

**USAID AND THE ECONOMIC GROWTH THESIS:
A Critical Assessment of USAID Foreign Aid Policies Post-9/11**

BY

C2007

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Submitted to the Department of International Studies and the Faculty of
the Graduate School of the University of Kansas in partial fulfillment of
the requirements for the degree of Master of Arts

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ABSTRACT
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Department of International Studies, December 2007
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Following 9/11, the United States asserted that terrorism and technology presented an immediate and present danger to national security. The Bush Administration responded to this threat by making development a core foreign policy priority. A central goal of this revised strategy was to create economic growth and opportunity in fragile states, thereby limiting the space where extremists and terrorists could operate. This thesis will incorporate two histories: the academic debate surrounding Lipset's "economic growth thesis" and the foreign assistance role of the United States Agency for International Development. The primary research question will consider whether evidence exists that the economic growth thesis has informed foreign aid practices, and if so, to what extent. The secondary research aim will be to assess the newly revised bilateral foreign aid policy in terms of the economic development components it possesses and its potential to achieve the objectives prescribed by the Bush Administration.

DEDICATION

I dedicate this thesis to my mother, Dale (Hughey) Goodwin, who passed away in 1983 at the young age of forty. Mom, I have missed your love, support, and guidance every day these past twenty-four years, but your spirit is alive and well, motivating me to enjoy the journey, live life to the fullest, and see the good in others. I can think of no better way to dedicate this to your memory than to say, “I love you more!”

ACKNOWLEDGEMENTS

First, thank you, Creator God, for the gift of life, the blessings of family, good health, and a measure of ability. Above all, thank you for your faithfulness and for continually bringing people into my life who share your love.

Thank you to Don and Peggy Arnott, whose timely gift compelled me to reflect on the direction of my life, resulting in the decision to apply to the INTL program. Without your thoughtfulness, it is doubtful I would have even considered going back to school when I did.

Thank you to Joy Budensiek, a former professor and academic advisor from Hobe Sound Bible College. Mrs. “B” was not the first to mention that I had academic potential, but she was the first to demand real accountability. Although I graduated in 1994, Mrs. B continues to take an active interest in my life. Many a deadline have I met solely because Mrs. B believed in me, and failing her simply did not cross my mind.

I owe a deep debt of gratitude to Dr. Catherine Weaver, who served as my thesis advisor for nearly a year. In fact, the Chapter Two literature review is largely a product of her tutelage. Thanks for making me write reviews on each source and for insisting I incorporate my own analysis.

Thank you to Dr. Darlene Budd for serving as my *de facto* thesis advisor when I decided to change directions at the beginning of my final semester. You instilled a lot of confidence and a “can do” attitude, and for that, I am very grateful.

I also want to thank Dr. Eric Hanley for agreeing to be the official chair of my committee. The time we spent chatting about my thesis after class last fall provided excellent fodder for my thesis. Given your early involvement, I am delighted that you agreed to take this role on the committee.

Thank you to Dr. Wert, my very first professor in the program, for accepting a position on my thesis committee. Following that most memorable first assignment in our “History of Globalization” class (Kant, Condorcet, Marx, and Dunckley), your perseverance and willingness to endure another of my projects should be commended.

Finally, thanks to everyone in my personal support network who has endured countless hours of thesis commentary. Particularly, I wish to thank my parents, Dennis and Linda Lee Goodwin; my brother and his family, Daniel, Shelda, Heather and Ryan; my cousin/roommate, Steve Powell; my KU academic advisors, Sheri (Perry) Warren and Noel Rasor; the KU Writing Center tutors, Huma Khan and Sadie Robb; KU Edwards Campus staff, Lisa Browning and Glenna Stites; my good friends, Lyle and Joann Parker, Bob Sanderson, Matt Johnson, and Paula (Rutherford) Davis; Tim Hensel and my World Savings/Wachovia co-workers; and a host of KU colleagues, headlined by Megan Cross and Janet Mason.

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CHAPTER ONE

The Elevation of Foreign Aid in US Foreign Policy

“Ultimately, the best strategy to ensure our security and build a durable peace is to support the advance of democracy everywhere.”¹ ---William Jefferson Clinton

*Americans “know, by history and by logic, that promoting democracy is the surest way to build security. Democracies don't attack each other or threaten the peace.”² --
-George W. Bush*

I. The puzzle: Democratization, Foreign Aid and the USAID

In recent years the motivation for democratization has shifted from the calculated deterrence policy of the Cold War to a strategy emphasizing free market access and the long-term stability of the international system. In addition, the general embracing of the *democratic peace thesis*, which posits that democratic nations do not go to war with each other, has provided additional incentives for democratic governments to pursue democratization as a foreign policy goal. This faith in the ability of democratic societies to create stability in the international system has been a conviction of every US president since the Reagan administration, strengthening considerably since the terrorist attacks of 2001. In fact, according to the 2002 version of “The National Security Strategy of the United States of America” (NSS), the US government now considers foreign aid a priority on par with the other long-standing pillars of defense and diplomacy for the first time in US history.³ The rationale

¹ Bill Clinton, "State of the Union Address," in *Washingtonpost.com*, ed. White House (Washington, D.C.: Washington Post, 1995), 20.

² George W. Bush, "Bush on Freedom Agenda," in *VOA.com* (2006).

³ "Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity," ed. United States Agency for International Development (GPO, 2002), iv.

behind this major policy shift centers on the idea that weak governance and underdevelopment in failed and fragile states create space for radical ideologies to foment and for terrorists to operate, posing a direct national security threat to the United States. This major upgrade of development as a top priority has led to the introduction of a new US bilateral foreign aid policy emphasizing the need to stabilize fragile states, to reward good governance, to promote sustainable development, and to establish effective graduation criteria so recipient states can avoid developing long-term dependencies on aid resources.

This thesis brings together two histories to consider the political context for foreign assistance in the post-9/11 environment. The first history to consider is the evolution of Lipset's 1959 groundbreaking work, "Some Social Requisites for Democracy: Economic Development and Political Legitimacy." A review of this body of literature on the economic growth thesis⁴ will be foundational in demonstrating the current conventional wisdom that economic growth accelerates democratic consolidation. In turn, this debate will inform a second stream of inquiry, the past and present roles of the United States Agency for International Development (USAID) in disseminating foreign aid around the globe. Ultimately, the goals for bringing these two histories together are threefold: first, to assess to what extent the academic debate has informed USAID policy in the past; second, to determine the current relationship between "economic threshold" theory and the foreign aid policies of USAID; finally, to ascertain whether organizational and policy shifts within

⁴ Lipset's thesis suggested a linear relationship between economic growth and democratization.

USAID since 9/11 are likely to support the administration's overall foreign policy objectives.

Although the connection between economic threshold theory and USAID foreign aid directives may not be immediately obvious to the reader, there are two important reasons why this relationship requires investigation. First, as noted above, developmental assistance has been elevated to a core priority for the first time in US history. This is because fragile states "are now recognized as a source of our nation's most pressing security threats,"⁵ meaning the United States has a vested interest in maximizing its foreign aid dollar and achieving optimal, rather than ordinary results. Second, since the core component of the new bilateral aid policy is transformational development, which dictates not only fundamental changes in institutions and governance, but also the creation of sustainable economic development, relevant studies within the social sciences should be considered for potential application to official aid policy. For these reasons, this thesis will explore how these two histories interact and how economic growth strategies can inform USAID aid practitioners in the post-9/11 international system.

⁵ "Fragile States Strategy," ed. United States Agency for International Development (GPO, 2005), 1.

*“Certain levels of ‘basic’ socio-economic development appear to be necessary to elevate countries to a level at which they can begin to support complex, nationwide patterns of political interaction, one of which may be democracy.”⁶ ---
Deane Neubauer*

II. Economic Thresholds

Among the many democratization theories is the idea that certain economic thresholds exist, beyond which the potential for democratic success improves significantly or can be virtually guaranteed. For example, because no democratizing country has ever reverted to an authoritarian-style government once it has attained a per capita income level of \$6000,⁷ this threshold is considered the benchmark for which all lower-income democracies should strive. When coupled with other measurements, thresholds potentially reveal a developmental road map for lower income political systems. The implications are even stronger when nascent democracies – which are generally poor and unstable – are considered.

This notion of economic thresholds, first proposed by Deane Neubauer, suggests a variety of implications for political democracy. In addition to the fail-safe \$6000 benchmark, Adam Przeworski also notes that there is strong statistical evidence that economic development will increase the prospects of democratic stability within a given country. For instance, at the lowest levels of development, democracies are not as stable as autocracies, but once per capita income exceeds \$750, democracies

⁶ Deane Neubauer, "Some Conditions of Democracy," *The American Political Science Review* 61, no. 4 (1967): 1007.

⁷ Adam Przeworski and Fernando Limongi, "Modernization: Theories and Facts," *World Politics* 49, no. 2 (1997): 7.

gradually become more stable than autocracies.⁸ Huntington implies this when he suggests there is a “coup-success ceiling” that ends at an approximate per capita income of \$1,000 and “coup-attempt ceiling” ending at approximately \$3,000.⁹ In addition, Przeworski points out the fact that poor democracies – defined as those under \$1,000 of per capita income – are extremely fragile,¹⁰ possessing a life expectancy of only eight years.¹¹ As per capita wealth increases, these numbers increase significantly. For example, when per capita income reaches \$1,000-\$2,000, democratic survival is projected to last sixteen years, thirty-three years in the \$2,000-\$4,000 range, and one hundred years in the \$4,000-\$6,000 range.¹² This upward stabilization trend continues until per capita income exceeds \$6,055,¹³ at which point democracies are seen to be permanent.¹⁴

While the above thresholds are promising to democracy strategists, the empirical results also reveal strong counter-arguments to help moderate premature enthusiasm. For while it appears that once established in a developed country, democracy endures regardless of economic performance,¹⁵ this is not the case among the world’s poorest

⁸ Paul Collier, V. L. Elliot, Havard Hegre, Anke Hoeffler, Marta Reynal-Querol and Nicholas Sambanis, "Breaking the Conflict Trap: Civil War and Development Policy," (World Bank and Oxford University Press, 2003), 64-65.

⁹ Samuel P. Huntington, "Democracy for the Long Haul," in *Consolidating the Third Wave Democracies*, ed. Larry Diamond, Marc F. Plattner, Yun-han Chu and Hung-mao Tien, *A Journal of Democracy* (Baltimore: The John Hopkins University Press, 1997), 7.

¹⁰ Adam Przeworski et al., "What Makes Democracies Endure?," *Journal of Democracy* 7, no. 1 (1996): 40.

¹¹ Przeworski and Limongi, "Modernization: Theories and Facts," 165.

¹² Przeworski et al., "What Makes Democracies Endure?," 41.

¹³ This dollar amount was the per capita income level of Argentina when democracy failed in 1975. Of the nine incidences of democratic failure beyond a per capita income of \$3,000, Argentina has experienced four of those failures. See Przeworski and Limongi, "Modernization: Theories and Facts," 165, 70-71.

¹⁴ Ibid.: 165.

¹⁵ Przeworski et al., "What Makes Democracies Endure?," 41.

countries. In fact, Handelman indicates that although poor countries may be as likely to attempt a change to democracy as rich countries, they are much less likely to succeed.¹⁶ Indeed, Przeworski's own conclusions highlight this unfortunate trend as well; few countries with per capita income under \$1,000 develop economically under any kind of government, and when democracies do try to spring up in these countries, the likelihood they will die quickly is high.¹⁷ Thus, while there is reason to hope that democratic stability can be achieved incrementally through steady economic growth in all low to middle-income countries, the reality is the odds are heavily against the poorest of them. This begs the question: are U.S. democratization programs adequately accounting for the effects of economic growth on nascent democracies? If so, how is economic development used to promote democratization; if not, what alternative democratization programs are being pursued and why do they have priority over economic development strategies?

¹⁶ Howard Handelman, *The Challenge of Third World Development*, 4th ed. (Upper Saddle River: New Jersey: Pearson Prentice Hall, 2006), 32.

¹⁷ Przeworski et al., "What Makes Democracies Endure?," 49.

III. Rationale and Methodology

Bridging the gap between threshold theory and foreign policy practice requires investigation of the academic debate and the historical role of foreign aid. The first step in this process is to explore the history of ideas associated with the economic growth thesis and economic threshold theory. Testing the economic threshold hypothesis can be challenging because it is easily entangled with a “chicken versus egg” controversy, i.e. does economic growth cause democratization or does democratization enable economic growth? Additionally, theories abound regarding what conditions need to be present in order for economic growth to bring about democratization. Certainly, the influx of financial aid into developing countries has not always resulted in economic growth; on the contrary, it has often resulted in further corruption, poorer conditions, and sustained economic stagnation. Yet enough data exists to suggest that economic aid properly administered has the potential to create economic growth. While few researchers have even hinted at an exclusive unidirectional linear relationship between economic growth and democratization, almost all agree that a correlation exists between economic development and increased democratization within nascent democracies, making this analysis of threshold theory and USAID policy a timely response to the US government’s recent emphasis on development as a core priority.

