The first 25 years of searching for development

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Two countries' Independence

September 16, 2000 marks two important anniversaries. It is the 25th anniversary of Papua New Guinea's formal independence from Australia, and it is the 25th anniversary of Australia's formal independence from Papua New Guinea.

I say 'formal' for the obvious reason that there has been in these past 25 years, and always will be, great inter-dependence between the two countries—well beyond the normal interdependence of states in an era of 'globalisation'. Australian decisions on development assistance, on military cooperation, on trade and investment, and on foreign policy determine Papua New Guinea development outcomes and policy choices in fundamental ways. And developments in Papua New Guinea play back powerfully into Australian national life. The differences in population size and levels of development dull awareness of the influence of Papua New Guinea developments on Australia; but only until political crisis reminds Australians of what they would have at stake if Papua New Guinea followed many other developing countries into disintegration of the state, or chronic failure of development.

To a considerable extent Papua New Guinea's problems are Australia's problems. These are long-term challenges: the building of a viable, effective state and national economy in Papua New Guinea is and was always going to be the task of generations.

There were good reasons why Papua New Guinea was not one of the early places of development of the modern economy and state. The geographic desiccation of the land area, and the associated linguistic fragmentation, make Papua New Guinea an unusually expensive and difficult location for economic development. By the time that British Governments began to acknowledge the 'Winds of Change' blowing through the colonies, there was no indigenous capacity for a political response in Papua New Guinea to the new conditions. Australian Prime Minister Sir Robert Menzies, after a Prime Ministers' conference in London in 1960, remarked that it would be better for self determination to come too soon, than for it to come after the accumulation of hostility against Australia.

Australian leaders accelerated movement towards self government and independence from the mid 1960s, to a considerable extent because they judged it to be in Australia's interests to be independent of Papua New Guinea. The Australian Prime Minister from December 1972, Gough Whitlam, made it clear that Australia was no longer willing to be a colonial power. A tiny, brave leadership group in Papua New Guinea thought that Independence was also in Papua New Guinea's interests, and took up the challenge of making Australian intentions work.

An awesome challenge

It was only in the decade before 1975, and only partially then, that the colonial administration adverted to the likelihood of early Independence. In the mid 1960s, responsible officials measured the period needed for adequate preparation in decades, and usually thought that even decades would be inadequate. The long-standing Minister for Territories explained in a valedictory statement in 1964

> I am quite certain in my own mind that the form of self government will come to [Papua New Guinea] before the country is economically viable and before it is fully equipped either to finance or to staff the various departments and agencies of government. Someone other than the people of [Papua New Guinea] will have to underwrite self government (Hasluck 1976:423).

Or as the World Bank put it in its first Report on the economy of Papua New Guinea

> [t]he ultimate aim of (the program) should be to bring the Territory to a stage of economic viability with self-sustaining economic growth…by any reckoning, and even on the basis of the most favorable assumptions, however, the development phase will take several decades (World Bank 1965:61). Among adult indigenes, the paucity of educated persons is extreme, under 1 per cent having received a full primary education and probably less than 100 having completed a secondary course, while the first university graduate was expected at the end of 1964 (World Bank 1965:287–8).

The crash program of educational, political, administrative and economic development over the next decade made a difference. The University of Papua New Guinea took its first students into degree programs in 1967, with several of the first graduates still in their mid-twenties when they accepted high responsibilities as heads of the main departments of state between self government in 1973 and Independence.

The experiment in Westminster democracy in what to many seemed an unlikely setting, with the election of the House of Assembly in 1964, led to the emergence of a political leadership willing to take over responsibility for government from the rapidly departing colonial power. Whatever the fundamental merits of the Westminster system in Papua New Guinea, there was some inevitability about its entrenchment in Australia's shadow, and a debate over constitutional development led at least, in contrast to Australia, and importantly to political stability, to the limitation and codification of the role of the Head of State (the Governor General) in the formation of governments.

In the economy, a huge expansion of public expenditure, funded overwhelmingly from the Australian budget, generated the first, and broken, threads of a national transport and communications infrastructure. A rushed attempt to diversify a tiny, sleepy colonial monetary economy led to the emergence of many of the service and processing industries that in Australian would be present in a large country town. The facilitation of mining development on

Bougainville more than trebled the value of exports, supported a brief period of extraordinarily rapid growth, socialised a large number of Papua New Guineans into the ways and skills of a modern economy, and set the scene for tragedy. There wasn't much of a Papua New Guinea monetary economy in 1975—a public sector funded overwhelmingly from Australia, a mine that was large by world standards, small service and processing activities to supply the public sector and the mine, and a small export-oriented agriculture—but the decade of accelerated effort had made it substantially bigger than it had been.

