

The Economy of Papua New Guinea. Macroeconomic Policies: implications for growth and development in the informal sector

1999 Report. International Development Issues No. 53, AusAID, Canberra, ISBN 0 642 42260 5, pp.xviii + 173, 2000.

This is one of the very best in AusAID's series of annual reviews of the economy of Papua New Guinea. The lead author, Robert Harden, has made good use of the insider knowledge he built up during his seven year stint in the country, and this contributes to the many useful departures from the conventional offshore wisdom that has characterised too much of the extant literature on Papua New Guinea's economy.

It was particularly refreshing to see the section putting Papua New Guinea's external debt into the context of foreign exchange 'losses' due to the depreciation of the kina, which raises the kina cost of debt servicing, being offset by the local currency gains when export earnings are converted into kina at the lower exchange rate. It is also rightly pointed out that foreign loans for productive purposes can do much to launch economic growth—but the authors could have added that since the early 1980s most of Papua New Guinea's foreign loans have been used only to finance the fiscal deficit. As a result the so-called Public Investment Programme has become merely an adjunct of the recurrent budget, including many recurrent items like road maintenance and MPs' discretionary ('slush') funds, masquerading as capital, and almost nothing has been provided to develop basic infrastructure. Since 1988 there has been virtually no addition to the exiguous network of major roads (there is still no surface link from the National Capital District to any of the 13 mainland provincial capitals), no extension of the electricity grid to utilise the cheap surplus hydro power available from the Yonki dam, no increase in the number of airfields suitable for jet aircraft, only one new

hospital, only one new national high school, and no new investment in the country's tertiary education sector (including the technical and sectoral—such as forestry—training colleges).

The authors' main theme, that the country's poorly managed macroeconomy has held back the development of its informal sector, especially in the rural areas, is well argued but far from proven. That becomes apparent in the book's special survey (by Ron Duncan and Desh Gupta) of the micro-economy of the Eastern Highlands Province. The survey describes that province's stagnation despite its conducive climate and excellent soils. For if any province should have vindicated the faith of so many in the scope for rural development in Papua New Guinea, Eastern Highlands is the one. This account does not confirm that disappointing performance is adequately explained by the macroeconomic mismanagement that has plagued Papua New Guinea almost throughout its 25 years of independence.

Whilst the development of Papua New Guinea's rural economy was certainly not helped during the period of the 'hard' but over-valued kina (1975–94), as Harden and his co-authors explain very clearly—and they produce good evidence of strong supply responses (for example, coffee) to the realignment of the kina after 1994—the lack of road access to Port Moresby, the country's largest urban market, for food growers in the northern highland provinces (Enga, Western Highlands, and Chimbu, as well as Eastern) should perhaps have been mentioned.

But by far the most important drag on rural development is the failure to secure land reform. Now there is no doubt that this would require a cultural revolution, but until that has occurred, it is difficult so see how Papua New Guinea can hope to make 'more intensive use of its two most abundant resources, land and labour' (p. xvii). Without the ability to attract capital which only a freehold land tenure system creates, those abundant resources will soon encounter

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diminishing returns, indeed they have already, as described by Duncan and Gupta.

Ironically there is no shortage of bank credit in Papua New Guinea. At no time—even when the macroeconomic state of the economy has been stable—have the country's banks been able to lend to the limit of either the imposed minimum liquid assets reserve ratio, still less the normal prudential level in, say, Australia of 5–8 per cent. Because of the lack of lending opportunities in the rural economy—created by the absence of collateral in the form of land, and exacerbated by a culture preventing banks foreclosing even on the few borrowers who have leasehold tenure (as Westpac would ruefully admit from bitter experience)—the banks have willy-nilly concentrated on financing imports (and thereby contributing to the country's import dependence).

Papua New Guinea's macroeconomic performance would also have gained immeasurably if it had not been so difficult, even impossible, for the commercial banks to channel the immense liquidity that is a permanent feature of the banking system, even in non-crisis years, to the rural economy. The figures are staggering. The lowest the actual liquid assets ratio has been is 14 per cent in 1985 and 1991, while averaging 28.5 per cent from 1975 to 1997. The lowest minimum rate has been 11 per cent (1990–93), averaging 17.7 per cent, or about three times higher than the norm in Australia. The Australian norm would have supported a level of bank deposits of over K18 billion, instead of the actual level in 1997 of K2.5 billion.

