



## Policy: Foreign Aid

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### Policy

The Liberal Democratic Party believes:

- Aid to foreign countries by the Australian government, other than short term humanitarian relief following natural disasters, should cease.
- Donations by private individuals to foreign aid projects should neither be encouraged nor discouraged by the government.
- Organisations that accept donations for the purposes of providing aid to other countries, and which receive Australian tax exemptions or concessions, must each year publish an annual report incorporating a statement of goals, progress towards the achievement of these goals, full financial accounts including details of income from donations, investment, fund-raising etc, plus expenditure including remuneration. Reports are to be lodged with the Australian Taxation Office and made publicly available.

### Discussion

Many governments provide aid to poor countries in the belief that such aid will improve the lives of the inhabitants of that country. However, these countries are very often poor because of the policies of their governments. Aid merely enriches those in power while the intended recipients receive little benefit. The aid also causes harm due to market distortion and promotion of corruption.

Foreign aid is described as a transfer of money from poor people in rich countries to rich people in poor countries.

P Boone, in the paper *Politics and the effectiveness of foreign aid* (Centre for Economic Performance. Discussion paper no 272, December 1995), concludes as follows:

Critics of foreign aid programs have long argued that poverty reflects government failure. In this paper I analyze the effectiveness of foreign aid programs to gain insights into political regimes in aid recipient countries.

My analytical framework shows how three stylized political/economic regimes labeled egalitarian, elitist and laissez-faire would use foreign aid. I then test reduced form equations using data on nonmilitary aid flows to 96 countries.

I find that models of elitist political regimes best predict the impact of foreign aid. Aid does not significantly increase investment and growth, nor benefit the poor as measured by improvements in human development indicators, but it does increase the size of government. I also find that the impact of aid does not vary according to whether recipient governments are liberal democratic or highly repressive.

But liberal political regimes and democracies, *ceteris paribus*, have on average 30% lower infant mortality than the least free regimes. This may be due to greater empowerment of the poor under liberal regimes even though the political elite continues to receive the benefits of aid programs. An implication is that short term aid targeted to support new liberal regimes may be a more successful means of reducing poverty than current programs.

This finding is essentially a matter for governments. Using taxpayers' money to provide assistance cannot be justified except in cases of short term humanitarian assistance following natural disasters.

It is a matter for individuals whether they send money to other countries themselves. The government has no business in that.

Where aid organisations raise funds to provide aid to other countries, and are therefore tax exempt or enjoy concessions not available to other organisations, complete transparency in relation to income and expenditure is warranted.

Where aid organisations receive no tax concessions, while transparency is desirable, ultimately it is only the organisations and their donors that should have any say in considerations of transparency.