# *Forum*
# Foreign Aid and Australian Aid Policy

Debesh Bhattacharya *

Few issues of economic development arouse such deep emotions or controversies as the role of the foreign sector. Most orthodox economists believe that foreign aid, investment, technology and transnational corporations (TNC) are important contributory factors to economic development. On the other hand, the neo-Marxist paradigm suggests that the present system revolving around the foreign sector represents the continuation of domination over the developing by developed countries. Foreign aid, investment, technology and TNC are regarded as tools of neo-imperialism, the devices by which developed countries continue to retain control over the economies of the ex-colonies. The role of foreign aid in economic development is also criticised by some extreme right scholars who argue that foreign aid is neither necessary nor sufficient for economic development.[1]

In Section 1, foreign aid will be analysed both from the orthodox as well as from neo-Marxist positions. The main features of Australian recent foreign aid will be discussed in Section 2. The policy implications and some recommendations will be made in the final Section 3.

## 1 Foreign Aid and Economic Development

Foreign aid is usually defined as a transfer of real resources and skills from one country to another, which could not have taken place as a consequence of the normal operation of market forces. It is bilateral when aid is given by one government to another. It is multilateral aid when the governments have no direct responsibility apart from the provision of funds given to international organisations (*e.g.* the World Bank) to administer. Private donations from voluntary organisations such as Community Aid Abroad of Australia are also included in foreign aid.

Hence foreign aid is ambiguous and heterogeneous in character and there is no common agreement on its definition and measurement. It could be all in grants which need not be repaid by the recipient countries. It also could include loans given at concessional terms, *i.e.* at interest rates which are lower than those in the market. Loans at varying rates of interest and varying terms of repayment, grants in convertible currency and grants which are tied to spending in the donor country, sometimes in specific commodity uses, are all counted as aid. In some loans and tied aid, the element of sacrifice on the part of the donor may be minimal - the commodity may be a surplus or a gift may be a means of creating a future market. Since loans must be repaid, we should estimate the "grant element" in them to derive an economic measurement of aid.

From the point of view of the donor country, the grant element is the real cost of providing the loan, which is estimated by the benefit foregone by not putting the resources to their best alternative use at home. If foreign aid is in the form of grants only, then the nominal value and the grant element will be identical. The donor has foregone the use of the resources forever. If the aid is in the form of a loan, the lender loses the use of these resources initially but their use is not completely foregone, merely postponed, since the loan will be repaid in future instalments and the lender may also receive interest payments. In this case, the grant element of aid depends on the terms of the loan, interest rate and repayment schedules. Thus an interest-free loan of $100 repaid in equal annual instalments over 25 years will cost the donor $30.40 if discounted at 3 per cent but $48.90 if discounted at 6 per cent (Healey 1971, p.16).

Foreign aid can be tied either by source (*i.e.* tied to procurement of goods and services of the donor country) or by projects (funds can be spent only on

* University of Sydney. This paper was commissioned by the Editors.

[1] Bauer (1971, pp. 96-132); Bauer and Yamey (1982). Foreign aid is one issue where the views of the extreme right and left converge.

end-use and not on raw materials or intermediate products). In either case the real value of this aid is reduced to the recipient country compared to a situation in which the funds could be used to buy goods and services from the cheapest or most preferred international source.

The major aid donors in the developed countries comprise the members of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD). The DAC records the "flow of long-term financial resources to less developed countries and multilateral agencies." This presentation includes both government flows and private investment. In order to identify the grant element in the government flows, the DAC report divides these flows into Official Development Assistance (ODA) and other official flows. To qualify as ODA, government flows must (a) be administered with the promotion of the economic development and welfare of developing countries as their main objective; and (b) have financial terms which are concessional in character.