Trial balance

How has Papua New Guineans managed the challenge of these past 25 years?

The expectations of thoughtful friends and detractors of Papua New Guinea were not high. A widely discussed dichotomy was captured in the title of Hank Nelson's book of the mid 1970s, *Black Unity or Black Chaos*. The countries that were discussed as being similarly poorly endowed with indigenous education and administrative experience at the time of Independence were unhappy comparators. By these most basic standards, the continued constitutional government, the vibrant democracy, the assertive press and civil society, the survival of national unity, are all considerable achievements.[1]

Obviously there are other tests, by which political development in Papua New Guinea scores badly: the money politics and the primacy of personal enrichment amongst the goals of many holders of high public office; Bougainville; the violence and disorder of urban and some highlands village life. But even these dark sides are lightened by the opportunity that the survival of constitutional democracy provides for correction without national convulsion.

Economic policy and performance

Any reasonable assessment of economic and political performance since Independence notes the difficulty of the starting point and the substantial progress over the first one and a half decades. It notes as well the instability and decline over most of the past decade, and the focused efforts at rehabilitation under the new Morauta government since July 1999.

The rapid transition to political independence forced a similarly rapid formation of national economic institutions. A financial and economic policy capacity in the Department of Finance was established for the first time in 1972, and an independent currency was phased in between April and December 1975.[2]

The defence force, civil aviation infrastructure, and some public works capacity were administered and funded directly from the Australian Commonwealth budget until mid 1975. The largest bank and airline had been part of Australian government-owned businesses, and were transferred to Papua New Guinea government ownership between self government and Independence. Australian businesses operating in Papua New Guinea were able to deduct some expenditures in Papua New Guinea (for example, mineral exploration) from Australian income until, but not after, Independence. Papua New Guinea government borrowing from international agencies was guaranteed by the Australian government until but not after September 1975. Huge change in all these economic institutional arrangements was compressed into the couple of years of constitutional transition.

The political imperatives of transition within a democratic constitution seemed at first to argue for a movement back to the emphasis on broadly based development of the Hasluck years (1951–63), and away from the concentration of effort in areas of highest return that had characterised the World Bank Report of 1964 and the rush to Independence. 'Equitable distribution' was a theme of the first national government's Eight Point Plan in 1972, and of the Constitution's National Goals and Directive Principles. The awful reality was that, with the gradual reduction in the real value of Australian aid which the two governments agreed in 1976 should be implemented, and which was effected from the beginning, there was never a prospect of spreading the services then available in some areas to the whole of Papua New Guinea except in the distant future. In practice, in response to an extraordinary concentration of income and wealth in the hands of a small expatriate community, redistribution of high-income employment and business ownership from expatriates to Papua New Guineans was the one distributional focus of the Eight Point Plan to be pursued vigorously and effectively.

The early national governments ran a simple, low-maintenance economic policy. A 'hard currency strategy', based on cautious expenditure policies, was designed to achieve low inflation, a convertible currency and financial stability. The implementation of the hard currency strategy was underpinned by a carefully administered cut by 10 per cent in real terms in government expenditure in the first post-Independence budget, followed by cautious expansion of real expenditure (less than the population growth rate) and moderate levels of domestic and foreign borrowing until the Bougainville crises in 1989.

One weakness of the macroeconomic policy settings in these early years, acknowledged by successive governments, was the high level of minimum wages and associated benefits for low-skill labour in urban areas. This was entrenched by wage indexation (on a base that caused inflation to raise the real value of the minimum) in the style of Australia in the early and mid 1970s, and by legal and institutional constraints on minimum wage adjustment. The government after Independence placed submissions for moderation before successive Minimum Wages Boards. From the time of Independence, there was not a single Minimum Wages Board decision to increase the real level of urban minimum wages, and on several occasions there were decisions to achieve a small reduction. But despite this restraint, which was politically difficult to sustain in a newly independent democracy, the urban minimum remained seriously out of line with national conditions until the Minimum Wages Board abolished the urban minimum in 1992. In the meantime, the urban wage distortion had contributed significantly to urban unemployment and social instability.

