

We're not really helping

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In the past five years Australia's overseas aid budget has doubled. In the next five years it will double again. By 2015 we will be spending \$8 billion a year on helping people overseas. All sides of politics support this, and many other rich countries are doing the same. But no one explains why it is happening. There is an uneasy sense that we might all be deluding ourselves.

So it seemed like a good idea when, late last year, Kevin Rudd announced a review of Australia's overseas aid program by an impressive panel of experts. Rudd recently released their report, and his response. The report is full of good sense about how to allocate and administer all the extra money. But neither the panel's report nor the government's response provides a really convincing answer to the bigger underlying questions about the purpose of our aid program and the reason it's growing so fast.

Perhaps they think the answer is obvious. Helping people in need is a good thing to do, and there are always more people who need help. But spending money in ways that makes no difference doesn't help anyone, and there is no virtue in aid that makes donors feel good but doesn't help the needy.

Of course some aid really does help. Most obviously, emergency relief after disasters such as Indonesia's tsunami can save thousands. But this accounts for only 7 per cent of today's program.

The vast bulk of our aid is supposed to help overcome long-term poverty. It is certainly a big problem; a billion people still live on less than \$1.25 a day. But there are two things about poverty we need to understand.

First, poverty is being overcome. In 1981, 54 per cent of the world's people lived in extreme poverty. By 2005 this had fallen to 25 per cent. In 2015 it will be less than 15 per cent, according to the World Bank.

Second, it's not being beaten by aid, but by economic growth. Many of the world's most populous nations, left behind two centuries ago by the industrial revolution, are finally catching up. What we used to call "the developing world" has in the past few years overtaken "the developed world" in economic output. In China, economic growth has lifted half a billion people out of poverty since 1990.

There is a strange alchemy to economic growth. It requires a remarkable confluence of factors - social, political and technological - to start whole populations moving from semi-subsistence farming to paid work. For decades, well-meaning Westerners have been trying to find out how to catalyse this process in poor countries. Different theories of development have driven successive fashions in aid, each new panacea discredited in its turn. Meanwhile, trillions of dollars and decades of devoted effort have done little.

Now, as we watch some of the world's poorest countries start to grow of their own accord, we can see more clearly that aid in any form (capital, technology, roads, schools, armies of technical advisers) does not make much difference. The alchemy of growth depends above all on social and political circumstances and institutions. What works in any particular place or time depends on myriad local factors. It has to be home-grown, not engineered from outside.

To see this we only need to look across Torres Strait. For almost 40 years, Australia's aid program to PNG has been one of the world's largest and most innovative, and yet PNG is no closer to sustainable economic growth or better living standards today than it was at independence in 1975.

So why, now that so many of the world's largest and poorest countries have found their own ways to grow out of poverty, are countries like Australia redoubling their aid programs? Of course the shrewd ones say that aid is not really about helping other people at all, but about serving Australia's national

interests. Both the review panel (rather coyly), and the government (more blatantly) acknowledge there is more to aid than altruism. No prizes for guessing that more aid to Africa and the Caribbean is all about our UN Security Council bid, or that the big program in Afghanistan is aimed primarily at impressing Washington.

But such flagrant cases aside, there is a lot of fuzzy thinking about how aid really does serve Australia's interests. Take the government's flagship project - building thousands of schools in Indonesia. It started under Howard as a way to combat terrorism by countering Islamic radicalism in Indonesia's education system. But Indonesia found its own way to do that, and it is anyway doubtful that building the schools gives us much influence over what is taught in them.

Advocates will answer that the program is a good idea anyway. More schools are vital to Indonesia's economic growth. That is certainly true, but Indonesians don't need us to tell them that. They would be building schools anyway. Our money simply displaces theirs, which they then spend on something else - something less important.

But we like this kind of project because Australians are wedded to an image of Indonesia as a country too poor to help itself. Think again. Indonesia is richer than Australia. Measured in purchasing power parity terms, which avoids exchange rate distortions and gives the truest index of relative economic weight, Indonesia's GDP is now significantly larger than ours. If we really cared about other people's poverty, we should be celebrating this, but instead we ignore it.

Indeed the rich West as a whole is in deep denial about the way the world is changing as wealth and power flows away from us to the developing world. And I wonder whether this is not, deep down, why we are all suddenly scrambling to give more aid? Any act of charity is, among other things, an assertion of power. Perhaps as power slips away, we feel more need to assert it.

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