

Veto players and foreign aid provision

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Abstract This study investigates how the political institutions of developed economies influence their foreign assistance. Specifically, we argue that the number of effective veto players has a negative effect on the volume of aid provision. To provide foreign assistance, the incumbent government in a donor country must have unanimous support from all effective veto players in policy making. Thus, it has more barriers to overcome when the polity is characterized by many and preference-wise heterogeneous veto players. By examining the official development assistance outflows of 27 OECD countries for the period of 1977–2006, we find empirical patterns that corroborate our argument.

Keywords Veto players · Political institutions · Aid provision · Policy making · Political economy

JEL Classification D72 · F35 · C23

1 Introduction

The foreign assistance of developed economies has significant consequences in the developing world. So far the economics literature on aid has devoted considerable effort to examining the development implications of aid inflows for the recipient countries (Burnside and Dollar 2000; Collier and Dollar 2002; Easterly 2003; Easterly et al. 2004 for instance). Since findings of the literature are mixed, the debate over the aid-development linkage is largely inconclusive (Dalgaard et al. 2004; McGillivray et al. 2006 for review and summary). In comparison with the effort made on the topic of

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