

Biggest aid cuts ever produce our least generous aid budget ever

by Stephen Howes and Jonathan Pryke

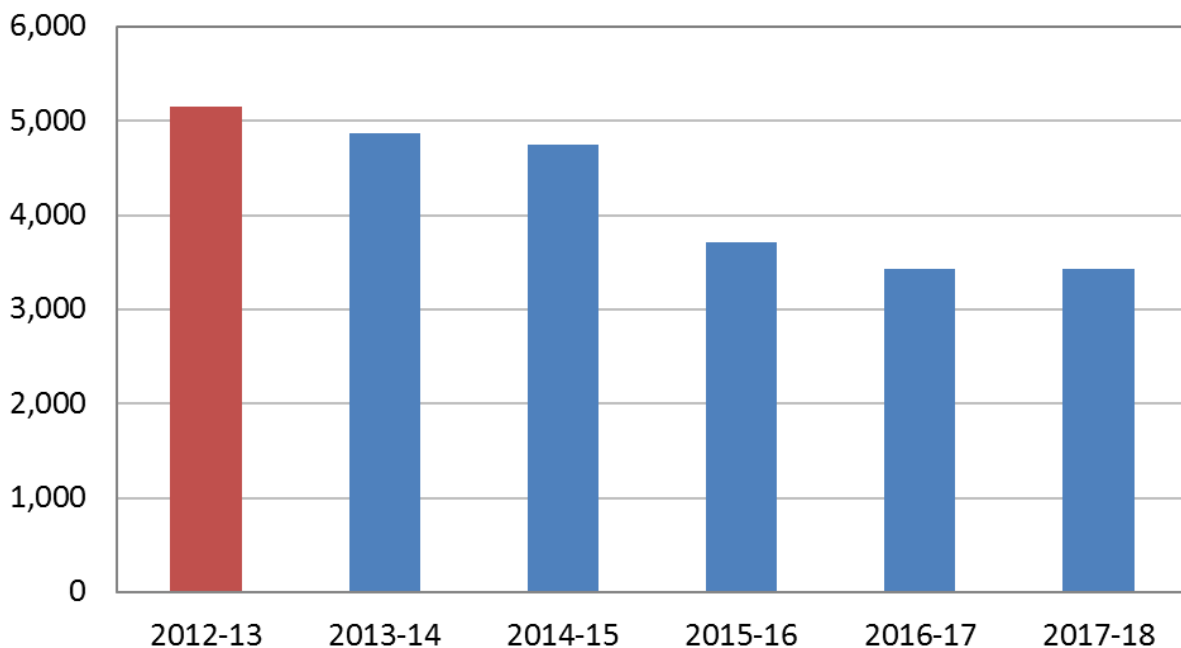
15 December 2014

- Largest cumulative aid cuts ever: 33% versus previous record of 17%
- Largest cuts in a single year: 20% and \$1 billion versus previous record of 12% and \$323 million
- By 2017-18, will make Australian aid least generous ever
- By 2017-18, will return Australian aid to its lowest level since 2005-06, despite 22% growth in GDP
- At today's levels for other donors, will make us drop from 13th to 19th in generosity stakes among OECD donors

Today, the Government has **announced** through its **Mid-Year Economic and Fiscal Outlook** (MYEFO) the biggest aid cuts ever to the Australian aid program. After inflation the cuts, which continue to 2016-17, are 28% relative to this year. In 2016-17, aid will be 33% less than it was relative to the Labor's final year of aid spending, that is, 2012-13.

Figure 1: Aid from 2012-13 to 2017-18 (adjusting for CPI)

