependent variable is the Freedom House index. Lines indicate the size of the USAID DG coefficient (the vertical axis) at different levels of the intervening variables (horizontal axis). All other intervening variables held at their means (or 0 for State Failure). Dotted lines indicate 95% confidence intervals.

process. In order to deal with this potential problem, we employed a Two-Stage Least Squares (2SLS) design. We instrumented USAID DG using all exogenous time-varying covariates, along with a measure of inflation and a measure of State Department priorities (the number of times that a Secretary or Assistant Secretary of State was mentioned in relation to a particular country by the *New York Times* in a given year). The effect of USAID DG remained consistent in models addressing the problem of endogeneity. These additional tests make it far more likely that the initial findings are valid, and that democracy

assistance does, indeed, produce a positive impact on democratization in recipient countries.

Our study also probed the long-term impact of USAID DG assistance within the context of a dynamic model that included the lagged Freedom House score as an additional independent variable (we employed the Arellano-Bond generalized method of moments procedure to handle the statistical problems inherent in these kinds of models). We found that that democracy assistance may take time to work. In this model, the immediate impact of USAID DG assistance on

Freedom House is estimated to be .020, so that a one-million dollar investment changes Freedom House scores by .020 units. If the million dollar investment was continued in the next year, the *two-term cumulative multiplier* effect would be .033.

Continuing these calculations for a persistent one-million dollar investment over five years yields a cumulative impact of .050 on the Freedom House scale. The long-run effects of a *permanent* one million dollar investment in USAID DG investment are thus quite a bit higher than in the baseline model described in the previous section. A permanent (or relatively long-term) *ten* million dollar investment is predicted to have a cumulative (equilibrium) impact of over one-half of a point on the Freedom House scale.

The report also explored other issues, such as the impact of sub-sectoral investment in the areas of Elections, Rule of Law (and human rights in particular), Civil Society (and free media in particular), and Governance on different dimensions of democracy. The results show that USAID civil society and media assistance have a significant positive impact, investment in elections and political parties is beneficial for the quality of elections, and investment in governance programs impacts the quality of governance, though the latter effect is relatively small in magnitude. The main anomaly in our study was investment in human rights programs, which shows a negative correlation with human rights outcomes. We tested alternative explanations for this anomalous finding, but the puzzle remains.

The establishment of elections, parliaments, and political parties is therefore necessary but not sufficient for the development of democracy. The good news is that international donors can support and empower behavioral coalitions willing to make democracy

work. Our evidence indicates that USAID democracy investment has had a positive impact on democratization under many conditions – but not always. Shifts in where, when, and how USAID spends its democracy assistance, and shifting trends in democracy worldwide could make the assistance more or less effective in the future.⁵ Yet, the analysis of fifteen years of data provide a robust basis for concluding that democracy assistance in the post-Cold War period has worked.

Notes

¹ Michael Bratton, Michael Coppedge, Mark Hallerberg, and Pamela Paxton participated as part of an independent Expert Advisory Panel at different stages of the project. We are indebted to them for their comments, suggestions, and criticism.

² We also controlled for democracy assistance from the National Endowment for Democracy, and for total US development assistance not channeled through USAID or NED.

³ The reports, replication datasets, and more details about the statistical procedures used in the project are available at <http://www.pitt.edu/~politics/democracy/democracy.html>

⁴ This figure is nearly identical to the value estimated for 1990-2003, i.e., the period before the Iraq War (see Finkel *et al.* 2007, p. 422).

⁵ For more on recent trends in USAID and other international donor assistance programs, see the recent reports in Azpuru *et al.* (2008) and Youngs (2008).

References

Azpuru, Dinorah, Steven E. Finkel, Aníbal Pérez-Liñán, and Mitchell A.

Seligson. 2008. "Trends in Democracy Assistance: What has the United States Been Doing?" *Journal of Democracy* 19 (2):150-159.

Fearon, James D. 2003. "Ethnic and Cultural Diversity by Country." *Journal of Economic Growth* 8 (2):195-222.

Finkel, Steven, Aníbal Pérez-Liñán, and Mitchell A. Seligson. 2007. "Effects of US Foreign Assistance on Democracy Building, 1990-2003." *World Politics* 59 (3):404-439.

Finkel, Steven, Aníbal Pérez-Liñán, Mitchell A. Seligson, and C. Neal Tate. 2008. Deepening Our Understanding of the Effects of US Foreign Assistance on Democracy Building. [cited February 2008]. <http://www.pitt.edu/~politics/democracy/democracy.html>.

Political Instability Task Force. 2006. Internal Wars and Failures of Governance, 1955-2005. [cited June 2006]. <http://globalpolicy.gmu.edu/pitf/pitfpset.htm>.

Przeworski, Adam. 2009. "Regime Instability in Latin America." *Journal of Politics in Latin America* 1 (1): forthcoming.

UNDP, United Nations Development Program. 2006. Human Development Reports. [cited May 2006]. <http://hdr.undp.org/>.

USAID, United States Agency for International Development. 2006. US Overseas Loans and Grants (Greenbook). [cited August 2006]. http://gesdb.cdie.org/gbk/query_historical.html.

Youngs, Richard. 2008. "Trends in Democracy Assistance: What has Europe Been Doing?" *Journal of Democracy* 19 (2):160-169.