

Did Labor inflate future aid by over \$3 billion?

by Robin Davies

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Photo Credit: 26 October Senate Estimates/ParlView

In a word, no. But that's what the Shadow Foreign Minister Simon Birmingham **claimed** during a hearing of the Senate Committee on Foreign Affairs, Defence and Trade on 26 October.

The claim was elaborated in a Coalition media backgrounder released the same day which said:

[T]he Government's claimed \$8.6 billion increase over 10 years to Official Development Assistance (ODA) from 2027-28 is seriously overestimated because of undisclosed cuts in Labor's first Budget.

... Labor's claimed \$8.6 billion boost from 2027-28 is over-stated by more than \$3.2 billion, compared to the Coalition's last foreign aid Budget, projected over the same period.

He based this claim on **analysis the Coalition commissioned** from the Parliamentary Budget Office (PBO), which he released along with the media backgrounder – all indicating quite a bit of forethought and confidence.

The claim was thoroughly unanticipated and confusing from the perspective of the assembled senior departmental officers. The Department of Foreign Affairs and Trade's Secretary Jan Adams could only say that there had been no government decision to make aid cuts in Labor's first budget in October 2022. It was dramatic enough to warrant a mention in that evening's ABC Radio National news bulletin.

How did the Coalition arrive at this startling "rubbery figures" conclusion?

The Labor government announced in the 2023-24 budget that from 2027-28, the year beyond the current forward estimates period, Australia's ODA would grow at the rate of 2.5% per annum for ten years, at a total cost to the budget of \$8.6 billion (**Budget Paper No. 2**, page 115). This growth is relative to a fixed baseline, the 2026-27 aid volume level of \$4.87 billion, whose real value will of course decline over the decade. This was an unusual and rather low-impact announcement, but never mind.

From the [data table](#) provided to the PBO by DFAT, we see that Labor's \$8.6 billion costing was arrived at straightforwardly by taking the planned 2026-27 ODA budget, \$4.87 billion, as the base figure and then applying the 2.5% growth factor for the following decade. The cumulative cost of increased spending above the base is \$8.6 billion; that's all.

Earlier, in its final ODA budget in March 2022-23, the [Coalition had announced](#) the resumption of ODA indexation – with the Consumer Price Index (CPI) acting as the growth factor – after holding aid flat at \$4 billion per annum for three years. They didn't say anything about how long this indexation would last; the default assumption had to be that it would apply for the relevant forward estimates period.

Enter Birmingham, normally a level-headed actor, who with three questionable moves felt that he had checkmated his opponent, Foreign Minister Penny Wong.

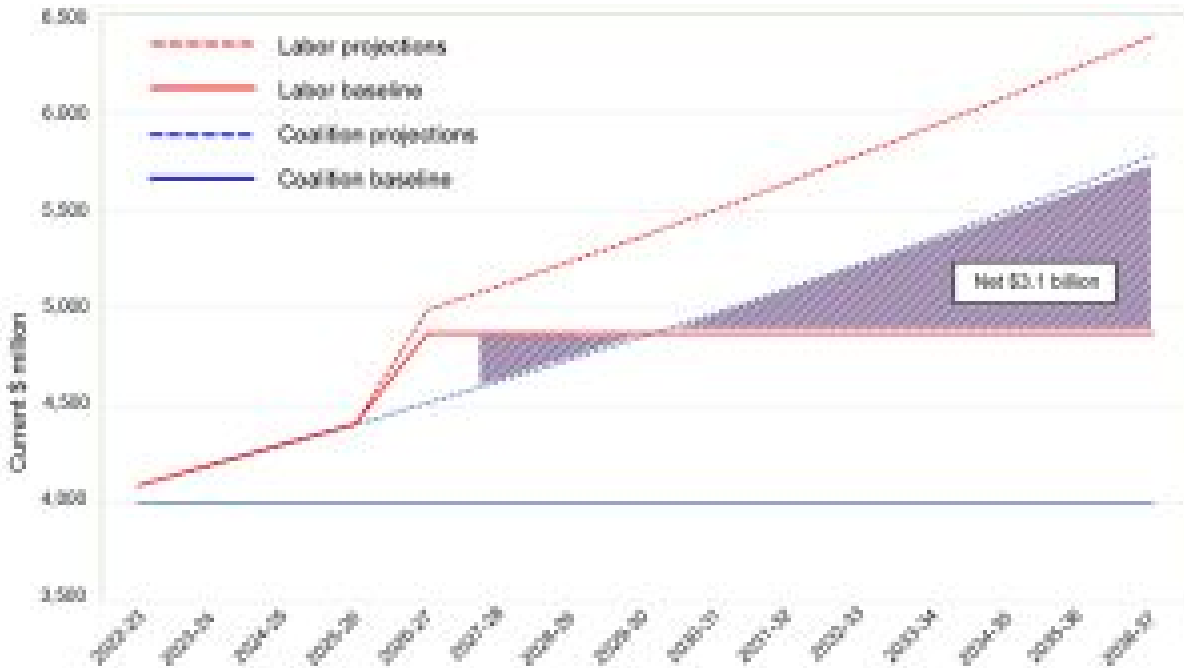
First, he chose to interpret Labor's ten-year budget pledge as a pledge to increase ODA by \$8.6 billion above some concept of business as usual – whereas, as above, that number was merely given as the cost of applying the 2.5% growth factor to a \$4.87 billion base for a decade.