Unleashing all that extra liquidity at once would no doubt lead to even steeper declines in the kina, but in the long run investment of just half of the excess liquidity in commercial agriculture could well generate enough new exports (or replacements of imported food) to support the higher level of domestic credit.

Such a bootstrap program largely explains Malaysia's outstanding economic performance and stellar growth of agriculture—and it could have a major

impact on the abysmally low level of productivity of 85 per cent of Papua New Guinea's people and land—but it will never happen in the absence of the required cultural revolution and land reform.

The above comments should not be read as detracting from the authors' excellent analysis of monetary policy, with but one further caveat, the omission of any discussion of the option of establishing a currency board regime for the kina, by far the most effective method of securing the fiscal discipline advocated by the authors.

It is easy to understand the diplomatic silence—in a book published by AusAID—on the subject of the *dramatis personae* of those responsible for Papua New Guinea's fiscal and monetary policy in the period surveyed by the book, 1998–99, including the then prime minister, Bill Skate, his Chief Economic Adviser, Pirouz Hamidian-Rad, and the then Governor of the Central Bank, Morea Vele. However this reticence will make it difficult for the uninformed reader to understand why the Skate government failed to secure the external loans, whether from the Krediet Bank syndicate, from the proposed sovereign bond issue, or the World Bank and IMF, that it needed to support its 1998 and 1999 Budgets.

Finally, one hopes that this well researched and thought-provoking survey will become required reading for all responsible for fiscal and monetary policy in the Treasury and Central Bank in Port Moresby.

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Strategies for Sustainable Development: experiences from the Pacific

John Overton and Regina Scheyvens (eds), 1999, UNSW Press, Sydney, ISBN 0 86840 689 9, index, bibliography, 320pp, A\$29.95

This book succeeds in taking the arguably vague concept of sustainable development and making it concrete, if only in the context

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of particular examples from the Pacific island economies. This welcome and valuable exercise is accomplished by providing a number of case studies covering a wide range of topics (from land tenure systems in Kiribati and migration in the Cook Islands to rates of deforestation in Melanesia, to mention just three). Seventeen contributors, most of whom are based in New Zealand or the Pacific islands, are responsible for the nineteen chapters.

Most of the case studies are based on original field work conducted as parts of master's and doctoral projects. In spite of the large number of contributors and the wide-ranging topics covered in the book, the editors manage to keep the volume focused and well organised. For the most part, the authors do a good job of centering the case studies on the theme of the volume which, generally speaking, is to improve our understanding of how to put the concept of sustainable development into practice. The case studies provide a wealth of information that is valuable to anyone with an interest in development in the Pacific.

The book opens with an introductory chapter by John Overton that provides some structure to the concept of sustainable development by classifying the many different views and definitions into three groups: the ecological, economic and social perspectives of sustainability. Each one can, of course, mean quite different things. While most attention in the past has perhaps focused on the ecological and economic perspectives, by the end of the book the authors will have most readers convinced that the social perspective deserves more attention in the literature.

The Pacific island economies provide a useful laboratory in which to explore the concept of sustainable development for at least three reasons. First, many of the Pacific islands have fragile ecosystems that are likely to be rapidly and adversely affected by resource use. Second, many of the island economies are experiencing rapid rates of

resource use. Third, there appear to be, as the volume shows, a number of interesting examples of innovative and interesting practices that are more compatible with long-term sustainability than are the existing forms of conventional resource extraction.

The primary contribution of the volume is its examination of the meaning of sustainable development in the Pacific island context. This requires an understanding of how the definitions of sustainability and strategies for its attainment may be applied in the Pacific islands. To do this by way of a large number of case studies by so many contributing authors requires careful planning. The volume is organised into three parts. Part I consists of seven chapters that provide background information about the Pacific island economies, cultures and traditions. Many important contextual issues are discussed but two stand out as being particularly important. First, the region's declining strategic importance following the end of the cold war has fundamentally changed the nature of foreign relations and foreign assistance for the Pacific region. Second, the concept of *vanua* is introduced. Though not easily translated into an English equivalent, it is related to the close ties between land, environment, culture and society that Pacific islanders feel. It turns out to be not only an important part of Pacific island life but, as the authors argue later in the book, must be a respected and integral part of a development activity if that activity is to be sustainable in the Pacific island context.

