

A Commentary on Helen Hughes' "Aid Has Failed the Pacific"

(Centre for Independent Studies, Issue Analysis, No 33, 7 May 2003)

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Helen Hughes' 31-page paper, *Aid has failed the Pacific*, published by the right-wing think tank, Centre for Independent Studies (CIS), is a contentious one and it has already received a lot of reaction. It is a mix of unpalatable home-truths, sweeping generalisations, crude stereotypes and, mostly, unsolicited opinion and policy advice. It will offend or irritate political leaders and most other islanders who take the trouble to read it.

Hughes' tone is strident, her comments scathing and arrogant. But it is what she is mainly advocating in this caustic critique that bear commenting on.

Hughes begins by stating that high population growth coupled with low-income growth and deteriorating living standards, especially for rural people, lie at the heart of the Pacific's problems. Some of this has been said before, by no less an authoritative source than the World Bank, but Hughes' analysis is not couched in the dispassionate, technocratic language of World Bank reports. Nor is her paper the kind normally produced by academics. It is full of invective, alive with assertions, accusations and judgements, and reads like a long rant.

Pacific governments and aid donors are Hughes' main targets. She says that when the ANU National Centre for Development Studies' Pacific 2010 project highlighted the high economic and social costs of population exceeding economic growth (in a series of doomsday analyses NCDS produced when she was its Director), Pacific governments and aid agencies did not respond by re-examining their policies. This is obviously a sore point. Australia is accused of damaging the Pacific by its untied aid; and political and bureaucratic elites in the region are criticised for helping themselves to aid and resources, enjoying high living standards and opposing 'any political and economic rationalisation that would reduce the considerable benefits they monopolise at the expense of the rest of the people'. Hughes also berates the IMF, the World Bank and the Asian Development Bank for failing to impose conditionality on Pacific island states, and for having 'their own agendas' that have failed to stimulate growth and have led the Pacific into debt' (p1). She advises Australia to move from multilateral to bilateral aid, to spend aid only on mutually agreed upon programmes and projects that are designed and monitored by teams nominated by the recipient and donor governments, and to disburse funds only upon evidence of met targets and audited expenditures.

The general argument that Hughes advances against aid in her paper is not new. Its been made before, and just as forcefully, by other free market advocates like herself, publishing out of, or otherwise closely associated with, CIS.

Peter Bauer (whom Hughes cites several times in her paper) and Basil Yaney advanced the same argument back in 1982 that aid was not conducive to development, that it indeed obstructed development by increasing the 'money, patronage and power of recipient governments, and thereby their grip over the rest of society'. An earlier CIS publication, *Fiji - Opportunity from Adversity* (Kasper, Bennett & Blandy;1988), advised the Australian government against providing unconditional aid to post-coup Fiji, saying it would be tantamount to 'an outright subsidy to a growing class of politicians, military and bureaucrats' who were accountable to neither Australian nor Fijian taxpayers. The key requirements for economic growth, they argued, were not aid but 'economic and social policies and the attitude of the population to work, learning, and capital formation'. In a subsequent CIS publication, *Aid and Development in the South Pacific* (Bauer, Kasper & Siwatibau; 1991), Bauer restated his arguments against aid (though without any specific reference to the Pacific) and Wolfgang Kasper, with the 'impatience, bluntness and frankness' of an 'outsider', portrayed the Pacific states much as Hughes does (as primarily 'aid seeking'/'rent-seeking'), and disparaged 'most of the best-educated Pacific Islanders' as 'professional aid-seekers who increasingly regard foreign aid as a right and threaten to make political mischief if they don't get it'.

Such anti-aid arguments illustrate the systematic erosion of what Gita Sen has referred to as the post-colonial 'social contract' between developed and developing countries, based on the former's acceptance of some responsibility for the development of the latter, and its replacement by the free market idea that nobody owes anybody else a living.

Moreover, beyond the stated concerns with accountability to taxpayers and good governance, with which no-one would disagree, lies the fundamental idea that private investment and trade, rather than aid, is the only route to economic growth and development.

Hughes' (and the CIS's) preoccupation with changing Australian aid policy and practice in the Pacific is grounded in such free market economic thinking. As the self-proclaimed 'leading public policy research institute and think tank' in Australia, CIS expects to influence Australian government policy. According to Prime Minister John Howard, who paid tribute to the CIS at its 20th anniversary dinner in 1996, saying - "[I]t has made a tremendous contribution to the intellectual debate. It has made better policy. We have better governments on both sides of the political equation as a result of organisations like the Centre (for) Independent Studies' - it already has. But not sufficiently it seems.

As Hughes sees it, Australia, as the lead donor in the region, contributing most of the US \$50 billion in aid received in the region since the 1970s, has the leverage to effect radical policy changes in the Pacific. Although the Australian government is already heavily financing, together with 10 other donors, the implementation of 'economic reforms' in several island countries, the scope and pace of these reforms are clearly considered insufficient by Hughes.

The heart of Hughes' concern is revealed in a number of statements in the executive summary of her paper:

'Inappropriate economic policies have failed to deal with the hard tasks of development, and with the negative effects of aid and mineral income flows? Together, aid and minerals have made development difficult worldwide, notably in Africa.

Australia had to apply hard-headed economics to its own mineral booms and to reform its protectionist, public ownership and regulation policies?. Pacific societies have to adopt policies that establish secure, free economic environments that deal with economic rents and make growth possible.'

