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THE JACKSON REPORT ON AUSTRALIAN AID: THE UNDERLYING FRAMEWORK

David Lim*

Introduction

In late April 1983, Mr Bill Hayden, the Australian Foreign Minister, set up an independent committee under the chairmanship of Sir Gordon Jackson to review the Australian overseas aid program.¹ The report of the committee was tabled in Parliament on 7 June 1984.² In the subsequent public debate on the Jackson Report, it became clear that the committee's position on various key issues on aid and development was often misrepresented.

The misrepresentation could have been deliberate because the report adopted a strategy of development that was not universally accepted. It could also have been because the analytical framework adopted was not presented explicitly. The need to keep the report to a manageable size and the large number of issues that had to be covered, under the very wide terms of reference, might also have resulted in too terse a treatment of some of the central issues. This paper attempts to provide the analytical framework of the Jackson Report and to examine within this some of the important issues of aid and development.

Analytical Framework

Aim of Official Development Assistance

The Jackson Report took as its starting point the widely held view that the aim of aid is to help bring about the economic development of the recipient less developed countries (LDCs), and so in due course for these countries to become independent of the need for aid.

Economic development is defined as sustained economic growth, with a lowering of the incidence of poverty and a reduction in income inequality. This is also seen to include fundamental changes in the social fabric of the recipient LDCs.

Aid designed for economic development is known as official development assistance (ODA) and is not the same as emergency aid, which is given to cope with the effects of an unexpected disaster. It is also different from help granted in situations where prolonged oppression and neglect have left communities in a state of deprivation indistinguishable from that brought about by sudden disasters.

Reasons for Giving Aid

Why do developed countries (DCs) such as Australia give aid to LDCs so as to enhance the development of the latter? Three reasons have been identified from the literature, the submissions from the Australian public, and the discussions that the committee had with representatives of interested parties. The first is humanitarian, in which the interests of the recipient LDCs are paramount and any other consequences incidental.³ The humanitarian reason for giving aid is the geographical extension of the widely held principle within Australia that the rich have a moral obligation to help the poor.

The second reason is that it serves the political interests of the donor country. If aid succeeds in promoting economic development, it is likely to enhance the standing of Australia in the eyes of the decision-makers and populations of the recipient LDC. This is particularly desirable if the LDCs concerned are strategically important to Australia, as it is better to have friends rather than enemies in one's geo-political sphere of concern.⁴ If regional stability contributes to global stability, then the impact will be even greater and may also earn the donor country the respect of other donor countries and the world community generally. The political reason for giving aid is particularly important to Australia, located as it is, unlike most other donor countries, in an area of under-development.

The third reason for giving aid is economic gain for the donor country. Successful economic development in the recipient LDCs produces richer and more stable neighbours and trading partners and so expands the market for the exports of the donor country. There will also be increased opportunities for direct foreign investment by the donor country. These export and investment opportunities will be enhanced by the establishment of on-going contacts between Australian aid participants and decision-makers in the recipient LDCs, and by a greater awareness in these countries of Australian capabilities. These are essentially long-term and indirect economic arguments for aid and require that Australia is able to sell its goods and services at world prices before the commercial gains can be realized.

A form of economic argument for aid that is often heard is that Australian investment, output and employment will be stimulated when Australian resources are used in the aid program itself. This is the same as the long-term and indirect argument if Australian goods and services are internationally competitive, or are not so only because their competitors have been unfairly subsidized. If not, the argument degenerates into one of tied aid, with the funds used to increase the demand for Australian goods and services and not to bring about the economic development of the recipient LDCs. This is an argument that is not acceptable to the Jackson Committee.

Conflicts of Mandates

The Jackson Committee accepts that in Australia, as in other donor countries, there is more than one mandate for giving aid for development. It also recognizes that the humanitarian, political and economic mandates can give rise to quite different groups of LDCs being helped. For example, humanitarian concern will dictate that Australian aid be distributed to the poorest LDCs of the world, whereas political or foreign policy considerations will favour those LDCs which are closer, and of more strategic importance, to Australia. For Australia the strategically important LDCs do not number among the poorest of the world.

There can also be a conflict between the humanitarian and the commercial reasons. The latter would undoubtedly lead to Australian aid being channelled to the richer of the LDCs and to those with a proven economic performance. These countries' demand for Australian goods and services will exceed that emanating from the group of LDCs, the poorest of the poor, favoured by humanitarian considerations.

Commercial and political concerns do not always lead to the same target LDCs, in spite of both serving the self-interest of the donor country. LDCs which are of strategic significance to Australia are not necessarily those with the largest demand for its goods and services.