On trade and industry policy, more or less free trade was established in the early years, but the political system became increasingly responsive to pressures for protection from business vested interests from the early 1980s. In the one clear economic policy benefit from the reforms that were effected as conditions of international assistance in the 1990s, the worst excesses of protection are being removed gradually in the context of introduction of a value-added tax from 1999.

In the large resources sector, simple and effective fiscal arrangements were legislated in the two years following Independence and remained remarkably stable until the early 1990s. These encouraged high levels of exploration and development expenditure, and their transparent and non-discretionary character helped to hold at bay the corruption of fiscal management that was becoming more important in other sectors. The falling standards of public morality within the political and public service leadership, the weakening of the central agencies of the public service, and the increasing intensity of budget pressures undermined stability, transparency and incentives to invest in the resources sector through the 1990s.

Papua New Guinea maintained a high degree of economic stability until the Bougainville crisis—exceptionally in international context for an economy subject to such wide fluctuations in the terms of trade (commodity prices) and domestic investment (booms during the construction of new resource projects and slumps in the aftermath). Inflation and interest rates were on average significantly lower than Australian levels in the early years, and near them through the 1980s. There was no crisis of currency convertibility until the early 1990s. Classical packages of exchange rate depreciation and expenditure reduction restored external payments balance without crisis after a terms of trade collapse in the early 1980s and the loss of export income and government revenue from Bougainville in 1989. Domestic and foreign borrowing was moderate and there was no debt crisis until the 1990s.

The hard currency strategy was abandoned by default with the loss of fiscal discipline from the early 1990s. A floating currency was adopted from 1994 as the best alternative in circumstances of fiscal instability, although its effectiveness was hampered by intrusive exchange controls, and by the absence until 1999 of a coherent monetary policy.

It became foreign conventional wisdom during the first one and a half decades after Independence that Papua New Guinea economic growth was poor. It was certainly poor by the standards of the high-growth economies of East Asia. But the positive if unspectacular growth in per capita output and incomes looks better in comparison with economies that are closer to Papua New Guinea in institutional and initial conditions—and strong compared with the natural comparators in Africa and the Caribbean.

The reality of economic growth was more impressive that the numbers in the national accounts. The extensive localisation of managerial and skilled employment and business ownership over the first 15 years boosted incomes of nationals well above the growth in domestic output. Monetised agriculture has probably grown considerably by international standards over the whole period since Independence, although precise assessments are difficult as a result of the paucity of reliable data on sales through domestic markets. Palm oil and domestic sales of food and betel nut are the big agricultural success stories. One of the initial conditions that placed a brake on measured economic growth was the immense direct and indirect role at Independence of two sources of economic activity that were to decline over the next 15 and 25 years: Australian aid and the mining sector. The international purchasing power of Australian aid and direct expenditure fell steadily through the quarter century, and in 1999 was about one-third, or about one-fifth per capita, of the levels at Independence. The real value of direct government revenues from the resource sector was lower in 1999 than in the year of Independence. Remember that the small modern manufacturing and service sectors at Independence had as their main markets the Australian-funded public sector and the Bougainville mine. The rest of the economy, tiny at Independence, had to grow rapidly to compensate for the decline in Australian aid and the loss of the Bougainville mine, simply to avoid a decline in gross domestic production.

There was a substantial decline in the quality of services provided by government—directly and through government-owned business—over the quarter century. In the early years after Independence, there may have been an improvement on balance, as recently trained teachers, health and administrative officers were deployed and gained experience. There was a modest lift in several of the social indicators into the late 1980s, but a general and substantial decline in the 1990s. State-owned businesses and the services that they provided were characterised by steady but unimpressive performance in the first 15 years, and catastrophic underperformance from the mid 1990s.

The 1990s collapse

In contrast to the early years, the 1990s were characterised by extreme economic instability, low average growth, radical decline in the quality of government services, and grotesque corruption in public life. The current poor perceptions of Papua New Guinea's prospects, by internal and external observers, derive mainly from this period. How do we explain the deterioration in the 1990s?

The Bougainville crisis was a turning point. There was sudden decline in exports, government revenue and domestic product—proportionately comparable to the complete loss of the farm and mining sectors in Australia. The Namaliu Government's initial economic policy adjustment to the effects of the Bougainville crisis was prompt and effective, but the later experience suggests that the Bougainville problem placed more strain on the weak economic and political systems than they were able to carry. The pressures of the Bougainville crisis sapped national morale, led to the breach of fiscal and accounting disciplines and, in the end, to pushing legal and constitutional proprieties to their limits.