### 1.1 Orthodox Theory of Foreign Aid and Economic Development

Most orthodox economists believe that foreign aid is making a contribution to the transformation of developing countries by raising the level of skills and by providing strategic goods and services not produced in these countries. Foreign aid is seen as supplementing those domestic resources, the paucity of which forms the dominant bottlenecks to economic development. Their arguments can be summarised in the following way:

(1) Owing to the poverty and limited domestic resources of developing countries, virtually all the additional capital needed to launch the growth process (*i.e.* the cost of essential materials and resources to maintain those engaged in development works during the gestation lag) must come from external assistance. The increase in total investment resources following foreign aid will have a multiplier effect on national income and productive capacity of developing countries. Thus, with the help of foreign aid, these countries can grow at a faster rate than that permitted by their domestic savings alone.

(2) Developing countries need much more food, capital equipment and raw materials. Even if they could by saving set free enough resources, they would have great difficulty in exchanging them for those they wanted. Foreign aid is likely to have a very high productivity when there is a structural deficit in the balance of payments of the developing countries. For example, according to Bennathan (1968) "in India, a hundred dollars' worth of additional production could be added to the existing output of the economy, if only four dollars' worth of foreign exchange were available". [2]

(3) The low rate of technological progress, limited research and development facilities and the scarcity of skilled manpower in developing countries operate strongly at all stages of development by keeping productivity low, holding down the level of productive investment and preventing the best possible use of a country's physical and human resources. The total increase in skilled manpower that results from the capital and technical assistance provided may enable developing countries to achieve the structural changes necessary for economic development.

For example, if any basic investment is made with the help of foreign aid, then the basic investment itself will form the nucleus around which subsidiary investments will grow up. If basic investment like road building in Papua New Guinea is done by Australian skilled people and sophisticated equipment, the local people will also be trained in the process to use modern productive factors and methods so that these new roads can be maintained and others constructed by the local people themselves. Furthermore, the roads will open up hitherto remote areas enabling people to market the goods they produce, and other subsidiary industries like automobile production and building may grow up with considerable economic benefit to the recipient, in this case Papua New Guinea.

Foreign experts working in developing countries can impart their skills and knowledge to a large number of people. Also, developed countries can help developing countries by continuing to take overseas students. When overseas students are

[2] One should be extremely careful about the validity of this kind of calculation; and his claim that foreign exchange is such an important bottleneck is not accepted by most social scientists.

trained in a profession, a trade, or in some new techniques in developed countries, the students not only return to their own countries to use the skills they have acquired from developed countries for the rest of their working lives, but in many countries students will pass the same skills on to their fellow countrymen and women.

(4) Foreign aid in the form of medical assistance and food aid may improve the health and nutrition of the population and hence reduce mortality rates. Aid in the form of contraception and birth-control pills on the other hand may reduce the population explosion, thereby improving the standard of living.

The orthodox theorists do not deny that foreign aid also furthers the economic and political self-interests of the donor countries, but if this admission is made, they will insist that foreign aid is mutually beneficial for both the developed and developing countries.

Economic development is no longer regarded as synonymous with economic growth; it is more related to the basic needs strategy. For example, a country will be regarded as developing rather than growing if it can satisfy increasingly the basic needs of the poorest people for food, shelter and health care. The solutions to the problems of unemployment and underemployment are increasingly emphasised in any definition of economic development. This distinction between growth and development is vital if one wants to study the differences between the orthodox and neo-Marxist paradigms.

### 1.2 Neo-Marxist Theory of Foreign Aid and Underdevelopment

Most neo-Marxists will concede that genuine foreign aid may supplement the domestic resources of the recipient governments and countries (Hayter 1971, Hayter and Watson 1985, Griffin 1978). It can make possible more consumption and investment and even economic growth. But they will argue that it does not follow that foreign aid or investment will then increase the rate of economic development.

The grant element of most bilateral aid is rather low in most donor countries. A large percentage of foreign aid is in the form of loans. These have to be repaid and under certain circumstances, might aggravate the debt payment problems of developing countries. Bilateral aid may take any of three forms: (i) food aid; (ii) capital equipment aid; and (iii) technical assistance. Neo-Marxists argue that any of these types of aid may be hindrances to the economic development of developing countries.