The five chapters that make up Part II focus on describing the impact of certain economic activities on the well-being and livelihoods of men and women and on the rate of resource depletion and environmental degradation in selected Pacific island countries. Coverage includes mining in Papua New Guinea, logging in Melanesia, fisheries in the Pacific Islands, urbanisation in Tonga and Samoa, and agricultural modernisation in the Pacific economies. By illustrating the serious problems associated

with the existing rates and methods of exploitation of the natural resource bases, these case studies show that alternatives are needed if sustainability is to be achieved. The purpose of Part III is to find alternatives.

In their overview of Part III, the editors argue that sustainable alternatives, to be practical and acceptable to local citizens and communities, must involve far more than mere conservation of the resource bases. They must also promote improvements in consumption and livelihood possibilities for local citizens. This makes the challenge of finding sustainable alternatives all the more difficult. Nevertheless, Part III describes a number of fascinating grassroots initiatives that appear to both improve the well-being of local citizens and to manage environmental resources in a way that does not jeopardise their ability to continue providing valuable services in the long term. Altogether, five case studies are included that cover nature conservation alternatives in Samoa, sustainable forestry options in Solomon Islands, ecotourism, options for sustainable agriculture, and options for more sustainable urban development in the Pacific islands.

The book concludes by weaving together the lessons learned from the many wide-ranging chapters and draws out the implications for development practice and theory. They confirm the importance of the now-accepted participatory approach in development but also question the traditional reliance on project-planning cycles (that have inflexible time horizons and clearly delineated boundaries in space) and argue that this approach, strictly applied, may be inherently incompatible with sustainable development. The volume is well-written, has a surprisingly high degree of continuity given the number of contributors, and contains useful information and insights to researchers and practitioners working in the development field.

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Reflections on Violence in Melanesia

Sinclair Dinnen and Allison Ley (eds),
Hawkins Press/Asia Pacific Press at the
Australian National University, Canberra,
ISBN 1 876067 136, pp.xviii +332, A\$30.00.

This conference volume is based on a workshop held in Canberra in December 1997, hosted by the Australian National University's State, Society and Governance in Melanesia Project, with contributors from the countries of Melanesia. *Reflections on Violence in Melanesia* explores the diverse meaning of violence in Melanesia.

The focus of the conference on violence in Melanesia was motivated by the contrast between perceptions of violence experienced in Melanesia and Western notions of violence. The embedded objective of the volume is to reduce violence and promote good governance in Melanesia. *Reflections on Violence in Melanesia* is divided into five sections, with five major themes: representations of violence in Melanesia; violence and gender, and the role gender can play in its reduction; non-government organisations' experience with violence; the role of identity in violence; and the role of government in perpetuating or reducing violence in society. In his introduction, Sinclair Dinnen noted that violence is a challenging notion as it is a perception which is contextually specific and often value-laden. At same time violence is real and has the causes serious damage to individuals, groups and society as a whole. Margaret Jolly, in her Epilogue, reflects on the evasive nature of violence when attempts are made to represent it and the degree to which representation is an approximation of reality. But violence is real whether it is acknowledged or denied, verbal or physical, and this includes historical dehumanisation by colonisation in the way violence has been represented. What is surprising (or not surprising) is that little emphasis has been placed on the 'content' of violence, or the question of why violence took place in a particular event. In this sense the discussion

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violence in Melanesia appears as having a form without a content. The content of violence seems a necessary feature of any discussion of violence, as it implicates value conflicts between Melanesian and foreign values. Is this not a question of legitimacy? Margaret Jolly's conclusion that violence and its resolution are an ongoing struggle for Melanesia to support projects of non-violence. It may be added that violence is an ongoing struggle for humanity and 'civilising' projects must take a universal stance against violence in all its forms. Buddhism may have some answers.

The concern of the authors is whether good governance will make a difference to violence in Melanesia. Rumsay points to the women of Kulka's intervention in tribal conflict in 1982, when the women gave presents and money to send the warring tribes home (Rumsay 2000). The case of institutionalisation of means to reduce and resolve violence is raised, for example, the village court system in Papua New Guinea (Goddard 2000) with its role in resolving disputes and minimising escalation of conflict. Further on, the role of non-government organisations and individual activists such as Afu's testaments and Ramosaea's account of the Family Support Centre in Solomon Islands is examined. There is a need for institutional recognition of the impacts of violence on women and children (Garap 2000). Crisis centres, for example in Papua New Guinea, need institutional recognition (Makail 2000). Governance and institutional capacity building to deal with violence are the major points of these authors.

