

Why has the Coalition cut foreign aid (again)?



by Matthew Dornan

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Another year, another budget that singles out foreign aid for cuts. This year, future growth of the aid budget has been reduced by \$303 million, with that money redirected toward ‘other priorities’. These reductions come on top of past cuts to the aid budget, which has declined in real terms by over 30% since the Coalition came to power.

The government claims to be supportive of a strong aid program. But how can that be if it keeps cutting foreign aid in order to spend money in other areas? How to explain the most recent diversion of funding?

It is clear that there is a consensus within the Coalition party room that Australia’s foreign aid program should be assigned a lower priority and given less resources. What is behind such thinking?

Below I list the three most commonly made arguments for lowering the foreign aid budget, and explain why these arguments are fundamentally flawed. I conclude with my own sombre conclusion as to why I think foreign aid has been targeted (yet again).

1. The budget emergency

The rationale first given by the Coalition government for cutting the aid program was that Australia’s budget was in crisis. The narrative was that too much spending by the previous government had forced the Abbott government to take drastic action. Foreign aid had to play its part.

That argument has been made again and again by the Coalition.

Julie Bishop, speaking at the Australasian Aid Conference in 2014, **stated that:**

“Now we have had to make some pretty tough decisions this year.

We inherited a deteriorating budget from the previous government – cumulative deficits of \$123 billion.... So the government was borrowing from overseas to pay our bills and our aid program – borrow overseas to send overseas.

So we have to get our budget under control, and this means that the aid program, like every other government program, had to be put on sustainable footing. Our domestic budget outlook meant that I had little choice but to reduce this year's aid budget and I did so by reducing it by about \$100 million over last year."

Scott Morrison **noted** several years later, as he oversaw further cuts (in 2016-17) to foreign aid, that:

"It's regrettable, it grieves me, I know it grieves [Foreign Minister] Julie [Bishop]." [But] "when I gave that [maiden] speech, we had \$40bn in the bank and Labor blew it all. They blew it all, with reckless policies that set fire to the budget."

The budget emergency argument doesn't stand up to scrutiny when the cuts to foreign aid are viewed in their broader context. Foreign aid comprises less than 1% of federal government spending (far less than Australians commonly think). Even abolishing foreign aid would do little to put the government back in the black.

More importantly, it is clear that the Coalition has singled out foreign aid for cuts. Government spending since the Coalition took power has climbed over 10% after inflation. Over the same period, foreign aid has declined by more than 30%. The figures speak for themselves. This is not about foreign aid pulling its weight. Aid has been singled out for cuts that are disproportionate relative to other areas of spending. Clearly cutting the aid budget is about priorities for the Coalition, not about fiscal restraint.

2. Charity begins at home

A second related argument for reducing the foreign aid budget is that the needs of Australians should come first. Jacqui Lambie is the Member of Parliament who has

most forcefully made this case. In 2015, Lambie's new political party **called** for foreign aid to be halved, with savings to be redirected to universities, as part of its platform. In the lead up to 2016-17 budget, she **called** for the same reduction, although this time argued that the funds should be redirected to age pensions. In making her demands, she has claimed:

"I make no apology for putting poor Tasmanians and Australians first — before any other country's people."

This argument clearly holds some sway within the Coalition, although it is (generally) not taken to the extreme pursued by Lambie. The 'problem' of borrowing from overseas to fund aid has been mentioned by the Foreign Minister and two successive Treasurers (despite borrowing being a standard element of fiscal management). Just last week, Liberal National MP George Christensen **called for foreign aid to be suspended** in the aftermath of Cyclone Debbie. In his words:

"People had their homes blown to pieces, flooded, and left without electricity for more than 10 days but have been denied disaster relief funding. Meanwhile, they hear on the news that Australia has just committed another \$320 million in foreign aid to Afghanistan."

At its heart, the 'charity begins at home' argument is about portraying spending on foreign aid as an either/or—either you spend money on the poor and needy in Australia, or you spend it on the poor and needy overseas. That simply isn't the case. The budget is far more complex. Australia could afford to increase spending in education, to increase the aged pension, and to respond to domestic disasters while not reducing aid. But the government would need to increase taxes, or to cut spending in other areas.

Like the 'budget emergency' argument, the 'charity begins at home' argument is about budget priorities. The underlying premise of calls to cut aid is that every other form of spending (or tax concession) should be accorded higher priority than foreign aid—be it MP perks, tax breaks on negative gearing, on income from superannuation, funding for private schools. That's a value judgement, and the likes

of Jacqui Lambie are entitled to their view, though I doubt she or any other politician would be willing to defend all public spending as being a higher priority than foreign aid. But it is a misrepresentation to portray cuts to aid as a choice between prioritising spending on poor and needy people in Australia as opposed to those overseas.

3. Aid doesn't work

A third argument for cutting the foreign aid budget relates to effectiveness. The argument can be summed up as follows: 'trade, not aid, pulls people out of poverty; aid can actually harm growth by undermining economic incentives.'

This argument is also flawed, but at least it contains an element of truth. Trade is more important than aid for reducing poverty, or to be more specific, it has been over recent decades. That's hardly a surprise. Total aid in 2016 was \$140 billion—one-third the amount of remittances that workers from developing countries sent home from employment in developed countries, and less than one-fifth that of foreign direct investment to developing countries. In PNG, a country often portrayed by the Australian press as aid dependent, total aid per person each year is about \$90. Does anyone really expect \$90 per person to pull people out of poverty *en masse*?

That isn't to say that aid doesn't help recipients, nor that it can't alleviate poverty. Macroeconomic **evidence** suggests that aid reduces poverty and increases economic growth. Indeed, people generally forget that countries like South Korea and Taiwan, before they were wealthy, received considerable foreign aid. It is often more meaningful to look at what aid does on the ground, given challenges in measuring small changes at the macro level. Here again, at the micro level, the evidence is clear. Foreign aid reduces poverty. It enables children to go to school where they otherwise wouldn't. It facilitates access to markets, enabling people to sell their produce. Australian aid literally saves thousands of lives every year through access to immunisation and to medicines.

That said, the effect of foreign aid depends on what is given. The Coalition in its four years of office has slashed the foreign aid budget. In doing so, it has damaged poverty alleviation efforts.

The political cost has been **minimal**—and in my view, this is important. It would not be unreasonable to argue that a political calculus is behind the targeting of foreign aid. The primary beneficiaries of foreign aid live overseas and don't vote; NGOs might protest, but their staff would in all likelihood vote Labor or Greens anyway (or so the calculus would go). Furthermore, there is political support to be gained by cutting foreign aid, especially among those who might otherwise vote for One

Nation. This would be a cynical basis on which to target foreign aid. But it would be logical. The other arguments don't stand up to scrutiny.

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