There is a fair amount of evidence that the *food-aid* programs under PL 480 in the United States were motivated partly by a desire to dispose of the accumulating surplus generated by the price support programs. They were essentially in the nature of "dumping programs" in which the impact on the receiving country was something of a secondary consideration. Little wonder then that they retarded the growth of the domestic agriculture of the recipient. The effect was a dual one: by keeping agricultural prices down, they reduced the local farmers' incentives to produce more and also led the governments of developing countries into undue complacency about agriculture. The governments assumed that food aid would come to their rescue in the event of any serious food shortage, and consequently felt freer to divert their resources to many uneconomic industrial projects.

According to Magdoff (1969), 30 per cent of all agricultural exports of the United States are created by the foreign aid programs. This is because some of the American tied exports occur solely because of foreign aid financing. This is most easily seen in the case of a number of American commodities financed by funds from the United States Agency for International Development. The prices of such commodities are considerably above world market prices.

Most bilateral foreign aid programs are tied to the purchase of *capital equipment* manufactured in the particular donor country. This has often forced on developing countries technologies and equipment unsuitable to their needs. Western or Soviet technology has been evolved in conditions of labour scarcity and its central purpose is to save labour in relation to capital. The use of Western technology is encouraged in developing countries by attitudes towards modernisation and by the prestige attaching to it. Its transfer tends to aggravate the gross under-utilisation of labour from which these countries are suffering. The danger that developing countries, even though they have limited supplies of capital and a surplus of labour, will identify "modern" with "capital-intensive" techniques of production is evident in the acute unemployment problem from which most of these countries are suffering. Idle capacity is another noticeable feature of industrialisation with foreign capital equipment aid in developing countries. In the Philippines it is estimated that the average level of operation of existing industrial plants in only about half their capacity.

There are several reasons why capital-intensive production techniques with foreign aid programs may be responsible for the under-utilisation of capacity in developing countries. Effective utilisation of these production methods depends very much on the skill of the labour force, the maintenance of equipment and management efficiency. In developing countries, none of these factors are comparable with those in developed countries, for which the capital-intensive production methods were designed. Moreover, since most developing countries suffer from a shortage of foreign exchange, there are frequent work stoppages because of a shortage of imported spare parts. Where a large stock of spare parts is maintained, the consequent freezing of working capital represents a tremendous strain on reserves - reserves which could be better used elsewhere. Industrialisation projects with capital aid often absorb domestic inputs of greater value than the net output. This is especially so when administration costs and the explicit or implicit obligation to maintain and replace the fixed assets donated are also considered.

*Technical assistance* usually takes one of several forms. Students from developing countries may be allowed to study in developed countries, or the latter can send experts to the former. Students who study in developed countries receive an education not suited to their own country's development. Their education is geared to producing scientists, engineers and doctors capable of tackling the problems of developed countries. If these students return to their countries of origin it is often as the commercially-indoctrinated salespersons of Western technology, attitudes and social institutions. Most of those who study abroad come from wealthy families. They are not representatives of the masses of their own countries, which in itself largely prevents them from developing a responsiveness to local needs. The growth of an international market in professions such as medicine, science and engineering has led to the brain-drain problem, to the continual outflow of specialists from developing countries, which desperately need them, towards countries such as the United States, the United Kingdom, Canada and Australia which can offer them higher salaries and superior opportunities in their research and work interests. Eighty per cent of the Asian students studying in the United States remain there after the completion of their studies. More than half the Indian students who go the the United Kingdom tend to stay indefinitely.

When Western experts go to developing countries, they are seldom willing to stay long enough to understand local conditions and problems. They invariably recommend the adoption of practices of equipment use with which they are familiar. Their advice with regard to technology is bound to reflect ideas in developed countries. They also set a social pace with cars and imported drinks. The high standards of living they enjoy are likely to cause dissatisfaction among their local counterparts and lead to demands for higher salaries and fringe benefits. They can also accelerate the brain-drain problem.

Some of the supporters of foreign aid repeatedly point out what foreign aid *could do*. Unfortunately, they do not ask what foreign aid *is actually doing* to developing countries. What foreign aid could do is very different from what it is in fact doing. In the name of foreign aid, most developed countries are doing profitable business. Foreign aid has become a method by which these rich countries maintain a position of influence and control around the world. Most foreign aid programs are tied; and aid-tying brings an immediate accession of an export market to the donor and usually leads to a flow of subsequent (and usually unaided) orders for spares and replacements.