2012-13 \$A m

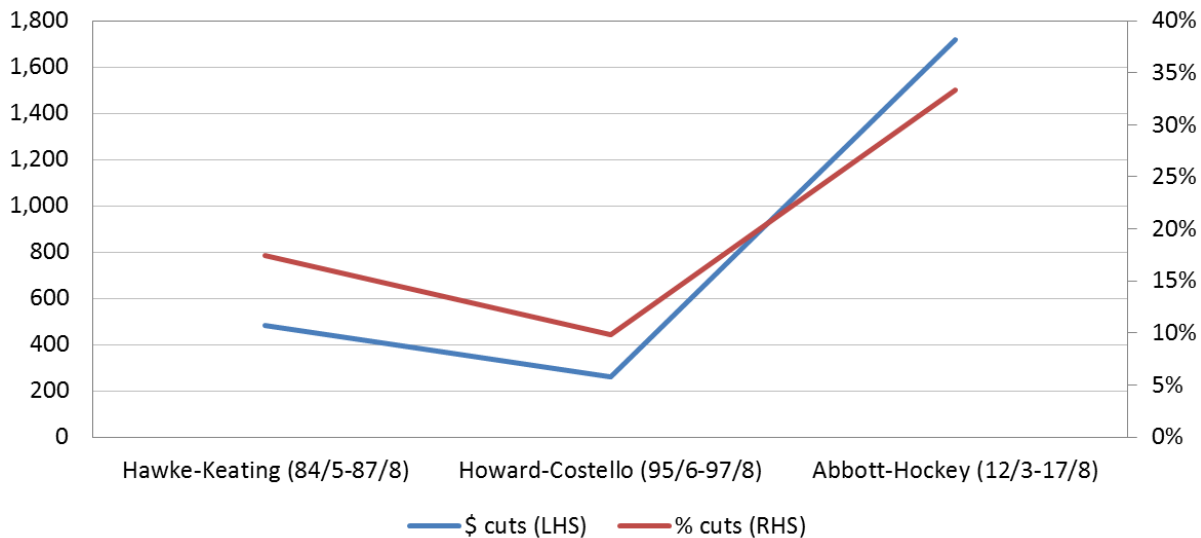


Note:

All data, working and sources can be found in [this spreadsheet](#).

There have been aid cuts before, typically in the context of deficit reduction. The Hawke-Keating government cut aid by 17% over three years. The Howard-Costello government cut aid by 10% over two years. But cuts of one-third are completely unprecedented, as the graphs below shows.

Figure 2: The largest multi-year aid cuts in the aid program's history

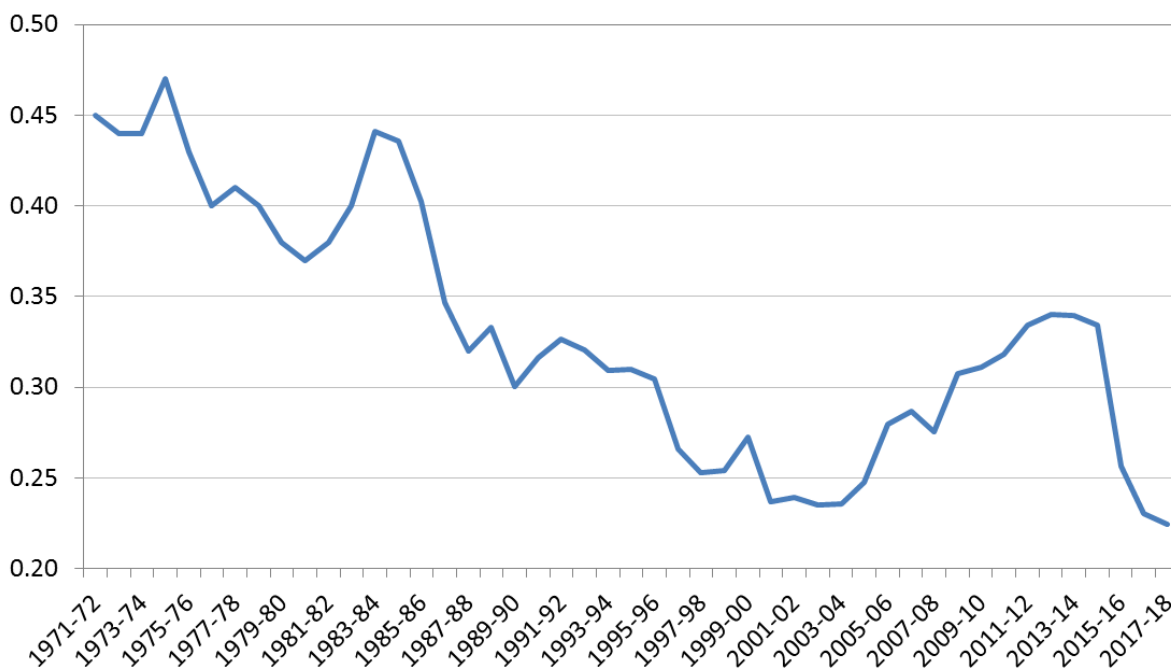


Once

the cuts have been implemented, that is, by 2016-17, our aid will be back in real terms to its level of 2005-06. That's despite the fact that our GDP will be about 40% bigger by then than it was in 2005-06.