A Complementary Approach

Given that there are several mandates for aid and that these do not necessarily result in the same target groups of LDCs, the Jackson Committee emphasized the need for the related interests to operate in a complementary rather than a competitive environment. Three steps were adopted in arriving at such a complementary approach.

The first is to divide LDCs into four categories, the first being the most important, the fourth the least. These categories are:

- i) Papua New Guinea and the small island states of the Pacific and Indian Oceans;
- ii) South-East Asia and the small states of South Asia (Bhutan, Nepal and Sri Lanka);
- iii) China, India, Pakistan and Bangladesh;
- iv) Other LDCs.

At one level such a geographical focus may be seen as according most importance to the political and strategic interests. However, the Australian aid program is very small and even if this were to be increased very substantially, there would still be far more poverty in the world than Australia could ever hope to alleviate. Spreading the limited aid funds very thinly over a large number of LDCs is not going to do anybody much good. The committee took the view that there will have to be a geographical concentration and saw no reason why foreign policy considerations should not hold sway at this level of broad policy.

The second step is to resist attempts to use aid to stimulate Australian business, when it is internationally uncompetitive. To not do so would be to condone the introduction of major distortions into the aid selection process, which would ultimately retard the development process itself. The position taken by the Jackson Report is the firm one that aid policy cannot be trade or industry policy.

This stance is not contradicted by the proposed increase in funds for the Development Import Finance Facility (DIFF). Under the revamped Australian Development Assistance Bureau (ADAB), DIFF will be given only to those Australian firms and industries which are internationally competitive, but which cannot do well in the export markets only because their Japanese, American or British counterparts are highly subsidized by the mixed credits offered by their governments.

The third step is to ensure that the development strategy supported and practiced by ADAB bring about growth with equity. This is a highly controversial issue and the debate on it has gone through a number of stages. In the 1950s and the early 1960s, it was believed that rapid economic growth would create enough jobs to reduce the level of labour under-utilization and so to decrease the incidence of poverty and, if not to reduce income inequality, to at least not worsen it. Towards the end of the 1960s it became clear that economic growth did not automatically bring about greater employment opportunities and equity. This prompted some to argue that LDCs must go through a stage of increasing inequality with economic growth, before things could begin to look up for the poor. LDCs

were, in fact, told that they had to learn how to walk (grow) first, before they could run (redistribute). Elaborate economic theories were invoked or introduced to support this but they were based largely on the simple premises that economic growth requires capital formation and that the rich will provide this because they have what it takes.

The evidence also moved some to argue that equity must precede economic growth. Workers must feel that they belong to, and benefit from, the system before they will give it their support. The rich in the LDCs of today are not known for their propensity to save in either their own or foreign countries. A growth strategy based on substantial or growing inequality under such circumstances may be nothing more than a cynical move to perpetuate the vested interests of the economic and political elites of the LDCs.

By the early 1980s, when more studies using more reliable data and more sophisticated methods became available, the balance of the evidence suggests that economic growth is neither necessary nor sufficient for the incidence of poverty or income inequality to decline. They also point out that the incidence of poverty may decrease while income inequality increases, with or without economic growth. In other words, economic growth per se will not automatically increase the incidence of poverty and income inequality. It is the way in which that growth is brought about that matters. For example, a very rapid rate of industrial growth can be obtained by pursuing an import-substituting and capital-intensive program under an over-valued exchange rate, high tariffs and subsidies for capital, but its impact on employment would be negligible and the effect on distribution adverse. On the other hand, equally rapid growth can be achieved by opting for a labour-intensive and low-technology program. More jobs will be created and the goods produced will be more likely to be internationally competitive as they make greater use of the available abundant resources.

The position taken by the Jackson Committee is that the debate over the power of economic growth per se to do this or that has not been useful as it has missed the crucial point about the process and the effect of economic growth. The development strategy which it believes will bring about growth with equity in LDCs with mixed economies would include the following elements:

- Realistic exchange and interest rates encourage investment, production and exports; taxes which provide revenues to create public infrastructure; and wages which reflect productivity.
- Health and education receive high priority. Public ownership and private entrepreneurship are balanced, with competitive markets in which prices reflect scarcities.
- Equity considerations are given proper weight, mainly through job creation and through programs designed to increase productivity of farmers and other self-employed people, and through the provision of water, power and other public goods for the poorer sections of the community.
- Institutions which work well, ensuring the efficient operation of the social, legal and physical infrastructure of the nation.
- Prices are kept stable.⁵

These are requirements which apply whether the LDCs are big or small, richly or poorly endowed, land or water-locked, Christian or Islamic, white or black. Most of the

characteristics are present in those LDCs which have achieved high rates of economic growth and raised the standards of living of most of their populations. Of equal importance is the fact that the policies are within the power of sovereign nations to introduce and to maintain, provided that the political will is there. Far too often the LDCs have conveniently forgotten that the major determinant of development is the domestic environment and not the international economy.