With this background in mind, Chapter Two will review the literature associated with the economic growth thesis proposed in the 1959 work of Martin Seymour Lipset. This assessment of the literature will be presented in chronological order,

allowing the contributions and critique of each author to build on previous efforts. It is important to note that authors were selected for this review based not only on their contributions to the economic growth debate, but also for their direct interaction with and critique of Lipset's original thesis. Although this focus on researchers involved in the evolution of Lipset's thesis is necessary to ensure manageable objectives for the review, it does regrettably limit the presentation of other possible explanations for political development, such as the social class theories of Evelyne Huber, Dietrich Rueschemeyer, and John Stephens, and the authoritarian/modernization account of Guillermo O'Donnell.¹⁸ However, despite the need to focus this review on authors in the Lipset tradition, a variety of divergent views will emerge regarding what conditions and variables are essential to the democratization process.

Second, given the elevated priority of development in the national security agenda, it is important to evaluate the effectiveness of aid strategies employed by the United States, specifically the policies of USAID, the agency charged with administering foreign aid programs worldwide. Any assessment of USAID must not only consider the directives of the emerging policy, but also the historical role of USAID as the primary democracy promotion arm of the US government. Since its founding by President Kennedy in 1961, USAID has been authorized to develop and administer foreign aid programs and to disseminate official US government aid to support that agenda. However, since the 1990s that mandate has been primarily a

¹⁸ See Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992). Guillermo A. O'Donnell, *Modernization and Bureaucratic-Authoritarianism : Studies in South American Politics*, Text ed., *Politics of Modernization Series ; No. 9* (Berkeley: Institute of International Studies, University of California, 1979).

mission of promoting democratic movements and governments via various democracy and governance (DG) initiatives,¹⁹ with only occasional forays into the realm of economic policy. With the recent reorganization of USAID to include creating and administering sustainable economic programs under the new rules set forth in the “Policy Framework for Bilateral Foreign Aid,” it is important to investigate whether the agency is ready to respond accordingly.

Chapter Three will therefore consider the historical role of USAID’s democratization programs. This brief review will explore two facets of USAID history: the government’s focus on institution building as the centerpiece of democratization efforts prior to 9/11 and the relationship between economic growth strategies and foreign aid policies of the past. Following this brief history, focus will shift to the systemic changes in international politics that compelled the United States to change its approach to foreign aid and how those changes have influenced USAID policy since 9/11. This will include many of the Bush administration’s chief proposals, including the “New Compact for Development,” the *Millennium Challenge Account*, and “The National Security Strategy of the United States of America,” as well as the ideological origins of the *Bush Doctrine* and the president’s *Freedom Agenda*. These presidential initiatives, in turn, provide the context for evaluating key USAID foreign policy strategies implemented following the establishment of the new national security strategy. This review of primary documents will not only chronicle

¹⁹ USAID defines Democracy and Governance as “technical assistance and other support to strengthen capacity of reform-minded governments, nongovernmental actors, and/or citizens in order to develop and support democratic states and institutions that are responsive and accountable to citizens.” See “At Freedom’s Frontiers: A Democracy and Governance Strategic Framework,” ed. United States Agency for International Development (2005), 4.

the evolution of US foreign policy since 9/11, it will also clarify why such a dramatic shift in official US policy occurred in the first place. The concluding section of this chapter will then consider the “Policy Framework for Bilateral Aid,” the apparent culmination of USAID efforts to develop a comprehensive strategy built on the precepts of the “National Security Strategy,” in order to ascertain whether the policy’s directives will support its stated objectives.

While the middle chapters (CH 2-3) explore the histories of Lipset’s theory and USAID practice separately, Chapter Four will investigate the links between them. Again, the focal point of investigation will be USAID primary documents – this time to look for evidence that aid policy has been informed by the academic debate. Once the extent of this relationship is established, focus will shift towards evaluating USAID’s suitability to fulfill the mandate of the NSS. One goal of this exercise will be to compare the practice of foreign aid with official discourse to ascertain whether substantive change has occurred, or if bureaucratic priorities have remained largely unaltered. A second objective will be to consider some of the challenges to USAID effectiveness, including such topics as its past role in democracy promotion and its designation as a sub-cabinet level agency. Finally, the chapter will reconsider the central concern of this paper, whether or not economic growth is adequately employed in US democratization strategies. Given the elevation of development as a core priority, it is hoped this discussion will spawn a further look at US aid strategies.

CHAPTER TWO

The Economic Growth Thesis

“The more well-to-do a nation, the greater the chances that it will sustain democracy”²⁰ ---Martin Seymour Lipset

“The prima facie evidence in support of this hypothesis is overwhelming: all developed countries in the world constitute stable democracies while stable democracies in the less developed countries remain exceptional.”²¹ ---Adam Przeworski, Fernando Limongi

I. The Development of Lipset’s Thesis

This chapter will consider the economic growth thesis proposed in the 1959 work of Martin Seymour Lipset, giving special attention to Deane Neubauer’s economic threshold theory and Adam Przeworski’s work on the correlation between per capita income and democratic stability. Since Lipset’s thesis has been the center of numerous well-designed studies, the focus of this review will be to consider Neubauer’s notion of economic thresholds in light of Przeworski’s claims that democratization becomes more likely as per capita income increases, with the end goal of assessing whether U.S. democratization programs adequately employ economic growth strategies when engaging nascent democracies. Much of the early literature associated with the question of economic development and democratization is focused on the transition from authoritarianism (dictatorships) to democracy. One of the driving questions the pioneers in the field were addressing was whether

²⁰ Martin Seymour Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *The American Political Science Review* 53, no. 1 (1959): 75.

²¹ Adam Przeworski and Fernando Limongi, "Political Regimes and Economic Growth," *The Journal of Economic Perspectives* 7, no. 3 (1993): 62.

increased wealth would cause regime change in an authoritarian state and create the conditions necessary for the implementation of democracy. Later, as social scientists began to propose theories and conduct empirical studies, investigation began to center around such topics as causation, socio-economic thresholds, income inequality and sequencing.

Any discussion of the impact of economic development on democratization necessarily begins with Martin Seymour Lipset. His thesis claiming that “the more well-to-do a nation, the greater the chances that it will sustain democracy”²² spawned what one author declared was the largest body of literature on any subject in comparative politics.²³ Lipset’s seminal work explored the effects of certain indices of wealth, which included per capita income, number of citizens per doctor and per motor vehicle, plus the number of telephones, radios and newspapers per 1,000 people. From this study, he posits that there are some requisites to democratization, of which he includes education, wealth, political legitimacy and effectiveness. He concludes that economic development, which incorporates industrialization, urbanization, a high degree of education and the steady increase of societal wealth, “is a basic condition sustaining democracy.”²⁴ He partially explains this theory by suggesting that increased wealth changes the stratification of society “from an elongated pyramid, with a large lower-class base, to a diamond with a growing

²² Lipset, "Some Social Requisites of Democracy," 75.

²³ Przeworski and Limongi, "Modernization: Theories and Facts," 156.

²⁴ Lipset, "Some Social Requisites of Democracy," 86.

middle class.”²⁵ The creation of a larger middle class in turn creates an environment more conducive to long-term democratization.

Although Lipset’s thesis starts by speaking of correlation, many critics believe he slips too easily into the language of causation. As a result, there are two possible interpretations of Lipset’s views. On one hand, it is possible to infer from his discussion that social conditions and/or economic factors may not necessarily cause democracy, but that these factors are typically more conducive to democratic development. However, the more traditional (and likely) understanding of Lipset’s thesis holds that by asserting economic development – consisting of the closely related factors of industrialization, urbanization, wealth and education – “carr[ies] with it the political correlate of development,”²⁶ Lipset was staking his claim that economic development causes democratization. Either way, the idea that social and economic conditions could affect the democratic path of countries spawned enormous investigation into the relationship of social and economic conditions to the growth of democracy in developing countries.

The early critics of this “economic growth thesis” embraced Lipset’s general claim that economic growth advanced the chances that any given nation would democratize. At the same time, the simplicity of his methodology was frequently criticized. The earliest response to Lipset was by Phillips Cutright, who faulted Lipset for privileging advanced democracies in his effort to demonstrate the effect that economic development has on national political systems. He illustrated this point

²⁵ Ibid.: 83.

²⁶ Ibid.: 80.

by showing that the range of scores between Lipset's two groupings, essentially highly developed European democracies versus all other forms of government, is so extreme that it is nearly impossible to place a country in either grouping based on any of the indicators Lipset tested.²⁷ Cutright posited two reasons why Lipset's model failed to produce the proof of a relationship between economic growth and political development: first, that Lipset did not develop an index or scale for democracy on which to locate the dependent economic variables, and second, that his concept did not account for variations within national political systems.²⁸

To counteract the inherent weaknesses in Lipset's methodology, Cutright sought to test the hypothesis that political institutions are interdependent with education, economic development, urbanization and labor force distribution by developing an index of political development. Although his definition of political development was almost as favorable to democracies as was Lipset's preference for European democracies, his method did produce some additional benefits over Lipset's model. First, it totals each country's annual scores for a period of two decades rather than providing a limited snapshot view of those countries during a narrow time frame. This cumulative effect allows a truer picture of political development to emerge and for the effect of communication improvements to be gauged. Secondly, Cutright's methodology produced a prediction equation, enabling social scientists the

²⁷ Cutright gives the example of Latin American democracies having an average of 25 telephones per 1000 people, while European dictatorships had up to 196 per 1000. See Phillips Cutright, "National Political Development: Measurement and Analysis," *American Sociological Review* 28, no. 2 (1963): 254.

²⁸ *Ibid.*: 253-55.

opportunity to test theories of change against what actually occurs and to modify those theories for further testing.

Cutright's study found a high degree of association between all the predicting variables he analyzed (communication, urbanization, education, and agriculture), but noted that the variable that seems to be most predictive for political development is communication.²⁹ However, he was also quick to point out that communication is highly correlated with the education index, which has a .95 correlation with economic development.³⁰ Thus, while generally contributing to the notion that economic development, along with all of its correlates, has a hand in bringing about political development, Cutright ultimately is unable to do more than advance the general proposition that all aspects of national development tend to bring about further political development.

Deane Neubauer rejected the linear approach of Lipset and Cutright altogether. Rather than attempting to explain the social conditions necessary to democracy³¹ by comparing the relative success of "developed" Europe against the predominantly non-democratic "underdeveloped" countries of Latin America as Lipset had, he developed a more complex empirical test utilizing an index of democratic development capable of measuring variations within the grouping as well as similarities.³² Whereas Lipset's model focused on four economic factors influencing political development, Neubauer attempted to measure electoral equality and competition within a given

²⁹ Ibid.: 257, 60.

³⁰ Ibid.: 260.

³¹ Lipset, "Some Social Requisites of Democracy," 72.

³² Neubauer, "Some Conditions of Democracy," 1004.

political system.³³ The results of this study led him to suggest a curvi-linear approach, in which “basic” socio-economic development is a necessary requisite for higher-function political development (including democracy); however, once a country rises above this unspecified socio-economic “threshold,” democratic practice is no longer influenced by economic development.³⁴ This theory had two major implications for future studies: first, it induced investigation into the concept that certain economic thresholds might have implications towards sustainable democracy, and second, that democratic development might be susceptible to the law of diminishing returns in regards to the future impact of economic growth.

The early empirical works of Lipset, Cutright and Neubauer were instrumental to the introduction of new theories to explain the relationship between development and democratization. While their conclusions were generally accepted early in the debate, soon scholars began to question whether the definitions they used and the methodologies they employed were lacking in nuance. One of those critics, Dankwart Rustow, was concerned that democratic theorists of his day were mostly focused on the functional aspects of democracy. What distinguishes Rustow’s work from these theorists is his effort to investigate the genetic question and his emphasis on proper sequencing (instead of adhering to a set of preconditions that must be in place prior to democratization). Regarding the former, Rustow lays out several essentials for genetic inquiry: it is essential to distinguish correlate from cause, it

³³ The four indicators Neubauer measured were the percent of adult population eligible to vote, equality of representation, information equality, and electoral competition. See *Ibid.*: 1005-06.