Foreign aid has become a useful way of making initial contact with new and potentially profitable markets. John F. Kennedy used to cite the cases of Taiwan, Colombia, Israel, Iran and Pakistan as examples of countries whose import patterns had been drastically affected by foreign aid. They used to be the exclusive markets of European countries.

The United States also uses economic aid as a weapon in obtaining treaties to protect American investments. This is done in connection with the Investment Guarantee Program, which is administered by the United States Agency for International Development. The Investment Guarantee Program provides insurance for American citizens and corporations investing abroad against losses due to nationalisation and inability to convert income to US dollars.

Foreign aid programs of the Soviet Union and China are also based on political rather than humanitarian motives. The initial willingness of the Soviet Union and China to offer aid to developing countries stemmed from a desire for recognition as superpowers and neutralism on the part of these countries in East-West cold war disputes. Their primary objective now is to instil a preference for their type of institutions and to destroy the economic relations between the capitalist West and developing countries. By weakening the ties between developing countries and the Western powers, the Soviet Union hopes to achieve a decisive leverage effect upon the capitalist countries, in the expectation that the "inevitable" crisis of capitalism will be hastened as markets and sources of raw materials are cut off. In these circumstances, their aid programs are not likely to have any serious concern for the economic development of developing countries and they may well be detrimental in this regard (Bhattacharya 1973, 1978, 1984).

Moreover, it is worth pointing out that the socialist bloc's contribution to developmental-aid schemes is minimal. The impact of DAC aid has been far greater and it is this impact which is the primary focus of the neo-Marxist writers.

Multilateral aid is no more productive, since it is prompted (like its bilateral counterpart) more by donors' interests than by consideration of the needs of the recipients. According to Hayter (1971), the existence of aid can largely be explained in terms of an attempt to ensure that such economic growth as does take place in developing countries is firmly rooted in capitalist ways and practices. Because the international agencies rely on funds from developed countries in the West, their aid policy is an integral part of the foreign policies of these capitalist countries. International agencies like the World Bank use their considerable "leverage" in developing countries to achieve results compatible with the policies of the capitalist countries. Benefits to recipients are incidental; for the most part this type of aid is as detrimental to them in the long run as that given bilaterally.

Furthermore, the extravagantly high administrative costs associated with foreign aid from the international agencies and the private voluntary aid organisations are not known to the people of both donor and recipient countries. International technocrats, social workers, and voluntary aid organisations are absorbing a substantial part of developmental funds and collected money meant for the poor. A large percentage of the aid fund which is collected from door to door in campaigns run by private organisations is reduced to a mere trickle by the time it has filtered through all the layers of bureaucrats, consultants and observation teams, and finally reaches the people it is supposed to help.

Neo-Marxist writers also point out that foreign aid is like a Trojan Horse. If foreign aid were not forthcoming, many fundamental reforms of the global capitalist system would have been seriously contemplated. There would have been a serious demand from developing countries for more access in the markets of the capitalist and socialist countries for their products. Foreign aid, as we know it, does have its beneficiaries. It benefits the privileged classes of people within the recipient countries, notably a few capitalists, bureaucrats, academics and especially politicians of the ruling parties in developing countries. It helps to maintain the ruling elites that have more often than not no serious concern for the economic development of the masses, and wish only to perpetuate their own privileged positions in the community. The poorest groups in developing countries are hardly touched by aid. Also, by transferring unsuitable institutions, attitudes and technology from the developed to developing countries, the dualism in the economic structure of the developing countries is strengthened and the possibility of significant economic development is, in fact, diminished.