In sum, then, the framework adopted by the Jackson Committee is to see the aim of aid as the economic development of the recipient LDCs and to have as reasons for giving such aid humanitarian concern and political and economic self-interest. The approach taken in formulating the Australian aid program within this broad framework is to first rank the recipient LDCs, largely in the order of their importance to the strategic interests of Australia. Once this has been done, the aid is to be used to enhance the economic development of the targetted LDCs.

This is to be done by not tying the aid to Australian goods and services when these are internationally uncompetitive, to grant 'mixed credits' only to counter unfair competition, and to participate in projects which will bring about growth with equity. These conditions can only be fulfilled if the recommendations of the Jackson Committee for a more independent and professional aid administration are accepted. The first requirement is needed to withstand the pressure from the private sector. The second is necessary to identify the areas in which Australia can best help and where and when 'mixed credits' are justified, and to ensure, as much as is scientifically and diplomatically possible, that Australian aid goes only into projects which contribute to the economic development of the recipient LDC.

Aid and Economic Development

By adopting such a framework of analysis, the Jackson Committee has implicitly assumed that aid can help to accelerate the economic development of the recipient LDCs. It believes the argument that aid is neither necessary nor sufficient for development to be over-stated, that it has credibility only in cases where the development policies of the recipient LDCs and the aid policies of the donor countries have been equally bad, and where the amount of aid is small, fragmented and not sustained.

We have already discussed the Jackson Committee's views on the policies required in LDCs to produce an environment in which savings and investment are encouraged, the allocation of resources efficient, and the distribution of the benefits of growth equitable. Into such a system, properly designed and implemented foreign aid can play a positive role in augmenting saving, foreign exchange and human capital in the recipient LDCs and so enhance their economic development.

The approach taken by the Jackson Committee to produce an effective Australian aid program is to first make it more focused by country, sector and instrument of delivery, so that the aid effort is not dissipated by doing too many things in too many ways and in too many places, with scant regard for the modest size of Australia's aid budget and for its comparative advantages. Focussing the aid program by sector and instrument of delivery is

especially important in those large LDCs where the Australian input is relatively insignificant as it helps to make the most of Australia's contribution at the margin.

Within this focussed approach to aid, country programming, forward budgeting, proper formulation, implementation and monitoring of projects, and post-evaluation studies were recommended. The aim is to ensure that the aid given produces efficiency (the degree to which the costs incurred result in benefits), effectiveness (the extent to which it fits into the recipient LDCs program), and impact (the way in which the aid affects the social and economic development of the recipient LDC).

The Jackson Committee believes that the greatest impact Australian aid can make is not by concentrating it on 'grass roots' programs. It is obtained by helping to expand and upgrade the physical and human infrastructure of the recipient LDCs. The lack of such facilities results in severe development bottlenecks and an aid program which emphasises the provision of basic needs does little to remove these constraints and to bring about sustained development. In any case, the basic needs of food, shelter, clothing, education and health can be provided by most LDCs, including the poorest. Where such needs have not been provided, then growth with equity policies have not been pursued either deliberately or through ignorance. An aid program, especially one on the modest scale of the Australian one, that attempts to substitute for such domestic responsibilities can only have a peripheral effect.

Where large-scale and capital-intensive infrastructural aid projects with long gestation periods result in a worsening in income inequality, attempts should be made by either the host government or the donor country working through other agencies to ensure that basic needs are provided. Efforts should also be made to adapt the technology to suit local conditions.

The infrastructural activities with which Australian aid should be involved are those in which Australia has a comparative advantage and for which there is a need in the recipient LDCs. This double requirement is not easy to satisfy but should be sought because the aim of aid is economic development and the days of gunboat diplomacy and aid have long gone. The acceptance of the fact that donor countries can no longer force, at will, recipient LDCs to do as bidden and the recognition that not all of the recipient LDCs pursue growth with equity policies make the need for a properly planned and implemented aid program by the donor country all the more necessary.