Some papers in this volume are of particular interest. Bronwen Douglas's paper on 'Fighting as savagery and romance: New Caledonia past and present' makes an important and often forgotten point

[r]adical anticolonial perspectives, both 'Western' and nationalist, rarely contest the ubiquitous image of 'savage' violence, but may romanticise

and ennobled violent opposition to colonialism, to the detriment of less dramatic, seemingly more devious and compromised strategies (Douglas 2000:1)

Douglas' stance in trying to understand the people's practical experience or the 'silent ones' is paramount, because social phenomena are not fixed and therefore the role of meaning and interpretation becomes very critical. There is no disputing of violence whether 'x or y' commits violence on actor 'z', but the fundamental question remains—does the content of a violent act matter? Should discussion on violence be based on values and the need for change in values? If violence is tolerated, is this not reflection of value conflicts?

The papers by Sarah Garap, and Afu Billy, Christina Ramosaea and Maxine Anjiga Makail, on the role of non-government organisations take the view that recognition of the silent and institutional capacity building are necessarily ingredients to reduce violence. However, less has been said about the role of the inefficiency of existing institutions to curb violence and the power games among those who run these institutions. This raises the associated issues of management, administration and education.

Cindi Banks, on contextualising sexual violence, attempts to explain incidences of rape and carnal knowledge under three categories: rape as punishment against the victim or others, rape as a response to perceived rejection, and opportunistic rape. The fact of rape can not be disputed, and the contention that there is no notion of rape in Papua New Guinea or any other Melanesian cultural group is hard to believe. This implies an acceptance which is contradicted by the serious, and criminal, nature of sexual offences in Melanesian traditional society. What seems to have been left out of the discussion is to distinguish whether rape as described in the above circumstances is

contextualised with in a specific social group or a national context. The national context implies lack of nationalistic values to influence behaviour in the new social environment.

This book is interesting not only for what it says about violence and governance, but also for what it leaves unsaid. There is clearly no single explanation for violence in Melanesia, though some elements like colonisation, nation state, development and men seem to be necessary conditions. Improving the relationship between state (as an agent of collective interests) and tribal communities (as agents of specific interests) is a good start to curbing violence in Melanesian society.

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My Gun, My Brother: the world of the Papua New Guinea Colonial Police, 1920–1960

Kituai, August Ibrum K., 1998, University of Hawai'i Press, Honolulu, pp.xx + 414
ISBN 0 8248 1747 8, US\$48.00

This book is a study of the local village men who were recruited and trained to become an effective para-military force—as the Royal Papuan Constabulary and the New Guinea Police Force—and the significant role they played in Australian colonisation of the Territory of Papua and the adjacent League of Nations Mandated Trust Territory of New Guinea between 1920 and 1960. As August Kituai points out, this is an important aspect of Papua New Guinea's history that had not been written until now. Much of the work of exploration and pacification was carried out by indigenous Papua New Guinean policemen—'[f]or most villagers during the period of Australian rule in Papua New Guinea, the government was a white field officer and troop of eight or so policemen' (p.1).

Kituai demonstrates the paradoxical position of these indigenous policemen who came from the village to become active agents of a colonising government that subjugated local groups with arms. Some were persuaded to join by the civilising mission and others saw an opportunity to expand their own status and power.

A substantial contribution of the book is Kituai's rich archive which comes from the in-depth interviews, held in 1985 and 1989, with 26 former policemen who served between 1942 and 1982 (p.51). These men are introduced in Chapter 2. They were recruited from diverse geographic areas when they were young, had no or limited education, were the sons of leaders in their village who were attracted by the status and authority of the police.

Chapter 3 describes the training of the police, which emphasised physical prowess and gun-handling skills rather than education. This accorded with the objectives of colonisation during this period—exploration and pacification. It is also in the training phase that Kituai asserts that against the background of the trauma of their displacement from villages that an *esprit de corps* developed among the men, bonding them together as 'brothers-in-arms' (p106). Moreover, this

esprit de corps...fostered new and binding relationships that cut across narrow tribal affiliations and sowed the seeds for future nationalist struggles and industrial organisations in Papua New Guinea (p.107).

The point of corporate solidarity is returned to throughout subsequent chapters on the work of the policemen (Chapter 4), the use of force (Chapter 5) and the role of policeman in the World Wars (Chapter 6). However, I was struck by how the old men Kituai interviewed did not seem to greatly romanticise a police *esprit de corps* despite the many experiences shared, especially in such long careers. Several of Kituai's interviewees married women from other

ethnic groups and retired either in the cities (where they could also easily access their retirement cheques) or settled among their wives' people. While on police duties they lost their chance to compete for status and consolidate their position in the group by their absence from the village.