However, neo-Marxists would have to demonstrate that all types of foreign aid are detrimental to economic development. If some countries are genuinely willing to help developing countries by offering 100 per cent aid in grant form without any strings attached to by the donor countries, it is most likely that developing countries will be receiving genuine foreign aid, which could be used as an instrument to meet the needs of the poorest people for food, employment, shelter and health care. Some international non-government organisations have found that foreign aid of $50 to $100 to the real poor, who have used those aids for baking and selling bread, soap and other necessities, is able to promote economic development. What foreign aid is doing now is very different from what it could do under the right circumstances and conditions.[3]

## 2 Main Features of Recent Australian Foreign Aid

The *Report of the Committee on Australia's Relations with the Third World* (better known as the Harries Report) advocated the following reasons for giving aid:

(1) Australia is an affluent country in a region of much poverty, and many "Australians feel it to be a proper part of their country's ethical make-up that it accept responsibility to improve the living conditions of poorer people" in developing countries;

(2) Aid serves Australia's national interest by promoting regional and national stability. Balanced economic development in the developing countries will help ensure continued prosperity for Australia;

(3) Aid may be a useful tool in developing relationships considered desirable for broader foreign policy reasons; and

(4) As developing countries are achieving more and more economic and political influence, "it is to Australia's advantage to be clearly seen to be assisting development" (Harries 1979, p.136).

Since 1945 Australia has provided some $10 billion as ODA to developing countries. The total Australian ODA can be roughly divided between bilateral and multilateral in the ratio of 80/20. Australia has provided this aid all in grant form since the mid-1970s. While 19.4 per cent of Australian aid was tied to the purchase of Australian goods in 1976, the proportion increased to 28 per cent in 1985. Over the same period, the DAC average has declined from 62.9 per cent to 44 per cent. Australia's project aid has been tied to procurement here and hence could be regarded as a subsidy for its industry. Australian aid has not been allocated to the basic needs approach to development on the grounds that "Australian interests would not appear to be served by giving our aid programming a basic needs orientation" (Harries 1979, p.137).

Australian aid to developing countries during the year 1988-89 is estimated to be 0.36 per cent of its GNP - the percentage has been declining since 1975 when it stood at 0.6 per cent. From 0.5 per cent in the years 1983-85, it dropped significantly to 0.46 per cent in 1985-86, to 0.39 per cent in 1986-87 and to 0.36 per cent in 1987-88. Even this figure does not tell the whole story, because it includes the subsidy given to private students. To make it more relevant and comparable to pre-1984 figures if the subsidy given to private students is excluded, the real figure is 0.35 per cent of GNP. When one considers the dramatic decline in the value of Australian dollars, real aid is now surely the lowest during the last two decades.

The Overseas Aid Outlays and the major recipients of the Australian Bilateral Aid during the four years to 1988-89 are given in Table 1. Table 2 shows the distribution of aid during the years 1985-86 and 1986-87.

It is clear from Tables 1 and 2 that the Australian Government has accepted the recommendations of the Jackson Committee (Jackson 1984), which recommended the following classification of recipient countries:

[3] Hayter and Watson (1985) support the foreign aid programs of the Scandinavian countries and the Netherlands.

**Table 1: Australian Overseas Aid Outlays 1985-1989 ($million)**

| | 1985-86 Actual | 1986-87 Estimate | 1987-88 Actual | 1988-89 Estimate |
|---|---|---|---|---|
| Bilateral Aid | 749.5 | 736.6 | 753.6 | 823.9 |
| Multilateral Aid | 238.8 | 187.7 | 209.1 | 213.4 |
| Overseas Aid-other | 15.2 | 17.0 | 21.0 | 20.4 |
| Total Aid | 995.5 | 941.3 | 983.8 | 1,057.7 |
| Papua New Guinea | 320.2 | 304.5 | 275.0 | 275.0 |
| Indonesia | 51.0 | 7.8 | n.a. | n.a. |
| Philippines | 14.1 | 21.1 | n.a. | n.a. |
| Thailand | 26.6 | 19.5 | n.a. | n.a. |
| China | 16.9 | 16.5 | n.a. | n.a. |
| Burma | 12.1 | 12.6 | n.a. | n.a. |
| Bangladesh | 3.8 | 12.3 | n.a. | n.a. |
| Hong Kong | 11.8 | 10.4 | n.a. | n.a. |
| Egypt | 9.3 | 9.7 | n.a. | n.a. |
| Ethiopia | 8.9 | 8.0 | n.a. | n.a. |
| Laos | 3.8 | 6.0 | n.a. | n.a. |
| Pakistan | 5.5 | 5.9 | n.a. | n.a. |
| Solomon Islands | 5.6 | 5.8 | n.a. | n.a. |
| Singapore | 6.3 | 5.6 | n.a. | n.a. |
| Vanuatu | 5.0 | 5.6 | n.a. | n.a. |
| Tonga | 4.7 | 4.9 | n.a. | n.a. |
| Western Samoa | 5.9 | 4.3 | n.a. | n.a. |
| Kenya | 3.9 | 1.4 | n.a. | n.a. |
| Tanzania | 3.8 | 0.6 | n.a. | n.a. |