These recommendations on making aid more effective in economic development can be implemented and the expected results materialized only if the aid administrative system is strengthened. In many ways the most important part of the Jackson Report is the section on aid administration and management. Without a more efficient and professional ADAB, the aid program may continue to be assessed in terms of the number of bridges and roads built, the number of overseas students trained in Australia, the amount of food aid given, and the number of wells dug, without much regard for the way in which these activities interact with each other and with the other programs carried out by the recipient LDC.

Concluding Remarks

The underlying framework adopted by the Jackson Report demands that Australian aid helps to increase the economic development of the recipient LDCs. If it does not, then the humanitarian, political and economic arguments for giving aid lose much of their cogency and force.

To begin with, the foreign policy argument, which largely decides the total and the type of aid that different LDCs should receive, would be called into question. The standing of Australia would obviously be very high in the eyes of the elite of the recipient LDC. However, this advantage will only be temporary as rising absolute and relative poverty, with or without economic growth, will sooner or later force the ruling party out of power. When that happens, Australia will have either no influence or an enemy for life. Even if the ruling regime were able to hang on for a long time, there will be increased political uncertainty. These are consequences that Australia does not want in LDCs in its area of geo-political concern. Moreover, the humanitarian mandate will have been violated, which does not accord with the declared complementary approach of the Jackson Committee.

If the aid does not produce economic development, the economic argument for aid can only be sustained in the short-run. Those who benefit from increasing income inequality have a higher propensity to import and are more likely to invest and bank overseas as well as spend their holidays there. The donor country can benefit from this if it is internationally competitive. However, in the longer term, when social and political upheaval produces another regime, the gains will have been lost. World trade may also contract as the new regime is likely to be more inward-looking.

The approach taken by the Jackson Committee has been attacked from different directions. There are some who argue that it has oversold the role of aid in development, that aid may indeed retard development, so that the humanitarian mandate for aid is no more than an opportunity for self-glorification, and the search for political and economic gains—a game in self-deception. There are those who argue that aid does enhance development but only if different economic development and aid strategies are adopted. And there are those who see aid mainly as another source of demand for Australian goods and services, with the development of the recipient LDCs coincidental or secondary.

None of the critics has a monopoly of knowledge about aid and economic development and neither has the Jackson Committee. What it has done is to marshal the various arguments into a framework which allows the different interest-groups in the country to work in a complementary way, so that Australian aid can contribute meaningfully to the economic development of the poor countries of the world, particularly those in its area of geo-political concern.

[Footnote]

- * Professor, School of Modern Asian Studies, Griffith University and member, the Committee to Review the Australian Overseas Aid Program.
1. Sir Gordon is the Deputy Chairman of C.S.R. Ltd and was its General Manager from 1972 to 1982. He has been a member of the Board of the Reserve Bank of Australia since 1975

and was the chairman of the Commonwealth Government's Consultative Committee on Relations with Japan for 1978-81. The Deputy Chair- person was Professor Helen Hughes, Executive Director of the Development Studies Centre, Australian National University, who was the Director of the Economic Analysis and Projections Department of the World Bank, and has carried out consultancy work for business, governments and international agencies. Other members of the committee were Neil Batt, Resident Director of the TNT Group of Companies for Victoria and Tasmania, who was the National President of the Australian Labor Party (1978-80) and the National Chairman of the Australian Council for Overseas Aid (1975-78); Professor David Lim, School of Modern Asian Studies, Griffith University and a consultant to the World Bank, ILO, UNCTAD and other UN agencies; Dr Peter McCawley, Head of the Indonesian Project, Research School of Pacific Studies, Australian National University, and a consultant to the World Bank and other international agencies; and Dr Brian Scott, Chairman and Managing Director of W. D. Scott and Co. Pty Ltd, a member of the Trade Development Council since 1978 and of the Committee on Australia's Relations with the Third World (1978-79). Mr Peter Hastings, Foreign Editor of the Sydney Morning Herald, was appointed as a member but withdrew before the committee met.

2. Report of the Committee to Review the Australian Overseas Aid Program (Australian Government Publishing Service, Canberra, 1984); hereafter known as The Jackson Report.
3. This view is expressed very strongly by the voluntary aid agencies, also known as the non-government organisations, most of which believe it the only justification for giving aid.
4. The argument that geo-political interests have a role to play in the Australian aid program is found even among some voluntary aid agencies. For example, the submission from Community Aid Abroad, *Aid to the Poorest: Justice not Charity*, stated that 'the goal of the Australian development assistance program should be the elimination of chronic poverty and its causes within Australia's geo-cultural sphere of concern, p. 7.
5. The Jackson Report, p. 30.