Kituai's methodological focus is on 'the police as individuals, as actors in an institution which they partly fashioned for themselves, and as agents of foreigners and foreign ideas' (p.1). Information is drawn from a variety of sources including personal interviews with indigenous and European police officers and patrol reports. These sources provide diverse perspectives on disparate cases and experiences of the policeman's world but may not promote an objective of bringing out 'the corporate strength felt by the police—the sense of privileged brotherhood that bound them together' (p.xvi). However, the study rather amplifies the second component of Kituai's objective 'the contradictions between the actions and ideals of many of them' (p.xvi). Clearly demonstrated is the importance of the power of the gun and the privileged relationship policemen enjoyed with the colonial administration in the generation of corporate strength.

This point is highlighted in Chapter 9 where, through the analysis of officers perception of the police, Kituai shows how the structure of the Papua New Guinea Colonial Police promoted vertical relationships from the indigenous rank-and-file upwards. In this context one policeman came to describe his gun as his brother. The gun was the real and symbolic power of colonialism. Members of the Papua New Guinea Colonial Police, sometimes persuaded by the civilising argument, staked their future in the colonial state. Some of the old men interviewed were proud of their involvement and rationalised the means of force in the colonial period justified the ends of law and order in the post-colonial state. Others were more circumspect about their

work and wanted to reveal abuses of power performed by both indigenous and Australian members of the force.

Chapters on the villagers' perceptions of the police (Chapter 7 is on the Goilala of Papua and Chapter 8 is on the Gende of New Guinea) help to round out the story of the Colonial Police force in Papua and New Guinea between 1920 and 1960.

I would recommend the book to all those interested in formulating a better understanding of the history of Papua New Guinea and the nature of colonial power in this part of world.

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***An Introduction to Metal Mining:
economic and environmental issues in
the South Pacific***

Nicholas P. Sisto, School of Social and Economic Development, The University of the South Pacific, 1999, ISBN 9820113843

This is a sensible and well-written book. Its approach is practical and mathematics is kept to a minimum so that a general reader, such as a policy adviser, can read it with profit.

Among the issues touched upon, Sisto notes the misuse of published reserve figures to predict resources exhaustion (p.15); the value of exploration information and the need to ensure that it becomes public property as a condition of an exploration licence (pp.17–18); and the possibility that unused mineral resources may become less valuable or worthless due to technological change (p.37). Journalists and commentators who have made an industry over the years of scaring the public on forthcoming fossil fuel shortages could benefit from reading these few pages (though it might spoil their copy).

Sisto rightly emphasises the importance of mineral royalties or taxation in ensuring the country of sovereignty gains real benefits

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from mining. The discussion of taxation (pp.46–51) correctly notes the possibility of tax-induced resource wastage. In Sisto's next edition, this reviewer would like to see some more discussion of mineral tax approaches such as the Clunies Ross and Garnaut resource rent tax and the possibility of auctions and taxes on unimproved land value to extract economic rent without damaging investment incentives.

In that regard, this reviewer must record a polite dissent to the excessively agnostic statements at pages 50 and 57 that

[t]he only possible conclusion is that there is no single tax instrument that is superior to all others, in all circumstances; the most reasonable solution is to combine them... There is no ideal tax regime; in practice, circumstances specific to each deposit must be considered in the design of a tax agreement.

It could be argued that a simple *ad valorem* tax on the unimproved value of the mineral leasehold combined with an annual depletion charge on the value lost through extraction could produce a first best tax result in a way which was relatively immune to gaming behaviour such as transfer pricing. Certainly, separately negotiated private tax agreements between developing countries and multinational investors are fraught with dangers of exploitation and corruption. A general tax system based on auctions and market values or self-declared values (with a State right of purchase at the declared value) seems decidedly preferable to private tax agreements which may become politically untenable (as in Bougainville). In the long run, both investors and the country concerned should be better off with a generally applicable *ex ante* tax regime which only seeks to collect economic rents.

Sisto concludes his book with a very nice discussion of the Dutch disease and the 'resource curse' thesis. He rightly points out that the real problem is how to manage large

windfalls. Commonsense would suggest that it is an ungrateful man who curses the Creator for his blessings. Readers will be reminded of the parable of the talents in his concluding sentence

[m]ineral deposits are like an inheritance: we may choose to spend it, and thus end up with nothing but a hole in the ground once it is all gone, or manage it wisely through sufficient investment, in order to secure long-term economic security.

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