³⁴ *Ibid.*: 1007.

should assume a form of circular interaction or two-way causality, and it should include diachronic data, preferably including periods just before and just after the advent of democracy.³⁵ Concerning the latter, Rustow's model rejects preconditions to democracy, focusing instead on the proper sequencing of the necessary ingredients, of which national unity, struggle, democratic rules and an electorate committed to those rules, are included.³⁶

Given his interest in understanding the genesis of democracy, it is unsurprising that Rustow found the efforts of Lipset and Cutright to be insufficient. In addition to highlighting the functional nature of Lipset's study, Rustow also notes that Lipset often slips from the language of correlation to the language of causality, even though Lipset initially is careful to make the distinction between "requisite" and "prerequisite."³⁷ In Rustow's view, this confusion between the functional and genetic is particularly problematic among Lipset's readers who may interpret "requisites" to mean "preconditions." Another criticism Rustow levels is that Lipset's statistical findings reveal only correlations at a given point in time. Even though correlation can offer a clue as to causality, it does not indicate the directional flow, which makes a diachronic study more valuable to genetic investigation than the snapshot view provided in Lipset's study.

Another early critic who attempted to analyze the methodologies of early supporters of the economic growth thesis was Robert Jackman, who sought to

³⁵ Dankwart A. Rustow, "Transitions to Democracy: Toward a Dynamic Model," *Comparative Politics* 2, no. 3 (1970): 342-47.

³⁶ *Ibid.*: 361-63.

³⁷ *Ibid.*: 342.

highlight the differences between the linear thesis of Lipset and Cutright versus the “threshold hypothesis” of Neubauer. Though Jackman credits Lipset with being the first to conduct an empirical study on the thesis that economic growth facilitates democratic political institutions and processes, he also critiques Lipset’s definition of democracy as *ad hoc* and being based “on the criterion of stability” rather “than on any well-defined notion of democracy.”³⁸ In Jackman’s view, Cutright fared better on this account, as he was not only able to base his definition on more complex, specialized national institutions and use more continuous data than Lipset had, but also managed to score countries based on the stability of their legislatures, the nature of their partisan composition and on how their chief executives were selected.. Neubauer also developed a more well-defined concept of democratic development measuring the proportion of adults eligible to vote, equality of representation, press freedom and diversity, and electoral competition.³⁹ On the one hand, Jackman believed Neubauer’s analysis was superior to Cutright’s since Neubauer used prior theory, such as the extent of mass participation in politics and freedom of information, to incorporate more specific variables into his democratic index. On the other hand, he thought Neubauer’s analysis was limited by problems with data availability from wealthier countries and does not therefore include the broader range of countries that Cutright included.⁴⁰

³⁸ Robert W. Jackman, "On the Relation of Economic Development to Democratic Performance," *American Journal of Political Science* 17, no. 3 (1973): 612.

³⁹ *Ibid.*: 612-13.

⁴⁰ *Ibid.*: 613-14.

Jackman's analysis led him to attempt to improve on these previous empirical studies by suggesting his own index of democratic development. His stated goal was to produce equations utilizing the index to test whether the linear model or "curvilinear" (threshold) model was more accurate in describing the relationship of economic development to democratic performance. His index included a heterogeneous group of 60 non-communist countries and included the following criteria: the number of adults voting as a proportion to the voting population, a measure of the competitiveness of the party-voting system, a measure of electoral irregularity, and a measure of the freedom of the press. Each of the four components were given similar score ranges to ensure they possessed equal weight before an index was created using the mean scores. Jackman then developed three equations to test his index of democratic performance against his selected economic development variable – energy consumption per capita – using regression analysis to determine whether the linear or "threshold" hypotheses better explained the aforementioned relationship.⁴¹ His modest conclusion was that the data fit Neubauer's "threshold hypothesis" much more closely than the linear approach of Lipset and Cutright; on the other hand, Jackman was careful to note that his data did not support one specific aspect of Neubauer's theory, the idea that democratic performance declines at higher levels of economic development.⁴²

In a more recent effort to analyze the empirical linkages between democracy and economic development, John Helliwell provided two main critiques of Lipset's thesis.

⁴¹ Ibid.: 615-17.

⁴² Ibid.: 619, 21.

First, because Lipset used measures of economic development that followed the time frame used for his classification of political regimes, it became impossible to establish whether economic growth contributed to political democracy or if democracy led to economic growth. Secondly, Helliwell challenges Lipset's correlation between low pre-WWII levels of democracy and low postwar incomes, citing the fact that the war destroyed the economic production capabilities of the European countries in question.⁴³ In response to his first critique of Lipset, Helliwell's study attempts to not only measure the impact of economic growth on political democracy but also to measure the impact of democracy on subsequent economic growth. In the former case, he uses a sampling of 125 countries from 1976-85 for which he is able to obtain comparable data on per capita real incomes and regular assessments on political and civil rights;⁴⁴ for the latter, he reduces the sampling to 98 countries from 1960-85⁴⁵ and uses an empirical framework that examines comparative growth in a way that allows for "the convergence in the rates of growth of per capita GDP, possible returns to scale, and international differences in investment rates in human and physical capital."⁴⁶

Helliwell's findings lend support to the economic development thesis, suggesting that the positive effects of income on democracy are not a result of positive feedback from democracy to economic growth (reverse causation).⁴⁷ Indeed, the study shows

⁴³ John F. Helliwell, "Empirical Linkages between Democracy and Economic Growth," *British Journal of Political Science* 24, no. 2 (1994): 227.

⁴⁴ *Ibid.*: 227-31.

⁴⁵ *Ibid.*: 233.

⁴⁶ *Ibid.*: 226.

⁴⁷ *Ibid.*: 235, 44.

that the opposite may be true, that democracy potentially has a negative effect on future economic growth. At the same time, the general thesis is reinforced by two findings: first, that countries at higher per capita incomes are more likely to have democratic forms of government, and second, that countries with lower per capita incomes have higher initial growth rates which slow down as the country begins to close the gap with richer countries.⁴⁸ Helliwell concludes that the data “pours cold water on the notion that introducing democracy is likely to accelerate subsequent growth,”⁴⁹ but notes that delaying democracy will not likely hurt its prospects as long as the interim system of government continues delivering increased living standards to its citizens.

⁴⁸ Ibid.: 244.

⁴⁹ Ibid.: 246.

“Income inequality is hypothesized to be an economic determinant of democratization (positive or negative change in level of democracy) that is as causally relevant as level of economic development.”⁵⁰ ---Edward Muller

II. Counter Theories

As time progressed, more and more studies in the Lipset tradition began to move away from the language of requisites, conditions and causality in favor of a dialogue on the impact of theories of modernization, world systems theory, and income equality – to name a few. Researchers began to question in earnest the general proposition that it was economic growth *per se* that caused democratization as various studies actually supported the opposite conclusion that economic development might actually be a product of democratization in some cases. In response to Rustow’s question from 1970, “what conditions make democracy grow and what conditions make it thrive,”⁵¹ Karl uses a comparative politics approach to illustrate the weaknesses (and futility) of previous research endorsing preconditions to democracy and to suggest a “path-dependent approach” to analyzing regime transitions to democracy. According to Karl, the experience of 1980s Latin America challenged several schools of existing scholarship regarding democratic preconditions: Lipset’s thesis that a certain degree of wealth created conditions necessary to sustaining democracy, the theory that certain beliefs and values held by citizens are essential to producing the right kind of political culture, the idea that the proper sequencing of

⁵⁰ Edward N. Muller, "Economic Determinants of Democracy," *American Sociological Review* 60, no. 6 (1995): 967.

⁵¹ Rustow, "Transitions to Democracy," 337.

modernization determined whether economic and social transformations were conducive to democracy, and the notion that external influences (such as position within the international system) play a part in determining whether a polity is authoritarian or democratic.⁵² Given certain anomalies revealed in 1980s Latin America, such as Peru's transition to democracy in the face of stagnant growth rates and extreme foreign debt or Argentina's recurring reversion to authoritarianism despite high per capita income, Karl not only believes that no single precondition contributes to a general theory of democratization, but also that those circumstances purported to be preconditions in the past would be better perceived as outcomes of democracy.⁵³

Karl rejected the singular focus on the structural approach found in the early literature, advancing the idea of contingency – the notion that “outcomes depend less on objective conditions than subjective rules surrounding strategic choices”⁵⁴ – as an important counter-argument. In his view, consideration of political interaction and the decision-making processes were largely ignored in the search for structural preconditions. This is not to suggest that he considered contingency alone to be a sufficient approach to answering Rustow's question; rather, Karl proposed a “path-dependent approach” that would clarify how structural changes could shape transitions in a way conducive to democratization by considering both the impact of structural changes upon political institutions and the resulting influence that such

⁵² Terry Lynn Karl, "Dilemmas of Democratization in Latin America," *Comparative Politics* 23, no. 1 (1990): 3-4.

⁵³ *Ibid.*: 5.

⁵⁴ *Ibid.*: 6.

changes would have upon individual preferences within society. Thus, certain conditions may restrict or enhance the range of options available, but the role of collective decision-making and political interactions should not be ignored.

One of the more recent emphases in the literature is the role of income inequality on development and democratization. In his 1995 article entitled, "Economic Determinants of Democracy," Edward Muller posits that income inequality is an economic determinant "that is as causally relevant as levels of economic development."⁵⁵ The basis for this claim is the global trend by middle-income countries towards democratic decline in the 1960s/1970s despite the fact that many of them were experiencing economic growth.⁵⁶ Muller seeks to explain this anomaly by suggesting that income inequality is an inverted-U relationship to economic development that has a negative effect on democratization and can counter the positive functions of economic development.⁵⁷ Although the process of economic development is expected to have a positive impact on democratization as it shifts the economic base from agricultural to industrial production, Muller explains that it also initially increases income inequality, a known variable for radicalizing the working class and creating class tensions. As a result, he contends that income inequality is not compatible with the long-term stabilization of democracy.⁵⁸

Muller's findings in Model 3 appear to be the foundation for his remaining conclusions. This model shows that when income inequality is factored in, it has a

⁵⁵ Muller, "Economic Determinants of Democracy," 967.

⁵⁶ Ibid.

⁵⁷ Ibid.: 972, 75.

⁵⁸ Ibid.: 969.

negative effect on democratization, making insignificant the U-curve relationship with economic development. This leads to two central conclusions: first, that income inequality hinders democratization, and second, that when the negative impact of income inequality is controlled, economic development has its expected impact on democratization.⁵⁹ For these reasons, Muller concludes that the inverted-U relationship of economic development and income inequality, coupled with the negative impact of income inequality on democratization, is likely the “principal structural reason why countries at intermediate levels of economic development often have difficulty sustaining stable democratic systems of government.”⁶⁰

In response to Muller’s thesis that income inequality is an economic determinant to political democracy, Bollen and Jackman provide the following critiques. First, they take issue with Muller’s empirical methods and findings, suggesting that his effect for income inequality could be explained by other factors. For example, countries with moderate levels of democracy tend to have intermediate levels of industrialization, as do countries with high income inequality. This does result in inequality serving “as a rough proxy for intermediate levels of democracy”⁶¹ in a linear model, but these effects disappear when a non-linear model is used. The second concern of the authors is that Muller confuses equality with equity. They define equality as the “size distribution of income” and equity as “the political

⁵⁹ Ibid.: 975.

⁶⁰ Ibid.: 981.

⁶¹ Kenneth A. Bollen and Robert W. Jackman, "Income Inequality and Democratization Revisited: Comment on Muller," *American Sociological Review* 60, no. 6 (1995): 987.

interpretation that citizens place on their condition.”⁶² Therefore, when Muller generalizes and states that income inequality creates instability and suppresses democratic impulses, they believe Muller is simply assuming that injustice is perceived and that collective action will result, a view not borne out by the facts. Finally, the authors point out that Muller’s claim that higher inequality played a role in the decline of democracy from 1965 to 1980 “neglects the fact that many of those declines were followed by restorations of democracy after 1980 even though there were no major changes in the distribution of income.”⁶³ The failure of Muller to account for the reconstitution of democracy under similar conditions to its failure poses a significant challenge to his thesis. Bollen and Jackman conclude that the countries most at risk to democratic decline are those that have only moderate – or partially developed – levels of democracy and that have only developed recently, thus possessing less institutionalized forms of democracy. For this reason, they call for future efforts that combine the study of failed democracies with ongoing democratization studies, in order to assess more accurately the structural factors that affect both the successes and failures of democracy.

⁶² Ibid.: 984.

⁶³ Ibid.: 983.

“There is no income level at which democracies become more fragile than they were when they were poorer.”⁶⁴ ---Adam Przeworski, et al.