In a nutshell, Hughes is advocating far more substantial economic policy changes than have been undertaken thus far through the 'reforms'. What these should be are more or less explicitly indicated in the paper. Hughes sees large flows of aid and economic rents from mineral, timber and fishing resources as having 'negative economic effects' in the Pacific. Because aid funds are not 'earned income', they create economic rents that distort economies, bias an economy against the private sector, undercut employment and growth, and lead to corruption. Similarly, 'super-profits' from rich mineral deposits (and from the exploitation of other resources like forestry and fisheries) create 'economic rents' that likewise have negative effects and lead to public waste. Far from producing rapid growth, they have led 'to stagnation and decline by permitting counter-productive policies to persist.'

Unpacking Hughes' analysis, one discerns two arguments: the first against state ownership/shareholding/royalties, and the second against continued funding of state bureaucracies.

Both are linked to anti-state ideas in neo-liberalism and to policy prescriptions of privatisation, expansion of private investment, small government, economic deregulation and free trade. Hughes' argument against the 'super profits' that accrue to the state in the form of 'economic rent' is actually an argument against public ownership of national economic resources. This is linked to arguments favoring the privatisation of land, which Hughes puts far more explicitly in an article on the Solomon Islands, *Island Nation in Strife*, published in the *Fiji Times* on 12 July 2003.

In the same polemical style, Hughes asserts in that article that 'communal land ownership is the crux of the Solomons' troubles' and that it has become a key obstacle to the country's development. She says communal land ownership 'underlies tribal warfare in Africa' and has not led to growth and development 'anywhere in the world'. She sees Solomon Islands as rich in agricultural land that could support 'labour-intensive' export production for low-tariff markets in Europe and North America, and zero-tariff markets in Australia and New Zealand. But this would only be possible if communal land was transformed, with the costs borne by Australian and New Zealand aid, into 'individually-owned plots for those villagers who want to move in this direction'. Hughes blithely proposes how aid would be used, and who would do what, to make it work, adding cynically that those who profit from the 'present systemic corruption' would not welcome it and would, moreover, cry 're-colonisation'.

While an experiment with limited land reform could be instructive, the implications of moving in the direction of privatising land in the perilous context of the rules-based, multilateral trading system of the World Trade Organisation, which is already being used by economically powerful economies to try and open up land-ownership to foreigners (witness the EU's recent requests under the General Agreement on Trade in Services, GATS, to Papua New Guinea and Solomon Islands) are enormous. It would hardly be in the interests of rural Pacific people (about whose well-being Hughes purports to be concerned) to lose access to land on which they have long depended for their semi-subsistence livelihoods, through rash sales to wealthy foreign buyers for short term gains.

Hughes appears to take anti-statism to another level by arguing that it is inappropriate for very small island countries to have their own governments and be represented in global fora. She disparages smaller island states that are 'not even the size of a suburb in industrial countries', suggesting that their path to independence lies in giving up their 'illusion of power' and concentrating on 'improving living conditions'. She makes a serious proposal for a political federation of such states, something she says should have happened at independence, to avoid costly national political and bureaucratic structures and 'inappropriately elevated international representation'.

She seems to also argue that small Pacific Island states with populations of less than 300,000 have no business maintaining missions abroad or attending global meetings that they cannot afford. She even suggests in a snide footnote, that LDC status - which is assigned on the basis of an index of economic vulnerability that signifies an 'economically failed state' - may have been unabashedly sought by some Pacific island states so that the UN could foot the bill for their politicians' and bureaucrats' attendance at UN meetings, and alleges that the main use of UN membership by Pacific island states is to 'manoeuvre and beg for aid'. Hughes apparently considers it perfectly alright for poorer states to be excluded from global policy-making/rule-making fora, and finds it unacceptable that Pacific Islands states can outvote the US, China and Russia in the UN General Assembly and all its committees and agencies except the Security Council.

There is much that can be criticised and challenged in Hughes' paper. Her claim, for instance, that all Pacific states 'would be able to able to reach high living standards like those of Australia and other industrial countries, without aid, if they chose economic and political policies appropriate to their size and level of development' is not just speculative, it is arrant nonsense - the more so given Hughes' own policy prescriptions which would likely result in Pacific Islanders losing their land and being transformed into agricultural wage labourers employed on foreign-owned export farms. Hughes evidently does not appreciate the re-distributive, consumption-oriented values and practices of Pacific societies. She rightly questions conspicuous consumption and over-spending but from a primary concern with encouraging frugality, saving and investment - ie economically rational behaviour.

Hughes does recognise poverty in the region, implicitly rejecting the 'subsistence affluence' notion that has long encouraged its denial by Pacific leaders and academics in the past. She writes: "Although there

is not widespread hunger in the Pacific, standards of living are? unconscionably and unnecessarily low and falling. Some disabled and elderly people and families headed by single mothers are already on the edge of hunger in the towns' (p5). Yet her depiction of poverty and proposed solutions appear to take no account of the possibility that the pursuit of economic growth policies advised by free market advocates like herself may be a primary cause of the increased economic marginalisation and impoverishment she observes. Neo-liberal policy advocates, however, rarely accept liability for any failure or fallout in applying their policies. The fault is usually laid elsewhere - in bad governance, and corrupt elites.

It is more than likely that Hughes' paper will mostly be ignored. If her intention was to insult and offend, she has achieved her aim; if, on the other hand, it was to influence thinking, she has more than a thing or two to learn about being effective in the Pacific.