**Sources:** This table is reproduced from a) Australia Treasury (1988, p.259) and (1987, p.257), and b) Australian Foreign Affairs and Trade (1988, p.7), and c) the statement of 1986-87 appropriation for the Australian Development Assistance Bureau. It includes Aid Projects, Training, Staffing Assistance, Bilateral Food Aid, Development Import Grants and Cofinancing. It also includes the contribution towards the education in Australia of students from some of these countries.
n.a. not available

**Table 2: Distribution of Aid by Australia during the years 1985-86 and 1986-87 ($million)**

| | 1985-86 appropriation | 1986-87 appropriation |
|---|---|---|
| Development import grants | 10.8 | 6.6 |
| ASEAN/Australia economic cooperation | 11.0 | 7.0 |
| Development import finance facility | 16.5 | 16.0 |
| Co-financing of projects with international financial institutions | 13.8 | 11.6 |
| Contribution for education in Australia of students from developing countries | 101.0 | 88.0 |
| Bilateral food aid | 58.0 | 50.0 |
| World Food Program | 63.0 | 30.0 |
| UN Development Program | 16.0 | 14.0 |
| UN High Commissioner for Refugees | 4.7 | 4.0 |
| UN Fund for Population Activities | 1.1 | 0.2 |
| Other UN & specialised agency programs | 4.6 | 0.8 |
| Emergency humanitarian assistance and disaster relief | 16.0 | 10.0 |
| Development education and public information | 0.3 | 0.2 |

**Source:** 1986-87 Appropriations for the Australian Development Assistance Bureau.

(1) Papua New Guinea and the island States of the South Pacific and Indian Ocean.

(2) South East Asia.

(3) China and South Asia.

(4) Other developing countries, mainly from Africa and Latin America.

The Jackson Committee recommended that Australian aid should concentrate on the first two categories - *i.e.* countries which are of more strategic, political or commercial interest to Australia. Consequently African and Latin American poor countries are virtually ignored in Australian foreign aid calculations. In recent years, the maximum share of aid going to Africa was never more than 9 per cent of the aid budget compared to about 45 per cent to Papua New Guinea and 30 per cent to South East Asia. In 1985-86, this figure for Africa declined to 7.6 per cent and to about 5 per cent in 1986-87. The cuts in contributions to United Nations agencies will also affect African countries on top of aid cuts to Tanzania by 35 per cent, to Zambia by 49 per cent and to Zimbabwe by 56 per cent. Uganda does not come into any calculation at all. Food aid to Africa has continued to fall as a share of total ODA and there has been a 52 per cent decline in Australian commitment to the World Food Program.

The Jackson Committee had recommended that the amount of aid channelled through non-Government Organisations (NGO) should increase, while the 1986 Australian Budget reduced the amount of aid through the NGO by 18 per cent. Hayden (1984, p.11) admitted that:

> ... about 94 per cent of project aid expenditure was provided as goods and services sourced in Australia... All consultancy and technical services undertaken as part of aid projects are contracted to Australian consultants or experts... Australia provides commodity aid under the Development Import Grants Scheme (DIGS). DIGS can only be used for the purchase of goods, and occasionally services in Australia... Aid funds provided for the cofinancing facility with the World Bank, are tied to the provision of Australian goods and services... Development Import Finance Facility (DIFF) is Australia's mixed credit scheme; it provides grant aid funds to enable developing country governments to purchase capital goods and services from Australia on the basis of financial packages comparable to those offered by our competitors. DIFF has supported companies in contract negotiations worth $486 million.