“The simple fact is that during the period under our scrutiny or ever before, no democracy ever fell, regardless of everything else, in a country with a per capita income higher than that of Argentina in 1975: \$6,055. Thirty-two democracies spent 736 years with incomes above \$6,055 and not one collapsed, while thirty-nine out of sixty-nine democracies did fall in countries that were poorer.”⁶⁵ ---Adam Przeworski and Fernando Limongi

III. Przeworski and Threshold Theory

Another debate that continues to have resonance in the literature is found in the 1997 article, “Modernization; Theories and Facts.” In this paper, Przeworski and Limongi equate the economic growth thesis with modernization theory and rebuff the idea that countries are more likely to transition to democracy as a result of economic development. The authors engage the endogenous/exogenous debate, stating that countries are either more likely to emerge as democracies as they develop economically (endogenous position) or that they “may be established independent of economic development”⁶⁶ (exogenous position). The former they identify as a “modernization” theory and reject on the premise that “to assert that democracies emerge as a result of economic development is the same as to say that dictatorships die as countries ruled by them become economically developed.”⁶⁷ At first impression, this seems to be a denunciation of Lipset’s theory, but further

⁶⁴ Przeworski et al., “What Makes Democracies Endure?,” 41.

⁶⁵ Przeworski and Limongi, “Modernization: Theories and Facts,” 165.

⁶⁶ Ibid.: 156.

⁶⁷ Ibid.: 157.

investigation shows that Lipset's view is considered to be exogenous, presumably because its emphasis is on sustaining, rather than creating democracy.

Przeworski and Limongi's focus on the economic growth thesis as a transitioning mechanism from authoritarianism to democracy may be somewhat misguided, as many of the key authors in support of the thesis (Lipset included) did not explicitly suggest that economic growth would transform dictatorships into democracies, just that growth improved the chances of democratization. To be fair, the authors are forthright in admitting the narrowness of their question, but even so, their argument seems centered on a miniscule part of the literature that garners little popular support among most researchers. In fact, much (if not most) of the literature supporting the economic growth thesis focuses on the ability of economic growth to sustain democracies rather than transform authoritarian regimes into democratic societies. This makes the authors' thesis puzzling at first, particularly in light of their own results. They find, for example, that the probability that democracy survives increases steadily as per capita income rises, confirming that per capita income is a good predictor of democratic stability; yet they also claim that modernization theory has no predictive value if it cannot produce a similar "threshold" at which authoritarian regimes are expected to transition to democratic regimes.⁶⁸

The keys to understanding the authors' narrow focus and seemingly contradictory statements are twofold. First, they are responding to a portion of the literature that suggests that the way to achieve democracy in the long term may be to support

⁶⁸ Ibid.: 165, 63.

dictatorships in the short term. The idea that benevolent dictators may encourage economic growth leading to the enhanced prospects of democratization is utterly rejected by Przeworski and Limongi. Second, it is precisely the fact that the authors establish a strong connection between levels of development (per capita income) and the survival of democracies that they attack the notion that growth can be relied upon to bring about regime change. As committed democratic advocates, they firmly adhere to the idea that the best way to strengthen democracy is to “strengthen democracy, not support dictatorships.”⁶⁹ In the end, it seems, the authors support the democratic sustainability arguments of the economic growth thesis, while rejecting its power to predict democratization involving regime change. In other words, a prerequisite to their support for the thesis is that democracy has already been established. Apart from this reality, they believe economic growth has little potential to transform authoritarianism into a process of democratization.

In their discussion of endogenous democratization and modernization theory, Boix and Stokes take on the 1997 findings of Przeworski and Limongi that democratization was a result of exogenous rather than endogenous effects. Boix and Stokes argue that Przeworski and Limongi, by limiting their sample to the postwar period of 1950-1990 did not account for the historical development of democracy.⁷⁰ The authors claim that in order to determine the true relationship of development to democratization it is necessary to push the sample back to a point in time where democracies did not exist and to commence investigation when differential

⁶⁹ Ibid.: 177-78.

⁷⁰ Carles Boix and Susan C. Stokes, "Endogenous Democratization," *World Politics* 55 (2003): 519.

development was just beginning.⁷¹ Even though they successfully argue that endogenous growth played a role in the historical democratization process, they do not adequately explain why the results of Przeworski and Limongi's study (1950-1990) do not correspond to their findings from earlier periods. Their attempt to account for this gap with exogenous factors such as the influence of the Soviet Union may partially explain a lack of regime transitions to democracy during this period, but it fails to discredit Przeworski/Limongi's central thesis. Thus, while Boix and Stokes have succeeded in demonstrating that endogenous development played a role early in the historical democratization process, they fall short in showing its explanatory power in the present.

Boix and Stokes may indeed create a more comprehensive understanding of the historical democratization process, but it is less certain that they have established, as they claim, "that economic development both causes democracy and sustains it."⁷² Perhaps the most effective headway the authors make in challenging Przeworski and Limongi is in questioning the arbitrary manner in which the latter include/exclude regime transitions based on a per capita threshold. Essentially, the claim is that Przeworski and Limongi only counted regime transitions for those dictatorships that had achieved a per capita income of \$4,115, while failing to credit other countries that had transitioned to democracy at far lower levels.⁷³ This is problematic on two different levels. First, Przeworski and Limongi use the notion that there is a dearth of

⁷¹ Ibid.: 529. To accomplish this, the authors combine Przeworski et al.'s dataset (1950-1990) with Boix and Rosato's dataset of political regimes (1800-1949) to measure democracy, and the Summers and Heston dataset with the data reported by Maddison to measure per capita income.

⁷² Ibid.: 549.

⁷³ Ibid.: 534.

regime transitions occurring at middle incomes levels and above to suggest that further growth is unlikely to have any democratization effects. Secondly, by failing to account for transitions at lower levels of per capita income, Przeworski and Limongi seem to ignore the possibility that few regime transitions happen at higher income levels because so many occur at lower levels of development. As Boix and Stokes note, “if dictatorships collapse and are replaced by democracies as they achieve development at these lower levels, then their absence from the pool of dictatorships at higher levels of income does not refute endogenous modernization but instead supports it.”⁷⁴

Although vigorous defendants of development as both a cause and stabilizing force for democracy, Boix and Stokes ultimately question the endogenous effect of development on democratization – suggesting that per capita income is often a proxy for other causes. Like Muller, they believe a better predictor for democratization is income equality, claiming that their data supports “the idea that democracy is caused not by income per se but by other changes that accompany development, in particular, income equality.”⁷⁵ In contrast to per capita income, which progressively loses strength in their models, they find that income equality is found to increase “both the chances of a democratic transition and the stability of democratic regimes.”⁷⁶

Boix and Stokes’ critique notwithstanding, in order to have a contextual understanding of Przeworski and Limongi’s article, it is important to also consider

⁷⁴ Ibid.: 524.

⁷⁵ Ibid.: 540.

⁷⁶ Ibid.: 543.

Przeworski's et al. 1996 article which asks "what makes democracies endure." In this collaborative study, the authors build statistical evidence supporting their claim that democracy, affluence, economic growth with a moderate rate of inflation, declining inequality, a favorable international climate, and parliamentary institutions are all conditions that affect the strength of democracy in any given country.⁷⁷ Three key arguments are reinforced throughout the paper: modernization theory was wrong to suggest that dictatorships lead to democratization, economic growth is the key to democratic durability, and parliamentary systems enjoy longer-term democratic success than their presidential counterparts do.

The study adds an interesting dimension to the idea of economic thresholds introduced by Neubauer decades earlier. Not only do the authors reinforce the notion that socio-economic development encourages democratic political development, they also evaluate the probabilities of democratic success based on levels of per capita income. For example, countries averaging less than \$1,000 per capita income have a 0.12 probability of dying in any given year, giving their democracy a life expectancy of about 8.5 years. As per capita wealth increases, these numbers increase significantly; when a country reaches the \$1,000-\$2,000 range, democratic survival is projected to last sixteen years, thirty-three years in the \$2,000-\$4,000 range, and one hundred years in the \$4,000-\$6,000 range. This upward stabilization trend continues

⁷⁷ Przeworski et al., "What Makes Democracies Endure?," 39.

until per capita income exceeds \$6,000 at which point democracies are seen to be nearly impregnable.⁷⁸

One strength of the authors' presentation is that it distinguishes the effects of economic performance on poor versus rich countries, focusing on the implications the data has for the former. For instance, even though the data confirms that poor countries can strengthen democracy by achieving growth amidst low inflation and by narrowing the gap of income inequality, the authors are quick to point out that few countries with per capita income under \$1,000 develop economically under any kind of government; moreover, when democracies do try to spring up in these countries, the likelihood they will die quickly is remarkably high. On the other hand, the potential power of an economy on the rise to bring about democracy is evidenced by their finding that the survival rate for a poor democracy (under \$1,000 in per capita income) experiencing economic growth is better than those countries in the \$1,000-\$4,000 range which are undergoing economic decline.⁷⁹

The authors conclude that "poverty is a trap" which produces a cycle of more poverty and dictatorships. Although the data gives some reason to hope since development – when it occurs – positively impacts democratization, it is exceptionally difficult to jumpstart the growth cycles of poor democracies. Typically, countries with less than \$1,000 per capita income see growth rates of 1% or less,⁸⁰ well below the 5% mark the authors see as having the maximum benefit.⁸¹ This is in

⁷⁸ Ibid.: 41.

⁷⁹ Ibid.: 49.

⁸⁰ Ibid.

⁸¹ Ibid.: 42.

some measure an institutional problem that the authors believe can be partially addressed by adopting a parliamentary, rather than a presidential, form of government; however, given the likelihood that nations are “stuck” with the form of government they choose at first, this possibility does little to change the prospects of democracy either.

IV. The Way Forward

This survey of the literature has revealed many of the variables social/political scientists consider when weighing the questions of causality in the economic development/democratization debate. Even though the body of literature is very strong in suggesting a positive relationship between economic growth and democratization, it all too often focuses on the transition from authoritarian forms of government to democracy or tries to measure the democratizing effects of increased income on other types of governments. While these approaches certainly inform opinion, they also threaten to clutter statistical analysis in relation to the true impact of economic performance on the success or failure of democratization efforts. Future efforts would be better served by isolating studies that seek to explain regime transition from those which attempt to analyze the effects of economic growth on existing political systems. The more important question, as Rustow so aptly noted, “is not how a democratic system comes into existence, rather, it is how a democracy, assumed to already be in existence, can best preserve its health or stability.”⁸² This is particularly important when analyzing the impact of growth on nascent democracies for two critical reasons: first, because the vast majority of nascent democracies are also countries with limited economic means and infrastructure, and second, because democracy itself is viewed as extremely fragile in the context of lower income countries.

⁸² Rustow, "Transitions to Democracy," 339.

A strong consensus does not yet exist on whether there is a linear relationship between economic growth and democratization, but if that relationship can be established, the implications for foreign aid are enormous. Londregan and Poole approach the question of the economic growth thesis from this perspective, suggesting that if economic growth does in fact cause democratization, free trade and foreign aid should be foreign policy standards; conversely, if democratization is not a by-product of economic growth, attaching conditionality to foreign aid might produce better results.⁸³ Given the potential implications of these policy options, it not only important to review the literature on the economic growth thesis itself, but to consider how the United States has conducted its overseas democratization programs historically.

⁸³ John B. Londregan and Keith T. Poole, "Does High Income Promote Democracy?," *World Politics* 49 (1996).

CHAPTER THREE

Foreign Aid and the USAID

“The events of 9/11 underlined the vulnerabilities of the American homeland and served as a wake-up call to the American public and its political leaders that pervasive poverty, disenfranchisement, and disaffection abroad can have consequences for the United States.”⁸⁴ --- Carol Lancaster and Ann Van Dusen

I. The Changing Blueprint for Foreign Aid

The September 11th terror attacks on the United States created a new urgency for development assistance. Two foreign policy White Papers reflect the dramatic changes of American thinking on developmental aid as espoused by the Bush administration in the aftermath of the attacks. First, the “National Security Strategy of the United States” proposed doubling the size of the world’s poorest economies within a decade.⁸⁵ The President’s rationale for this goal focused on the potential correlation between poverty and terrorism: “Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders.”⁸⁶ The 2004 USAID White Paper further delineates the developmental rationale of the NSS. Because the new threat to American security is via the intersection of terrorism and weapons of mass destruction, the economic success of weak states is now viewed as a national security priority. Since weak states provide conditions favorable to the

⁸⁴ Carol Lancaster, Ann Van Dusen, and NetLibrary Inc., *Organizing U.S. Foreign Aid: Confronting the Challenges of the Twenty-First Century, Global Economy and Development* (Washington, D.C.: Brookings Institution Press, 2005), 2.

⁸⁵ "The National Security Strategy of the United States of America," ed. The White House (GPO, 2002), 21.

