

Abstract

Income inequality is an alarming issue affecting especially developing countries, yet very scarce attention is paid to how it is influenced by development aid. This study investigates the relationship, focusing on modern approaches to foreign assistance which have changed considerably since 1999. With a sample of 123 developing countries, the effect is estimated using both static and dynamic panel data techniques while controlling for the Kuznets curve. The results show that robust to method and functional form, development aid neither improves nor worsens inequality. Nonetheless, estimating the model for specific groups of countries in the sample yields different, statistically significant results, while also depending on political environment.

JEL Classification D31, F35, C23

Keywords Inequality, Foreign Aid, Panel Data

Title Does Foreign Aid Decrease Inequality? Evidence from the Most Recent Data

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