Second, he defined business as usual in terms of the Coalition's 2022-23 budget outlook, which included indexation – despite the fact that de-election renders a government's policy promises null and void. Moreover, he assumed indexation would have continued until at least 2036-37, taking in the whole ten-year period covered by Labor's pledge.

Third, and most confusingly, he asserted that Labor had sneakily switched off the Coalition's indexation in its October 2022 budget and then switched it back on again in the March 2023 budget so that it could use the October 2022 budget outlook as a lower base for its ten-year pledge and thus inflate the value of that pledge. This mirrors a statement in the PBO brief, which asserted that at the 2022-23 October budget Labor had "cancelled" indexation for ODA projections for all years beyond 2026-27.

And where does the \$3.2 billion discrepancy come from? This was not calculated or mentioned in the PBO brief. Looking carefully at the numbers, it would seem the Coalition has applied Labor's 2.5% growth factor over the relevant ten-year period (perhaps reasonably, though they had actually pledged index to inflation which might run higher), and then worked out how much of Labor's increased spend might have happened anyway under the Coalition. The difference, actually \$3.1 billion, is the purple shaded area in the chart below.

Figure 1: Labor vs Coalition ODA volume commitments, 2022-23 to 2036-37



Note: Excluding targeted and temporary measures.

In short, if one takes the Coalition’s aid budget projections from March 2022 and extends them out to 2036-37 using a 2.5% growth factor, and accepts this as a baseline for Labor’s projections, then the amount of additional ODA that Labor would need to provide in order to deliver the aid volumes it has foreshadowed for the 2027-28 to 2036-37 period would actually be \$5.5 billion, not \$8.6 billion. That’s the Coalition’s logic.

But Labor clearly didn’t claim it was going to spend \$8.6 billion more than the Coalition would have spent over the decade in question. Nobody has any idea what the Coalition would have spent, though it’s a safe bet that CPI indexation would have been immediately abandoned in a Coalition 2023-24 budget, given that inflation hit 6.59% in 2022. Labor said simply that the cost of applying a growth factor to the 2026-27 base ODA volume would be \$8.6 billion. Governments can hardly be expected to take former governments’ long-term, soft policy commitments as baselines for their own.

Further, nobody decided or needed to decide to switch off the Coalition’s aid indexation policy in October 2022. Again: governments don’t toss out former governments’ policies; electorates do. The lights went out on that policy when the Coalition lost office.

In sum, the claim that Labor inflated estimates of future aid was a misfire. The PBO bears a little of the blame, but mostly it’s a case of straining for controversy. At least it got Australian aid a rare mention in the news outside the realm of emergency response.

Author/s:

Robin Davies

Robin Davies is an Honorary Professor at the ANU's Crawford School of Public Policy and Managing Editor of the Devpolicy Blog. He previously held senior positions at Australia's Department of Foreign Affairs and Trade (DFAT) and AusAID.

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