⁸⁶ *Ibid.*, Foreword.

proliferation of criminal/terrorist organizations, it is therefore imperative that American policy seeks to strengthen weak states via developmental aid and economic progress.⁸⁷

Given this new concern that poverty in developing countries posed a significant risk to the security interests of the United States, President Bush proposed a fifty percent funding increase to core development programs. The main feature of this “New Compact for Development” was the formation of the Millennium Challenge Account (MCA), a program designed to reward good governance and sound policies, while encouraging national ownership and fiscal accountability. The intent of the MCC was “to focus aid entirely on promoting economic growth and poverty alleviation, targeting governments of low and middle-income countries with a demonstrated commitment to democracy, free markets, and investment in people.”⁸⁸ In order for these developing countries to take advantage of funding, they would have to exhibit determination to “govern justly, invest in their people, and encourage economic freedom.”⁸⁹ Those nations that qualified would then be allowed to submit their own proposals and negotiate with the Millennium Challenge Corporation (MCC) to secure grants for their poverty reduction strategies.

From even this limited background on U.S. developmental assistance, it is clear that there is a new vigor for the promotion of economic growth within developing

⁸⁷ "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century," ed. United States Agency for International Development (USAID, 2004).

⁸⁸ Lancaster, Van Dusen, and NetLibrary Inc., *Organizing U.S. Foreign Aid: Confronting the Challenges of the Twenty-First Century*, 16.

⁸⁹ George W. Bush, "A New Compact for Development in the Battle against World Poverty," (U.S. State Department, 2002).

countries. Yet not all developmental aid is the under the purview of democracy assistance. Indeed, the emphasis of the MCA is to offer financial incentives for sound policy and good governance, the very characteristics USAID seeks to create via democracy programs. Thus, the introduction of the MCA does not signify a major change in U.S. democracy promotion *per se*, although it does bear observation since both aspire to alleviate poverty and promote economic growth through their own mechanisms i.e. institutions and processes versus financial incentives.

Likewise, while the inclusion of developmental aid in the NSS is encouraging and indicates “a major upgrade in the acknowledged importance of developing countries and development progress”⁹⁰ in American foreign policy, this does not imply that current U.S. democratization strategies give sufficient weight to economic policy or allow enough flexibility in distributing aid to at-risk states. If sound policy is the criteria for acceptance by the MCC and “good performers first” the priority for transformational development,⁹¹ it becomes apparent that the goal to distance terrorism from susceptible poor populations is dependent on the political will of the target government. Thus, while the MCA may do much to assist those who already have a good measure of stability, it will likely have no impact on nations where institutional fragmentation or government exploitation already exists.

⁹⁰ "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century," 7.

⁹¹ Transformational development is one of the five operational goals presented in the 2004 USAID White Paper. This goal focuses on improving government, achieving economic growth, and investing in people.

“The Freedom Agenda is predicated on the shared understanding that democracy promotion is central to our national identity and directly in the interests of the United States.”⁹² ---USAID Administrator, Andrew S. Natsios

“The Freedom Agenda is based upon our deepest ideals and our vital interests. Americans believe that every person, of every religion, on every continent, has the right to determine his or her own destiny.”⁹³ ---George W. Bush

II. The Emergence of the Bush Doctrine and Freedom Agenda

The intent of the Bush administration’s “New Compact for Development” and NSS was to widen the developmental circle, but in some cases, where democracy is in its infancy and institutions are weak, they may have the opposite effect. On the other hand, President Bush’s introduction of the MCC and his “New Compact for Development” were only early manifestations of the Bush Doctrine, representing the emergence of the administration’s Freedom Agenda. While the president continued to emphasize the MCC’s mainstay of reward for good governance, he also began directing the foreign aid bureaucracy (specifically the USAID) to restructure and make development a national security priority. Table 1 shows the major policies and papers that influenced the new development policy of the United States, culminating in the “Policy Framework for Bilateral Aid.

⁹² "Policy Framework for Bilateral Foreign Aid: Implementing Transformational Diplomacy through Development," ed. United States Agency for International Development (GPO, 2006), vi.

⁹³ Bush, "Bush on Freedom Agenda," <http://voanews.com/uspolicy/archive/2006-09/06-09-05-voa8.cfm>.

Table 1: Evolution of the USAID Foreign Aid Mandate

Month/Year		Document Name
Mar	2002	Millennium Challenge Account
Sep	2002	National Security Strategy of the United States of America
Fall	2002	Foreign Aid in the National Interest
Jan	2004	U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century
Jan	2005	Fragile States Strategy
Dec	2005	At Freedom's Frontiers: A Democracy and Governance Strategic Framework
Jan	2006	Policy Framework for Bilateral Foreign Aid

Before considering the progression and contributions of these documents, however, it is useful to examine the Bush Doctrine, which serves as the ideological basis for the overhaul of the US foreign aid regime. The earliest precursor of the doctrine was the president's declaration to the international community in the days following the 9/11 attacks: "you are either with us or against us." At the time, this statement could have been interpreted as no more than defensive or reactionary posturing by the president. Nevertheless, this initial declaration developed into a comprehensive foreign policy strategy emphasizing unilateral and/or preemptive military action whenever necessary, as well as the realignment of foreign aid priorities to focus on the new threats emanating from failed and weak states. Assisting these troubled states was seen as the key to winning the Global War on Terror since their inability to govern provides terrorists the space to thrive and plot against the West. Thus, the Bush Doctrine, in addition to threatening preemptive action against any state harboring terrorists, aggressively sought to promote economic growth and democratization programs in countries with weak governance. This mix of aggressive military doctrine and an expanded developmental aid agenda explains

why the Doctrine has often been criticized by liberals for its unilateralism and by realists for its tendency towards moralism.

In his book, *American Foreign Policy in a New Era*, Robert Jervis discusses the foundational elements of the doctrine, the systemic conditions that made it possible, and the prospects for its long-term health as a framework for US foreign policy. Jervis believes the state of the international system best explains the creation of the Bush Doctrine. In his view, the key reality that facilitates the policy is the idea that the US, Europe, and Japan form a security community in which the very possibility of war with each other is now inconceivable.⁹⁴ As a result, the perceived benign nature of American power has allowed these states to make trade and economic interdependence their priority, while allowing US power to provide for their international security needs.

Proceeding from this systemic understanding is the idea that the geopolitical climate was ripe for the exercise of American hegemonic power. The terror attacks on US soil altered the American worldview and provided the motivation and rationale for the Bush administration to develop a more assertive national security doctrine. This doctrine was conceived from three romantic ideals held by the administration – the allure of American values as universal, “the expected power of positive examples,” and a firm “belief in the possibility of progress.”⁹⁵ From these idealistic beginnings sprang the four doctrinal pillars of the Bush Doctrine: the determined promotion of democracy and liberalism abroad, the willingness to engage in

⁹⁴ Robert Jervis, *American Foreign Policy in a New Era* (New York: Routledge, 2005), 93, 105.

⁹⁵ *Ibid.*, 105.

preventive war to mitigate threats, the political will to act unilaterally when necessary, and the belief that peace and stability require the assertion of US primacy in world politics.⁹⁶

The 2002 NSS was the administration's attempt to package the various components of the Bush Doctrine into a cohesive, unified strategy. From start to finish, the strategy is evidence of a comprehensive effort by the administration to address the emerging geopolitical reality from a global perspective. As Gaddis noted in a 2004 interview with Bernard Gwertzman, "this is an administration, I believe, which is thinking in global terms. It is thinking in integrated terms, in the sense that the various parts of the strategy interconnect with each other in a fairly impressive way."⁹⁷ While certain components of the doctrine, particularly the notion of pre-emption, contributed to passionate debates among politicians and pundits alike, the aggressive tone of the doctrine has been tempered by an equally determined resolve to alleviate the economic roots of terrorism in weak states, and thus remove the need to act preemptively.

⁹⁶ Ibid., 79-80, 84, 86, 89.

⁹⁷ John Lewis Gaddis, "Gaddis: Bush Pre-Emption Doctrine the Most Dramatic Policy Shift since Cold War," (Council on Foreign Relations, 2004).

*Development is now as essential to U.S. national security as are diplomacy and defense.*⁹⁸ ---USAID Administrator, Andrew S. Natsios

*“Development reinforces diplomacy and defense, reducing long-term threats to our national security by helping to build stable, prosperous, and peaceful societies.”*⁹⁹ ---
2006 National Security Strategy

III. The Evolution of Foreign Aid Policy Post 9/11

As already mentioned, the central economic goal of the NSS was to double the size of the world’s poorest democracies within a decade. To accomplish this feat, the strategy promised a 50 percent increase in funding to core development programs, an 18 percent increase in US contributions to the International Development Association, a monitoring and evaluation system that enables donors to see measureable progress, an increase in the ratio of grants to loans, and an increase of at least 20 percent in the funding for public health programs, education and agricultural development.¹⁰⁰ In response to what the administration viewed as decades of failed developmental policies, the strategy was clear in specifying that aid would be given to countries demonstrating real commitment to reform, that agencies would be accountable to ensure aid was actually having its intended impact on the world’s poor, and that decisions for aid would be based on maximum impact. To be successful, the doctrine emphasized that “every project, every loan, every grant must

⁹⁸ "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century," 3.

⁹⁹ "The National Security Strategy of the United States of America," ed. The White House (GPO, 2006), 33.

¹⁰⁰ "The National Security Strategy of the United States of America," ed. The White House (GPO, 2002), 21-23.

be judged by how much it will increase productivity growth in developing countries.”¹⁰¹

Following the publication of the NSS in September of 2002, the USAID released “Foreign Aid in the National Interest,” a report that identified six foreign assistance priorities¹⁰² essential to the promotion of NSS-dictated foreign policy directives. Major features of the MCC are evident within the document, particularly the ideas of tying foreign assistance to development performance and rewarding good performers. However, in addition to rewarding good performers, the report also calls for the US to suspend and/or pressure other bilateral donors to suspend government assistance to countries where there is no commitment to democratic or economic reform, including assistance given through the World Bank and other multilateral organizations.¹⁰³ Thus, the document demonstrates that qualifying for U.S. foreign assistance would be more dependent on a country’s commitment to reform than any other variable.

While this report reaffirmed the general propositions of the NSS, the nucleus of USAID’s revised foreign assistance strategy began to emerge with the publication of “U.S. Foreign Aid: Meeting the Challenges of the 21st Century” in 2004 and the “Fragile States Strategy” in 2005. Here, the agency offers a two-pronged strategy underscoring targeted assistance to fragile and weak states and transformational development for more stable countries (see Table 2 for Glossary of USAID Terms).

¹⁰¹ Ibid., 22.

¹⁰² The six foreign assistance priorities are identified as promoting democratic governance, driving economic growth, improving people’s health, mitigating conflict, providing humanitarian aid, and accounting for private foreign aid.

¹⁰³ “Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity,” 10-11.

Table 2: Glossary of USAID Terms

Capacity Building	“Building local public and private institutions, transferring technical skills, and promoting appropriate policies.” ¹⁰⁴
Crisis (States)	“States where the central government does not exercise effective control over its own territory or is unable or unwilling to assure the provision of vital services to significant parts of its territory, where legitimacy of the government is weak or nonexistent, and where violent conflict is a reality or a great risk.” ¹⁰⁵
Democracy and Governance (DG)	“Technical assistance and other support to strengthen capacity of reform-minded governments, nongovernmental actors, and/or citizens in order to develop and support democratic states and institutions that are responsive and accountable to citizens.” ¹⁰⁶
Effectiveness	“The capability of [sic] government to work with society to assure the provision of order and public goods and services.” ¹⁰⁷
Failed States	States “in which the central government does not exert effective control over, and is unable or unwilling to assure provision of vital services to, significant parts of its own territory.” ¹⁰⁸
Failing States	“Characterized by a growing inability or unwillingness to assure provision of even basic services and security to their populations.” ¹⁰⁹
Fragile States	“Countries where instability and weak governance do not provide sufficient foundation for long-term development.” ¹¹⁰
Good Governance	“Encompasses commitment to the rule of law, the public good, transparency and accountability, and effective delivery of public services.” ¹¹¹
Legitimacy	“The perception by important segments of society that the government is exercising state power in ways that are reasonably fair and in the interests of the nation as a whole.” ¹¹²
Recovering States	States “that are still weak, but on an upward trajectory in terms of stability and basic governance.” ¹¹³
Transformational Development	“Transforms countries, through far-reaching, fundamental changes in institutions of governance, human capacity, and economic structure that enable a country to sustain further economic and social progress without depending on foreign aid.” ¹¹⁴
Vulnerable (States)	“States unable or unwilling to adequately assure the provision of security and basic services to significant portions of their populations and where the legitimacy of the government is in question.” ¹¹⁵

¹⁰⁴ "Fragile States Strategy," 23.

¹⁰⁵ Ibid., 1.

¹⁰⁶ "At Freedom's Frontiers: A Democracy and Governance Strategic Framework," 4.

¹⁰⁷ "Fragile States Strategy," 3.

¹⁰⁸ "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century," 19.

¹⁰⁹ Ibid.

¹¹⁰ "Policy Framework for Bilateral Foreign Aid: Implementing Transformational Diplomacy through Development," 13.

¹¹¹ "At Freedom's Frontiers: A Democracy and Governance Strategic Framework," 3.