The Jackson Committee was highly critical of DIGS and DIFF on the grounds that they have become a serious threat to the developmental objectives of aid. On the other hand, the Department of Trade wants to promote Australian aid in projects which will be of commercial advantage to Australian industry and trade.

It is worth pointing out that Australian public opinion is not reticent to accept sacrifices in favour of developing countries. In fact, Table 3 shows that Australians are prepared to make more sacrifices than the French, British, Americans or Germans.

## 3 Policy Implications and Recommendations

One may seriously wonder whether in Section 1 negative and detrimental aspects of foreign aid have been greatly exaggerated while positive and rewarding aspects were almost ignored. The objective was not to make the reader cynical about the development and underdevelopment issues. However, those who are going to get involved ought to be able to judge both sides of any argument before they are convinced about the merits of their point of view.

(1) The definition of aid is obviously a misnomer. Many of the existing aid programs might instead be called export subsidy, public insurance for foreign private investment or maintenance of the status quo in the existing relationship between the developed and developing countries. However, humanitarian aid of 100 per cent in grant form is possible. There are people who want foreign aid as the extension of the principles of the welfare state to the international sphere. To developed countries like Australia it should be as much a matter both of moral obligation and of self interest as is progressive income tax for the rich. I have no quarrel with that approach.

**Table 3: International Attitudes to Foreign Aid (% of respondents)**

QUESTION: Would you personally make additional sacrifices in favour of developing countries?

| | Australia | France | United States | United Kingdom | Federal Republic of Germany |
|---|---|---|---|---|---|
| Yes | 48 | 23 | 23 | 26 | 19 |
| No | 48 | 58 | 60 | 58 | 61 |
| Don't know | 4 | 13 | 17 | 16 | 20 |

**Sources:** Opinion Polls in France, the United States, the United Kingdom and Federal Republic of Germany were reported in *Development Forum*, December 1977. The Australian figure was from *Australian Public Opinion Poll (The Gallup Method)*, July 1978. More recent surveys (for example, *Overseas Aid - What Australians Think*, Australian Council for Overseas Aid (ACFOA), Canberra, 1983) point out that Australians have overwhelmingly endorsed the humanitarian purpose for giving aid.

The only point which needs to be emphasised is to abandon the term foreign aid altogether and substitute it by "Global Taxation". Otherwise the use of aid continually enhances feelings of superiority by the donor governments, who adopt a patronising attitude to the recipient countries.

In an illuminating essay on "Collective Responsibility", Antoine observed:

> Individuals, groups and nations which, even by ethical means have secured for themselves an advantageous, strong and prosperous position in the world, and by so doing have impeded (even if it is only indirectly because goods available on this planet are limited) the economic development ... of other individuals or other peoples, are responsible to the latter for their deprivation and they ought to remedy it, by making use of the very possibilities which their better position confers on them ... an obligation in justice can exist as a consequence of our acts even when no fault of injustice has been committed (quoted in Goulet 1976).

For Australia, guilt — in the form of imperialism, exploitation and racism - there surely has been during the last two hundred years. Nevertheless, even where there is no guilt, there is responsibility.

(2) It should be admitted that foreign aid can never contribute significantly to economic development. Its contribution could at best be very marginal. As a percentage of national income for many developing countries, the maximum potential contribution of foreign aid is at best minute. However, nobody could deny that it could play a significant life-saving role in the cases of emergencies and natural disasters. Perhaps developmental aid, carefully contrived and with the interests of the recipients as the focus, could provide a vital spark. That kind of developmental aid should follow a basic need strategy which would require concentration on the specific target group of very poor, unemployed and destitute in developing countries, rather than indirectly through first achieving economic growth. Even a small amount of aid could be used to meet the needs of the poorest people for food, shelter and health care. As Stevens correctly observed:

> Food aid is unlikely to have a negative effect and may well have a positive impact if supplied in good time and in the form of locally acceptable commodities to a food deficit country with energetic agricultural polices and as part of a broader package of measures designed to assist a poverty-orientated development strategy (Stevens 1979, pp.208-209).