Aid generosity is measured by the ratio of how much aid we give divided by how rich we are (GNI). The highest we have reached in recent years is 0.35%. That was in 2012-13. We are currently at 0.32%. With these cuts, we are going to plummet to 0.22% by 2016-17. As the next graph shows, that is the lowest this index has ever reached: we have never breached 0.24% before. 0.24% was the level we were at in the early 2000s before we decided to become more generous and start increasing our aid.

Figure 3: Australian aid generosity over time



Aid at

the levels envisaged will put us firmly in the less generous half of OECD donors. Most donors are keeping their aid more or less steady, and total aid from OECD

countries actually reached an all-time high in 2013, even after inflation. We are currently the 13th most generous donor out of 28 OECD donors. At today's levels for other donors, these cuts would make us the 19th most generous donor.

We've focused so far on the cumulative cuts out to 2016-17, but most of the cuts will be implemented next year (2015-16), when the aid program will fall by a round \$1 billion or 20%. This will be the biggest single-year change ever to the aid program (up or down), more than three times as big as the next largest cut (\$323 million in 2012-13 prices; back in 1986-87). It is also the largest percentage change (up or down), and almost twice as large as the next largest cut (-12%, again 1986-87). These 2014-15 cuts can only be described as savage.

It is also worth noting that domestic expenditure will increase in 2015-16 by about 3%, just above the rate of inflation. Why aid should be singled out next year for a 20% cut when domestic expenditure is growing by 3% is very hard to see. By 2017-18, the share of aid in total government expenditure will be at an all-time low of 0.82% ,down from 1.42% in 2012-13, a fall of 39%. We have **never** given aid a lower expenditure priority.

Why has the Coalition embarked on the biggest aid cuts ever, resulting in our least generous aid budget ever? The Government justifies this in the MYEFO by saying that it is returning aid to the level it was when we last had a surplus, but actually the cuts are slightly more than that, and this is a nonsensical argument in any case, as Anthony Swan has **recently demonstrated**.

Perhaps the real reason aid is being cut is because the last time it happened (in the May budget) it was the one budget cut that was **popular**. Will the Australian public oppose this cut? If we are serious about fairness, we must have a notion of it that extends beyond our borders.

These cuts will play havoc with the management of the aid program. Foreign Minister Julie Bishop promised assured funding and **predictability for aid**. That has now vanished. How do you cut another quarter from an already-pruned aid program? The aid program that emerges from the resulting slash-and-burn will be a very different beast. One can only guess, but PNG and Indonesia might be protected. That will leave major cuts for the Pacific and other East Asian countries, a savaging of aid to South Asia, the virtual end of our aid to Africa, and massive cuts to humanitarian and multilateral aid.

In the end, the cost of these cuts will be borne by the world's poor. The World Food Program is able to fund its feeding programs for Syrian refugees **only on a month-by-month basis** due to budgetary constraints. A smaller aid budget will mean fewer

refugees fed. Is that fair?

Notes:

1. Comparisons of the \$3.7 billion saved by these aid cuts and the \$7.6 billion saved by the aid cuts in the May budget should be avoided. The MYEFO cuts are in fact much larger. The former figure was relative to a counterfactual of increasing aid, which may or may not have transpired. In any case, the only way to sensibly compare aid over time is by tracking historical and projected increases and decreases. The last budget would have produced a 10% real cut by 2015-16 compared to the pre-Coalition base of 2012-13. This MYEFO adds another 28% cut to this year's base by 2016-17. Combined, they deliver a 33% cut by 2016-17 relative to 2012-13.

2. Multi-year aid cuts are defined as consecutive non-positive changes to aid over a period of years by the same government.

3. An earlier version of this blog said at one point that most of the cuts were in 2014-15. This was a typo: most of the cuts are in 2015-16; there are no cuts in 2014-15. And the 2014/15 aid/GNI ratio is 0.32% not 0.34%.

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Link:

<https://devpolicy.org/biggest-aid-cuts-ever-produce-our-least-generous-aid-budget-ever-20141215-2/>