¹¹² "Fragile States Strategy," 3.

¹¹³ "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century."

¹¹⁴ Ibid., 14.

¹¹⁵ "Fragile States Strategy," 1.

According to the 2004 White Paper, both goals have unique challenges. In fragile states, “the challenge is to strengthen institutions, basic governance, and stability, in order to create the proper environment for conventional development assistance,”¹¹⁶ while the ultimate aim of transformational development is graduation from dependency on developmental aid.¹¹⁷ Though transformational development is viewed as the “best investment for long-term interests,”¹¹⁸ the White Paper also contends that “developing a credible and effective strategy for fragile states is a top priority.”¹¹⁹

According to the Fragile States Strategy (FSS), “the strategy’s overall goal is to guide USAID’s efforts in reversing decline in fragile states and advancing their recovery to a stage where transformational development progress is possible.”¹²⁰ Given this priority, the ladder of development logically begins with failed, failing, and recovering states, with the end goal of graduating countries as they achieve set objectives. The strategic priorities mandated by the FSS for weak states are to enhance stability, to improve security, to encourage reform and to develop the capacity of institutions necessary to recovery and transformational development.¹²¹ These objectives are guided by several principles. First, as has been the case historically, decisions to engage countries and provide aid assistance will be governed by strategic considerations, i.e. a country/region’s importance to US foreign policy.

¹¹⁶ "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century," 13.

¹¹⁷ Ibid.

¹¹⁸ Ibid., 5.

¹¹⁹ Ibid., 20.

¹²⁰ "Fragile States Strategy," 2.

¹²¹ Ibid., 5.

Second, to maximize results, aid will target the underlying sources of fragility that are responsible for the government's lack of effectiveness. Third, although long-term reform is the ultimate aim, aid will focus on short-term goals that are likely to make an immediate and visible impact. These latter two principles will go far to ensure that foreign assistance not only treats the cause instead of the symptoms of fragility, but also provides the best opportunity for the recipient government to build legitimacy. Finally, the fourth principle guiding USAID assistance programs towards fragile states is to establish appropriate measurement systems based on country-specific realities.¹²²

Another USAID publication that played a significant role in the formation of US foreign aid policy is "At Freedom's Frontiers: A Democracy and Governance Strategic Framework." This document sought to give the rationale for USAID's emphasis on democracy promotion, to explain the selection criteria and focus for assistance programs, and to address the specific challenges to democracy promotion efforts in the post-9/11 environment. According to the Framework, democracy promotion in the current geopolitical environment is not only a matter of principle and national security, but part of a broader development agenda, where "democracy, good governance, and development reinforce each other to create a virtuous cycle."¹²³ The guidelines for democracy promotion largely remain as they were in the 1990s, with a focus on strengthening the rule of law, promoting accountable governance, constructing democratic institutions, developing political freedom and competition,

¹²² Ibid., 5-6.

¹²³ "At Freedom's Frontiers: A Democracy and Governance Strategic Framework," 5.

and encouraging citizen participation and advocacy. What has changed most about USAID's promotion of democracy is the emphasis on fragility, and perhaps, the rules for selecting recipient countries. In addition to long-standing criterion of strategic value to the United States, access to democracy assistance is offered first to countries where commitment to democratic reform is high and aid is likely to be effective.¹²⁴

Of all the official USAID briefs leading to the new bilateral aid framework, "At Freedom's Frontiers" is perhaps the most important since it attempts to merge new political realities and the President's Freedom Agenda with prior agency practices. For example, while the document acknowledges "the most dramatic threats to democracy in the twenty-first century come from transnational terrorist organizations and fragile states,"¹²⁵ it also reaffirms the democracy promotion strategies prominently used at USAID beginning in the 1990s; namely, that institutions matter most and that DG programs ought to be at the core of foreign assistance. In making this argument, the document is suggesting that the key to successful foreign assistance programs in a post-9/11 environment is really a continuation – albeit with a greater sense of urgency and the full backing of US resources – of democracy promotion practices of the past.

¹²⁴ Ibid.

¹²⁵ Ibid.

“We will seek to use bilateral foreign assistance to build toward a safer and more secure, democratic, and prosperous world to enhance our own national security.”¹²⁶ -

--USAID Administrator, Andrew S. Natsios

*“Resources will be allocated to the activities that promise to yield the best results in terms of the goal under which these resources fit.”¹²⁷ ---Policy Framework for
Bilateral Aid*

IV. The New Bilateral Policy Framework

There are multiple objectives behind the reorganization of USAID and a revised policy on bilateral foreign aid. First, given the historical challenge of various foreign aid objectives competing for the same aid dollar, USAID sought to separate foreign aid needs into manageable and measurable goals in order to meet US foreign policy objectives more efficiently and effectively. Secondly, realizing that resources are limited, the policy emphasizes maximizing the effects of aid by denying funding where it is unlikely to be effective, preferring to focus available resources on countries and programs where commitment and performance suggest assistance will have its intended impact. Finally, in order to avoid the age-old problem of self-perpetuating aid programs, USAID sought to create graduation criteria whereby each type of aid includes measures of success for the recipient country. The expectation is that by promoting stability and self-sustainability, it may be possible to prevent recipient countries from becoming dependent on aid, thereby ensuring that those resources will become available more quickly for other USAID priorities.

¹²⁶ "Policy Framework for Bilateral Foreign Aid: Implementing Transformational Diplomacy through Development," v.

¹²⁷ Ibid., 2.

The newly implemented policy for bilateral foreign aid lists five core operational goals (see Table 3): to promote transformational development, to strengthen fragile states, to support strategic states, to provide humanitarian relief, and to address global issues and other special, self-standing concerns.¹²⁸ Of these five objectives, the first three represent an attempt to categorize all states into distinct foreign aid priorities so both funding and mission management become more efficient and effective. The latter two objectives deal primarily with crisis and/or disaster management and global concerns such as climate change, infectious diseases, and illicit drug trade. However, the overwhelming emphasis behind the reorganization of foreign aid is the recognition that aid must seek to change the nature of development assistance by more clearly defining the aid categories and adhering to strict graduation criteria. In doing so, the goal is twofold: to move states along the development ladder, enhancing their ability to collaborate with the US and others in the international community, and to free up foreign aid resources for other USAID priorities.

¹²⁸ Ibid., 1-2.

Table 3: Core Operational Goals of the Policy Framework for Bilateral Foreign Aid*

Core Operational Goals	Goals	Time Frame	Criteria for Aid	Country Commitment**	Graduation
Strengthen Fragile States	To support stability, security, capacity development, and reform	Near-term	Based on vulnerability to instability, conflict and crisis; feasibility of achieving results; foreign policy importance	Commitment by host government and/or significant non-governmental actors	Transformational development would be the natural next step for graduating countries
Promote Transformational Development	To support lasting development progress	Mid-term	Reasonably stable, have need, and are committed to development progress	Adequate commitment	Graduates would be considered on a case by case basis in regards to global issues and other special concerns; for humanitarian purposes; for foreign policy reasons; or to address fragility
Support Strategic States	To support and help advance the foreign policy objectives that motivate the assistance	TBD	Determined by the Department of State, the National Security Council, and/or Congress, with significant USAID input	Funding is determined by foreign policy criteria first, then by need, commitment, performance, or other fragility criteria	Criteria for graduation will be specific to the country in question, and will depend on the foreign policy concern that motivates the assistance
Provide Humanitarian Relief	To help save lives and alleviate suffering of people in distress, regardless of the character of their governments	TBD	Resources are allocated to countries based on immediate, urgent need	Humanitarian relief is not dependent on country commitment, but takes into account the capacity of the recipient to meet its own needs	Graduation will occur when it is determined that there is no longer a need for humanitarian assistance

Address Global Issues and Other Special, Self-Standing Concerns	To address other contributors of development as largely independent, self-standing issues; HIV/AIDS, other infectious diseases, climate change, illicit trade, etc.	TBD	Need and commitment in terms of the specific concern are the major criteria for funding, rather than general development need and overall commitment to good governance	(See Criteria for Aid column)	Criteria will be formulated for each concern to make the purpose of the assistance more transparent and ensure that aid effectiveness and graduation are judged by appropriate indicators
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*Information gathered from the *Policy Framework for Bilateral Foreign Aid*, word for word whenever possible.

**Commitment is measured “by policy performance in the areas of ruling justly, promoting economic freedom and making sound investments in people.”¹²⁹

The bilateral aid policy classifies the three state-based aid categories as fragile states, transformational development, and strategic states. Fragile states, defined as “countries where instability and weak governance do not provide sufficient foundation for long-term development,”¹³⁰ include failed, failing and recovering states and represent the first level of USAID’s bilateral aid policy. At this level, USAID does not actively pursue developmental goals; rather, the focus is achieving stability and laying the groundwork for developmental aid to be effective once it is introduced. The policy emphasis for fragile states, then, constitutes a near-term approach that seeks to strengthen fragility “by supporting stability, security, capacity development, and reform with the goal of making them good performers and graduating them towards transformational development.”¹³¹

¹²⁹ Ibid., 7.

¹³⁰ Ibid., 13.

¹³¹ Ibid.

Transformational development, the apparent core of the new policy,¹³² seeks to transform countries “through far-reaching fundamental changes in institutions of governance, human capacity, and economic structure that enable a country to sustain further economic and social progress without depending on foreign aid.”¹³³ Because this aid category assumes that countries suitable for transformational development “are reasonably stable, need foreign aid and are committed to the development progress – as evidenced by policy performance in the areas of ruling justly, promoting economic freedom, and making sound investments in people,”¹³⁴ this category might be better coined “development-ready” states. The strategy for development-ready states is a mid-term approach that seeks to create sustainable development within stable countries with good performance, with the end goal of negating the need for foreign aid.

The third category of states included in the core operational objectives is strategic states, which are defined as countries “where U.S. foreign policy concerns and interests call for significantly higher aid levels than would be justified by development or fragile states criteria and/or where program content may be heavily influenced by these same foreign policy concerns.”¹³⁵ Aid to strategic states is determined “primarily by foreign policy criteria” and then “secondarily by need,

¹³² Not only does transformational development warrant the most detailed explanation of the three state-based operational goals, it also is discussed first in all the major USAID documents discussing the strategy – a strange choice for a policy that emphasizes fragility as the major danger to US national security.

¹³³ “U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century,” 14.

¹³⁴ “Policy Framework for Bilateral Foreign Aid: Implementing Transformational Diplomacy through Development,” 7.

¹³⁵ *Ibid.*, 15.

commitment, performance, or other development or fragility criteria.”¹³⁶ Unlike the previous two categories, funding for strategic states does not have a specific time-based approach; countries graduate from this type of assistance only “when foreign policy concerns no longer warrant exceptional program levels”¹³⁷ or when strategic priorities change.

Under this new bilateral policy framework, the prevailing focus to attain US aid has shifted towards good governance, recipient commitment and country ownership. This new aid philosophy put the impetus on potential recipients to demonstrate the political will to pursue good governance. In terms of progress towards goals of efficiency, effectiveness, and governmental accountability to the U.S. taxpayer, this new focus represents substantial improvement over past policy. However, if the rationale for the new policy is to mitigate potential dangers that weak governance facilitates in failed states, the strategy appears to have serious flaws. It seems contradictory, for example, to say that failed states and areas of weak governance create the greatest danger to US security on the one hand, while simultaneously suggesting that the US should abandon development assistance to those countries that do not exhibit good governance.¹³⁸

Exacerbating this contradiction is the reluctance of the US government to label states as fragile in the first place. In January of 2006, the Office of Director of US Foreign Assistance was created to integrate the foreign aid agendas of USAID and the

¹³⁶ Ibid., 15-16.

¹³⁷ Ibid., 16.

¹³⁸ "Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity," 10.

Department of State (DOS). Soon afterwards, the Director of Foreign Assistance (DFA) released a new set of aid categories reflecting both State Department and USAID priorities. By summer, all 154 recipient states had been placed into one of five categories (see Table 4). Noticeably missing from this list is USAID’s fragile

Table 4: US Government Aid Categories¹³⁹

Rebuilding Countries	States emerging from internal or external conflict.
Developing Countries	Low or lower-middle income countries (below \$3256) that do not meet MCA performance criteria or a hard hurdle on either corruption or political rights.
Transforming Countries	Low or lower-middle income countries that pass MCA performance criteria, as well as a hard hurdle for corruption and political rights.
Sustaining Partnership Countries	Middle income (or better) countries “for which U.S. support is provided to sustain partnerships, progress, and peace.”
Restrictive Countries	These are “states of concern where there are significant governance issues, and where direct U.S. funding is restricted.”
Global or Regional Issues*	“Activities that advance the five objectives, transcend a single country’s borders, and are addressed outside a country strategy.”