(3) The present Australian Labor Government has been unable to implement its Party Policy of achieving the 0.7 per cent target in the first five years of office, *i.e.* by 1988. It is really deplorable the way this government has reduced the ODA/GNP ratio during the last four years. While other countries like Sweden, Netherlands, Norway and Denmark have already been offering more than 0.7 per cent of their GNP, this Australian government has become less interested in fulfilling this international obligation.

(4) Australian aid policy cannot be justified from the point of view of the basic need approach. Generally it has been used for political and strategic, and not for developmental purposes. However, one should not forget that the Australian agricultural system is one of the most efficient, and Australia's talents and experience are well suited to the provision of significant aid in developing the agricultural capabilities of developing countries. The problems of malnutrition and undernutrition could be solved by food aid which could also be used to employ the poor. Moreover, if Australia were following a more sensible and humanitarian aid policy, it could reduce aid where it is least needed to where there are alternative donors. Australia could have easily reduced aid to the Philippines, Indonesia, Malaysia and Singapore. It could have maintained or increased the amounts of aid given to the poorest countries of Africa and the South Pacific.

(5) Australia is in the big league of military spending. There has been ready finance for such spending, which usually takes 10 per cent of the Australian budget. $7.7 billion will be spent on Defence in 1988-89. If only a fraction of the money, humanpower and research presently devoted to such military spending were diverted to developmental aid, Australia would be meeting its international obligation. The realisation of a New International Economic Order and the meeting of basic needs are not possible until priorities are reversed and the developmental needs of humanity are given precedence over military spending.

## References


AUSTRALIA FOREIGN AFFAIRS and TRADE (1988), *Australia's Overseas Aid Program 1988-89*, Budget Related Paper No. 4, Australian Government Publishing Service, Canberra.

AUSTRALIA TREASURY (1987), *Budget Statements 1987-88*, Budget Papers No. 1, Australian Government Publishing Service, Canberra.

AUSTRALIA TREASURY (1988), *Budget Statements 1988-89*, Budget Papers No. 1, Australian Government Publishing Service, Canberra.

BAUER, P.T. (1971), *Dissent on Development*, Weidenfeld and Nicolson, London.

BAUER, P.T. and YAMEY, B.S. (1982), "Foreign aid: what is at stake?", *The Public Interest* No. 68, Summer, 53-69.

BENNATHAN, A. (1968), "Trade or Aid", London, mimeo.

BHATTACHARYA, D. (1973), "Foreign aid and underdevelopment", *Current Affairs Bulletin* 50 (1), 19-25.

BHATTACHARYA, D. (1976), "The Soviet line on aid", *Current Digest of the Soviet Press* XXVIII(40), 7.

BHATTACHARYA, D. (1978), "A New International Economic Order", *Indian Journal of Economics* LIX (11), 181-223.

GOULET, D. (1976), "World Interdependence: verbal smokescreen or new ethic," Overseas Development Council, paper 21, March, London.

GRIFFIN, K. (1978), *International Inequality and National Poverty*, Holmes and Meier, New York.

HARRIES, O. *et al* (1979), *Australia and the Third World: Report of the Committee on Australia's Relations with the Third World*, Australian Government Publishing Service, Canberra.

HAYDEN, W.G. (1984), *The Development Crisis and the North-South Dialogue; an Australian perspective*, Department of Foreign Affairs, Canberra.

HAYTER, T. (1971), *Aid as Imperialism*, Penguin, Harmondsworth.

HAYTER, T. and WATSON, C. (1985), *Aid - Rhetoric and Reality*, Pluto Press, London.

HEALY, J.M. (1971), *The Economics of Aid*, Routledge and Kegan Paul, London.

JACKSON, R.G. *et al* (1984), *Report of the Committee to Review the Overseas Aid Program*, Australian Government Publishing Service, Canberra.

MAGDOFF, K. (1969), *Age of Imperialism*, Monthly Review Press, New York.

STEVENS, C. (1979), *Food Aid and the Developing World*, Croom Helm, London.