*Information gathered from *The U.S. Response to Precarious States: Tentative Progress and Remaining Obstacles to Coherence*, word for word whenever possible.

**This sixth category was added by the Director of Foreign Assistance in July 2006.

states category. According to Patrick and Brown, this omission is due to political considerations: “for diplomatic reasons, the administration has not specified a fragile state category in its taxonomy of aid recipients, choosing instead to lump most of them into the large grab bag of ‘developing countries’.”¹⁴⁰ While this reorganization of aid categories may have facilitated the merger of USAID and DOS aid objectives, it also risks undermining both the FSS and the recent bilateral aid policy.

¹³⁹ Stewart Patrick, "The U.S. Response to Precarious States: Tentative Progress and Remaining Obstacles to Coherence," (Center for Global Development, 2007), 12.

¹⁴⁰ Stewart Patrick and Kaysie Brown, *Greater Than the Sum of Its Parts? Assessing "Whole of Government" Approaches to Fragile States* (New York: International Peace Academy, 2007), 52.

CHAPTER FOUR

USAID and Economic Growth

“Since 1960, there has been a strong correlation between economic and social progress and democracy in the developing world.”¹⁴¹ ---At Freedom’s Frontiers

I. Conventional Wisdom Versus Agency Priorities

This thesis began by asking if USAID policies have been informed by the academic debate surrounding Lipset’s economic growth thesis. Solid evidence exists that policy makers and aid practitioners within the USAID are not only aware of the debate, but also accept the basic premises of the thesis. In fact, two of the USAID documents reviewed in Chapter Three directly reference the debate. First, the 2002 USAID White Paper notes that “almost all countries with high levels of economic and social development are democracies,”¹⁴² providing a clear reference to Lipset’s notion that “the more well-to-do a nation, the greater the chances that it will sustain democracy.”¹⁴³ In addition, the document acknowledges the important role economic growth should play in development strategies, suggesting that “at least for the next generation, U.S. strategy for reducing poverty in developing countries must focus on economic growth.”¹⁴⁴ The 2005 DG framework provides further evidence that the economic growth thesis has gained an audience inside the USAID, noting that “advances in economic prosperity and public wellbeing can enlarge the middle class

¹⁴¹ "At Freedom's Frontiers: A Democracy and Governance Strategic Framework," 6.

¹⁴² "Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity," 2.

¹⁴³ Lipset, "Some Social Requisites of Democracy," 75.

¹⁴⁴ "Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity," 11.

and increase the demand for sustainable democratic governance.¹⁴⁵ Again, this idea is closely connected to Lipset's early theorizing that economic growth moves society from an "elongated pyramid," or predominantly lower class composition, to a "diamond with a growing middle class."¹⁴⁶

Unfortunately, despite this awareness of the conventional wisdom that economic growth can promote stability and political development, USAID has not adapted well to the new priorities for developmental assistance. Instead of focusing on economic development as the NSS advocates, democratization remains USAID's primary organizational focus. It seems that the belief that "institutions matter most" is so strong within USAID that economic initiatives are often an afterthought. After all, since institutions must be in place when economic growth occurs in order to sustain development in the first place, it makes sense to prioritize democratic institutions.

A rudimentary look at the 2002 NSS and the three primary USAID policy papers in this thesis lend support to this claim. The NSS, which was the basis for USAID policy changes, placed a heavy emphasis on poverty alleviation and economic growth, as evidenced by the goal to double the world's economies within a decade. In fact, the word "growth" and variations of the word "economy" appear 80 times in the NSS. In contrast, the word "governance" and variations of the words "economy" and "institution" appear 58 times, or just 42 percent of the 138 total occurrences.¹⁴⁷

¹⁴⁵ "At Freedom's Frontiers: A Democracy and Governance Strategic Framework," 6.

¹⁴⁶ Lipset, "Some Social Requisites of Democracy," 83.

¹⁴⁷ By "occurrence," I mean a form of the word appearing in the actual text, apart from headers, footers, titles, and the Table of Contents.

In the USAID policy papers,¹⁴⁸ on the other hand, words related to growth and economy appear 88 times, while democracy, governance and institutions are mentioned 360 times.¹⁴⁹ This represents a huge redirection of emphasis, with the traditional USAID priorities of DG assistance and institution-building representing more than 80 percent of all occurrences.

It would, of course, be an egregious error to suggest that USAID makes no effort to address economic growth in its country initiatives. What is readily apparent by reviewing these programs, however, is that technical assistance, democratic institutions, and infrastructure receive a far greater portion of the agency's expertise and resources than do programs targeting short or mid-term growth strategies. Indeed, even the programs listed as economic growth initiatives often focus on infrastructure or technical assistance. One typical example of this is the 2007 economic growth plan for Indonesia.¹⁵⁰ Of the ten measures listed,¹⁵¹ none offer short-term solutions to building economic growth, although many of them – such as the Indonesia Deposit Insurance Corporation and Financial Crime Prevention Project

¹⁴⁸ "At Freedom's Frontiers: A Democracy and Governance Strategic Framework." "Fragile States Strategy." "Policy Framework for Bilateral Foreign Aid: Implementing Transformational Diplomacy through Development."

¹⁴⁹ It is important to note that the "Democracy and Governance Framework" contains the vast majority of the occurrences of "democracy" (192 of 205) in the three USAID documents. However, even when this huge number is excluded, the slant towards traditional USAID language in the three policies is still nearly 66 percent.

¹⁵⁰ "Economic Growth Strengthened and Employment Created," (United States Agency for International Development), <http://indonesia.usaid.gov/en/Program.4b.aspx>, Accessed November 12, 2007.

¹⁵¹ The ten are the Alliance for Insurance Education (STIMRA), the Financial Crime Prevention Project, Indonesia Anti-Corruption and Commercial Courts Enhancement (IN-ACCE), Indonesia Deposit Insurance Corporation, Indonesia Trade Assistance (I-TAP), Program to Strengthen the Performance, Regulation and Governance of the Financial Sector in Indonesia, DCA – Danamon, Indonesia Competitiveness Development (SENADA), Reducing Barriers to Markets (PROMIS), and Volunteers for Economic Growth (VEGA).

– are sure to build confidence in the markets and government’s ability to produce investment. Nevertheless, these measures do little to offer short-term hope for improved quality of life to the average Indonesian.

“The US government has yet to forge interagency consensus on the rationale for US engagement; the criteria that should guide US involvement; the scale of US aspirations; the end state toward which these efforts should be directed; and the means required to achieve success.”¹⁵² ---Stewart Patrick, Kaysie Brown

II. Challenges to USAID Effectiveness

With the possible exceptions of the Marshall Plan and 1961 Foreign Assistance Act, the Bush administration’s reorganization of foreign aid priorities is unparalleled in US history. The Bush plan – for lack of a better phrase – attempts to develop a global response to US security needs by combining the liberal spread of democracy with realist notions of security. It entails a wholesale revision of foreign assistance protocols with the intent of stabilizing weak states and providing economic growth and opportunity to susceptible populations. Initially, the president elected not to entrust this new mission to the existing foreign assistance bureaucracies, placing the newly founded MCC under a new management structure. However, as the Bush strategy continued to expand, the USAID eventually was co-opted to develop and implement administration priorities. While certain aspects of USAID’s historical mission have prepared the organization for this task, it is safe to say that the mission to double the world’s poorest economies goes far beyond its previous mandate.

Aside from USAID's penchant for DG programs focusing on institution building, there are some other major barriers to achieving the economic growth goals of the NSS. Heading this list is the complex nature of foreign aid funding via multiple

¹⁵² Patrick and Brown, *Greater Than the Sum of Its Parts?*, 35.

government institutions. According to Patrick, the Congressional Research Services estimated that only 55 percent of official aid for FY05 was under USAID control. The remaining resources were split by the Department of Defense (19%) and other government agencies (26%), such as the Departments of Agriculture, Energy, Health and Human Services, Labor, and the Treasury.¹⁵³ This dispersion of aid between so many agencies makes it difficult to implement what Patrick and Brown's title suggests, a "whole government" approach to foreign aid.

The Pentagon views fragile and post-conflict states primarily through a national security prism... the State Department is preoccupied with transforming a wider range of weak and war-torn states into effective democracies... USAID regards state weakness as a developmental challenge to be addressed by working with local actors to create the institutional foundations of good governance and economic growth.¹⁵⁴

Although a lack of coordination between agencies and divergent organizational priorities creates inconsistencies in foreign policy, an even greater challenge for USAID is their designation as a subcabinet level agency.¹⁵⁵ Even though AID is charged with the enormous task of implementing the government's "unified" development plan around the world, the agency is typically not represented at high-level meetings, denying it the opportunity to be involved in important decision-making processes. Following his tenure as USAID Administrator, Brian Atwood (1993-1999), wrote about this dilemma:

¹⁵³ Patrick, "The U.S. Response to Precarious States," 15.

¹⁵⁴ Patrick and Brown, *Greater Than the Sum of Its Parts?*, 36.

¹⁵⁵ This designation is also true of President Bush's major foreign aid initiatives: the Millennium Challenge Corporation (MCC) and the President's Emergency Plan for AIDS Relief (PEPFAR).

I suspect that there were many lost opportunities to influence policy by providing the development perspective at the policy table. These occurred both because AID had a small policy staff that was not integrated into the interagency process and because the larger departments did not know what they did not know about development. In addition, State had no interest in inviting AID to its own table when large interagency issues loomed.¹⁵⁶

A partial answer to this dilemma may be the creation of the Office of Director of US Foreign Assistance in January of 2006. The Director of Foreign Assistance, who reports directly to the Secretary of State, is responsible for managing foreign assistance funding and programs for the Department of State and USAID. The mission of the DFA is twofold: “to develop a coordinated U.S. foreign assistance strategy; and to direct a transformation of foreign assistance to achieve the President’s Transformational Development Goals.”¹⁵⁷ The DFA also serves in an advisory capacity to the MCC and the Office of Global AIDS, although his authority is limited to coordination and counsel. Even so, as a Deputy Secretary to Secretary of State Rice, the new position has already provided some additional exposure for USAID and appears to be a step in the right direction.

Another of the major challenges to USAID effectiveness in its expanded foreign assistance role is its affinity for following the agency’s democracy promotion playbook. As noted previously, USAID’s democracy assistance has traditionally centered on building institutions and processes rather than focusing on economic

¹⁵⁶ Personal correspondence of Brian Atwood. See Lancaster, Van Dusen, and NetLibrary Inc., *Organizing U.S. Foreign Aid: Confronting the Challenges of the Twenty-First Century*, 25.

¹⁵⁷ "Restructuring U.S. Foreign Aid: The Role of the Director of Foreign Assistance in Transformational Development," (Congressional Research Service, 2007), CRS-2.

policy. In fact, from the time democracy promotion was formally made a USAID policy priority in 1990¹⁵⁸ until the Bush Doctrine began to take shape following the 9/11 terror attacks, democratic assistance did not directly target economic development, but centered on strengthening four institutional regimes to achieve democratization: the rule of law, governance, human rights and elections.¹⁵⁹

Thomas Carothers identifies institutional modeling,¹⁶⁰ “the notion that democratizing countries progressively shape their major socio-political institutions”¹⁶¹ to reflect the established democracies of the Western world, as a central process in the U.S. democratization model. However, this focal point on imitating the “endpoints” of successful democracies, apart from a proper emphasis on the essential processes of democratization, ignores the potential for socio-economic influence over political stability, and risks suboptimal outcomes as a result. As Bunce notes, “having the basic forms of democracy does not necessarily mean having the foundations... [Therefore] the quality of democracy – and perhaps its sustainability – is often shortchanged.”¹⁶²

This virtually exclusive emphasis on institutions as the centerpiece of U.S. democratization policy raises several concerns about the US foreign assistance

¹⁵⁸ Thomas Carothers, "Taking Stock of Democracy Assistance," in *American Democracy Promotion: Impulses, Strategies, and Impacts*, ed. Michael Cox, G. John Ikenberry, and Takashi Inoguchi (Oxford: Oxford University Press, 2000), 188.

¹⁵⁹ These four objectives are identified in the 2003 GAO report cited above and can be viewed on the USAID website as well.

¹⁶⁰ Institutional modeling shares a close affinity with modernization theory, which emphasizes the need of developing countries to adopt the institutions and processes of industrialized nations in order to enjoy similar rewards and advantages.

¹⁶¹ Carothers, "Taking Stock of Democracy Assistance," 192.

¹⁶² Valerie Bunce, "Democratization and Economic Reform," *Annual Review of Political Science* 4 (2001): 46.

strategy in relation to its expanded emphasis on economic development. First, is the correlation between economic growth and democratic stability lost on policy makers or is the evidence inconclusive that a causal relationship actually exists? One theory is that policy makers tend to believe certain democratic institutions and processes should be in place prior to an emphasis on economic growth. This is particularly true when the target country is immersed in, or emerging from, a dictatorship or authoritarian political system since most policy makers are averse to strengthening a non-democratic government.¹⁶³ However, this commitment to structural reform as a prerequisite to economic growth needs to be evaluated carefully in light of the studies from Chapter Two, which suggest that causality flows naturally from economic development to democracy,¹⁶⁴ that the effects of democracy on growth are negative (even possessing the potential to slow economic progress),¹⁶⁵ and that initial levels of economic growth have a significant impact on democratic sustainability.¹⁶⁶ If these studies accurately reflect the realities of lower-income, nascent democracies, U.S. democratization programs, for all the good they might accomplish, may not be acting in the best interests of long-term democratic stabilization.

¹⁶³ It is important to note that many authors (Przeworski included) believe economic growth is just as likely to strengthen authoritarian governments as it is to increase democratization efforts in nascent democracies; thus, there can be resistance among policy makers to prioritizing economic development prior to the construction of democratic institutions.

¹⁶⁴ See Ross E. Burkhardt and Michael S. Lewis-Beck, "Comparative Democracy: The Economic Development Thesis," *American Political Science Review* 88, no. 4 (1994). Helliwell, "Empirical Linkages between Democracy and Economic Growth."

¹⁶⁵ Helliwell, "Empirical Linkages between Democracy and Economic Growth," 235.

¹⁶⁶ Steven E. Finkel, Anibal Perez-Linan and Mitchell A. Seligson, "Effects of U.S. Foreign Assistance on Democracy Building: Results of a Cross-National Quantitative Study," (USAID, 2006), 7.

Secondly, since a stated goal of democratization programs is to promote sustainable democracy, why is a greater portion of economic aid not being expended to increase economic performance? Patrick Cronin, the third-ranking official at USAID from 2001-2003, implicates competing objectives as the main reason why the central focus of economic growth and poverty reduction are not receiving sufficient funding. He attributes this to the major expansion of the 1961 *Foreign Assistance Act*, now containing a staggering 2,000 pages of directives, and the 300 strategic objectives being pursued by USAID: “In trying to do everything nearly everywhere, American foreign aid ha[s] become a slave to the conceit that everything [is] equally important – the classic recipe for losing focus.”¹⁶⁷

In addition to organizational challenges, Cronin claims that the very nature of aid has changed significantly with the rapid advance of globalization. In 2002, for example, the amount of U.S. developmental assistance was about 57 billion dollars, while trade with the developing world produced about 2 trillion dollars.¹⁶⁸ Considering this vast disparity in the potential impact of developmental aid versus that of trade and the claim that every dollar of aid within “sound policy environments” attracts two dollars of private capital,¹⁶⁹ it is clear why President Bush, in promoting his “New Compact for Development,” emphasized that in order “to be

¹⁶⁷ Patrick M. Cronin, "U.S. International Development Assistance: What Are the Options for the Future?," (Aspen Institute, 2004), 16.

¹⁶⁸ Ibid., 17.

¹⁶⁹ "Millennium Challenge Account Update," (United States Agency For International Development, 2002), http://www.usaid.gov/press/releases/2002/fs_mca.html.

serious about fighting poverty, we must be serious about expanding trade”¹⁷⁰ – and thus, the economic growth potential of developing nations.

Finally, why has U.S. foreign policy seemingly ignored the correlation between economic growth and successful democratization, particularly among emerging democracies? The historical origins of democracy assistance point to a probable contributor. Since the success of the Marshall Plan in Europe, the United States government has continued promoting democratization assistance as a foreign policy necessity. Soon after Congress passed the *Foreign Assistance Act* in 1961, President Kennedy founded the USAID to serve as the primary foreign assistance agency of the US government. In his rationale for proposing this new foreign assistance program, Kennedy pointed to the potentially dire consequences of economic collapse in developing countries, claiming it “would be disastrous to our national security, harmful to our comparative prosperity, and offensive to our conscience.”¹⁷¹ This tension between the exercise of moralistic American values and national security has played a role in U.S. foreign policy ever since, but except in rare cases where the American public is highly energized for a foreign policy cause, realism and utility calculation have generally triumphed over principle and compassion. Thus, national security has proven to be a much stronger motivator for development assistance than disaster, famine, or economic hardship ever will be.

¹⁷⁰ Bush, "A New Compact for Development in the Battle against World Poverty."

¹⁷¹ Quote attributed to John F. Kennedy: http://www.usaid.gov/about_usaid/usaidhist.html. Accessed 7 July 2006.

“Research indicates that the countries most prone to conflict, crisis, and state failure are those that are poor or not making development progress.”¹⁷² ---US Foreign Aid: Meeting the Challenges of the Twenty-First Century

“Without economic prosperity and the ability to meet basic needs, democratic advances may be jeopardized.”¹⁷³ ---At Freedom’s Frontiers

III. Beyond the Status Quo of Democracy Promotion

Last year, American democratization programs received a boost from the academic community when a Vanderbilt-led study sanctioned by the USAID concluded that US DG assistance¹⁷⁴ is the only variable that has a significant positive impact on democratization.¹⁷⁵ This conclusion seemed to vindicate the long-standing emphases of the two pillars of American democracy assistance: building democratic institutions and providing technical assistance. At the same time, the authors cautioned against concluding that other variables are irrelevant, claiming primarily that certain variables may have application through other considerations such as economic factors, GDP growth or regional democratic diffusion.¹⁷⁶

Although it is apparent in the literature that US DG programs have achieved a measure of success, the recent elevation of developmental aid as a national security priority would seem to require faster, more optimal results. Since the Vanderbilt

¹⁷² "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century," 7.

¹⁷³ "At Freedom's Frontiers: A Democracy and Governance Strategic Framework," 5.

¹⁷⁴ According to the USAID, the goals of Democracy and Governance programs are four-fold: strengthening the rule of law and respect for human rights, promoting elections and political processes, increased development of civil society, and more transparent and accountable governance. Missing from the democracy assistance blueprint is any substantive reference to the role of economic development.

¹⁷⁵ Finkel, "Effects of U.S. Foreign Assistance on Democracy Building," 1, 3, 83.

¹⁷⁶ *Ibid.*, 85.

study agrees that “initial levels of economic development... ha[ve] a great deal to do with democratic sustainability,”¹⁷⁷ does it follow that targeted growth in per capita income may be more beneficial to poorer nascent democracies than a predominant focus on institutions and processes? Three premises of threshold theory suggest this is worthy of consideration: poor democracies have a much higher risk of failure, failure becomes less likely as per capita income increases, and economic growth enjoys maximum democratization impact when targeting poor democracies. It is well established, of course, that DG programs slowly increase democratization over time, but still unanswered is whether an earlier focus on economic growth might hasten the process.

To be clear, I do not seek to assert that economic growth should be encouraged to the detriment of democratic structures, nor am I suggesting that current DG programs do not have important roles to play in American foreign policy. On the contrary, a great deal of diversity in approach is needed in order to address the different geopolitical contexts that exist in the international system. Yet it is important to note that USAID’s own analysis “suggests that fragile states are largely a subset of poor countries with only fair or weak policy performance,”¹⁷⁸ making them less apt to qualify for certain incentive-based aid – which is often based on prerequisites of sound policy and good governance – and more reliant upon traditional DG programs to facilitate democratization. While certain ideas associated with “threshold” theory are still highly controversial (e.g. economic growth causes democratization), there is a

¹⁷⁷ Ibid., 7.

¹⁷⁸ "U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century," 19.

growing body of literature that makes a case for reexamining how economic aid and democratic assistance should be sequenced.

As the review of the literature makes clear, economic growth is not only conducive to democratic stability, it is also crucially important to the survival of the world's poorest democracies.¹⁷⁹ In the current geopolitical context, the survival of budding democracies is clearly more important than ever; however, since weak and failed states are seen as greater sources of global instability, it would appear to be in the best interests of the United States to find alternative means of promoting growth when traditional USAID DG programs do not suffice. Considering the Bush administration's foreign aid mandate and the potential for economic thresholds to achieve that mandate, it seems a better foreign aid strategy needs to be employed – one that recognizes steady economic growth is paramount to both nascent democracies and at-risk states.

¹⁷⁹ Przeworski et al., "What Makes Democracies Endure?," 42.

EPILOGUE

This thesis, while providing some analysis of previous quantitative studies, has largely been a qualitative exercise. In the course of research, however, I developed a strong interest in the notion that democratization is likely to increase as per capita income rises. Because of this interest, I originally planned to do my own analysis of the data, but the task of pursuing a quantitative analysis exceeded both time restraints and my current statistical ability. Nevertheless, I began to set forth a basic framework for that study, should I have the opportunity to pursue this interest in the future.

This proposed study would seek to follow a select group of low-income nascent democracies over time, tracking annual changes in per capita income and comparing those changes with the level of democratic freedom in those countries. In order to avoid recreating the exact parameters of previous studies, it would be essential to include in this study only countries that clearly demonstrated a commitment to democratic government at the outset.¹⁸⁰ For this reason, my investigation would not attempt to consider the concept of regime change, but would assess only countries that have started down the path of democracy. To meet this requirement, I would borrow from Karl's definition, which focuses on fair and free elections ("a set of institutions that permits the entire adult population to act as citizens by choosing their leading decision makers in competitive, fair, and regularly scheduled elections..."),¹⁸¹ and use it in conjunction with Dahl's definition, which clarifies that democratic

¹⁸⁰ This is true whether revolution, war, regime change, or the political elite brought about the beginnings of democracy.

¹⁸¹ Karl, "Dilemmas of Democratization in Latin America," 2.

elections are ones in which the opposition has a chance of winning.¹⁸² With this in mind, a country would not be considered in this study unless free and open elections have been instituted, with the results sanctioned by the government and/or the international community (if necessary).

In regards to methodology, the initial focal point of my investigation would be on Central America and South America for the following reasons. First, since Latin America has historically been the central focus of U.S. democratization programs, this is a natural starting point for investigation. Second, and more importantly, most Latin American countries have attempted democratization and failed (or regressed) at least once, which provides the opportunity to not only evaluate the impact of economic growth, but also to consider the effects of economic stagnation upon the democratization process. Lastly, when the majority of Latin American countries started on the path to democracy, they were “at-risk,” underdeveloped countries rife with low per capita incomes, further facilitating focus on democracy in its infancy stage.

The main components of the study would be annual reports on per capita income, as reported by the World Bank,¹⁸³ and the Gastil Indices from 1973-2003. The Gastil Index¹⁸⁴ measures the level of democracy within individual countries and scores them

¹⁸² Robert Alan Dahl, *Polyarchy; Participation and Opposition* (New Haven,: Yale University Press, 1971).

¹⁸³ The CIA Factbook will be used to supplement any statistical information unavailable through the World Bank.

¹⁸⁴ The Index, created by Raymond D. Gastil, was used to create annual reports on the status of democracy in countries worldwide. From 1989 onwards, Freedom House has operated the Gastil Index. A copy of the World Comparative Rankings for 1973-2005 may be found at the following Freedom House link: <http://65.110.85.181/uploads/FIWrank7305.xls>. Accessed 5-22-06.

from a minimum of 7 (not free) to 1 (free).¹⁸⁵ One goal of the research, then, would be to chart per capita income in Latin American countries in conjunction with the Gastil Index, in order to measure whether failed or retreating democracies were preceded by a downturn in economic growth on the one hand, and if steady economic growth accomplished a strengthening of democracy on the other. Keeping in mind that Przeworski and Limongi claim the results of economic downturn occur within a year's time of poor performance, regardless of previous growth,¹⁸⁶ special attention would be given to the Gastil Index in years following economic decline, and to per capita income in years preceding an increase on the democratization index.

If the claims are correct that economic growth promotes democracy then there should be a high percentage of countries that remain at the same level or improve on the Gastil Index in years following economic growth (particularly growth above 5%). Conversely, in years following economic downturn or stagnation, there should be a notable deterioration on the Gastil Index, particularly for countries where per capita income is considered severely at risk (\$1,000 or below). Effects may be more moderate in the middle-income levels regardless of growth or downturn, but we should expect to see a stronger correlation when either growth or recession becomes the status quo for multiple consecutive years.

The results of this study should reinforce a couple of key assertions of "threshold" theory. First, it should further confirm that economic growth stimulates additional democratization when it occurs in countries already on the path to democracy.

¹⁸⁵ The middle range is listed as "partly free."

¹⁸⁶ Przeworski and Limongi, "Modernization: Theories and Facts," 169.

Second, and more significantly, it should highlight the precipitous nature of low-income countries in terms of their potential to sustain democracy apart from steady economic growth. Considering again the conventional wisdom that democracies do not go to war with other democracies, perhaps this study could eventually contribute to economic performance being given greater weight in future U.S. foreign assistance programs.

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