The series of governments formed after the 1992 and 1997 elections abandoned the fiscal discipline that had been an aspiration and mostly an achievement of their predecessors. One part of the cause was undoubtedly the pressure that the Bougainville crisis placed on due process as well as on the budgetary arithmetic. A separate cause was the growing self confidence of the democratic political leadership, including in relation to officials based in the public service. This was reflected in increasing turnover in senior public service appointments. The growing scale of corruption had its own dynamics, as leaders tested and extended the boundaries of propriety.

The budgetary problems of the later years of the 1990s were exacerbated by the shift in the form of Australia aid from untied cash grants to projects. The maintenance of fiscal stability through such a shift required the progressive reduction in activities funded from the national budget: a new project funded by Australian aid required the closure of a hospital, a school or a political slush fund within the Papua New Guinea budget if it were not to contribute to a widening of the budget deficit. There was little appreciation of these realities in relevant places in Canberra and Port Moresby. The shift in the form of aid also contributed to the diminution of the role and the weakening of the authority of the central agencies of the public service in resource allocation.

More generally, the successive economic crises of the 1990s contributed to decline in morale, capacity and authority in the senior echelons of the public service. Partly as effect and partly as cause, the effective locus of technocratic capacity and authority shifted to the international agencies—and eventually and for a while comprehensively to a former World Bank officer employed by Prime Minister Skate as his Economic Adviser.

There was also an element of misfortune in the management of the economy in this period: the 1990s was a period of exceptional shocks from nature and the international economy.

The decade began with excitement that new gold (Porgera) and oil (Kutubu) projects would dramatically ease budgetary pressures. This led to a lessening of concern about budget constraints from 1992. Careful calculation would have shown that the boost from oil was temporary, and from the two projects together modest in the new circumstances of Bougainville and Australian aid. But the excitement prevailed over careful calculation—as it has done in similar circumstances in other countries—encouraging unsustainable levels of public expenditure. Then followed the destruction of Rabaul by volcanic eruption, the most damaging drought in living memory, and the tsunami.

The natural disasters were succeeded by the East Asian financial crisis of 1997–98, which delivered a blow to Papua New Guinea external trade and investment that was as large or larger than in any East Asian economy itself.

Some disasters were home made. Apart from the continuing problems in Bougainville the unintended consequences of reforms to public sector enterprises and to the system of provincial government led to sharp decline in the quality of services. The increased autonomy, through corporatisation, of virtually all government business enterprises in the mid 1990s was associated with expansion of the scope for Directors and senior executives to use the businesses as avenues for personal enrichment. The telecommunications company had five chief executives between 1996 and 1999, and the postal service three between 1997 and 1999. In all government businesses, moderate underperformance was converted into catastrophic decline between the mid 1990s and 1999.

More generally, by 1999, Papua New Guinea had become a kleptocratic state.

The date with destiny

A new Prime Minister, Sir Mekere Morauta, Secretary for Finance in the post-Independence period of economic stability, became Prime Minister in a Parliamentary vote in July 1999. Immediately, in his acceptance speech, he described his accession to national leadership as Papua New Guinea's 'Date with Destiny', and defined 5 key objectives of his government. The objectives were the restoration of the integrity of Papua New Guinea's great institutions of state; the restoration of stability to the national budget; the stabilisation of the kina and the ending of high inflation; the removal of obstacles to economic growth; and the peaceful resolution of the Bougainville crisis. Morauta later, in 2000, added a sixth objective: constitutional reform to promote political stability.

The Morauta Government's program seeks to restore strengths of the early years following Independence. In some ways it must do less than the old strengths, in recognition of fiscal and administrative weakness. In one way it can do more: it can now expect stronger response from a Papua New Guinea private sector. The emphasis on integrity of public institutions and economic stability struck a positive chord in the community. Morauta has secured strong support from the international community for his program, which is a necessary condition for success. The Australian Government, in particular, has recognised more clearly than its predecessors since 1975, the Australian national interest in Papua New Guinea's success, and the essential contribution that Australia must make to that success.

The Morauta government is in uncharted waters in its attempts to restore the corroded fabric of the institutions of state. On Independence Day, 2000, it is so far so good for its program of reform.

Papua New Guinea since Independence is neither a triumph nor a tragedy. It has done some things better than most foreigners expected—the critics of Independence in 1975, but also the promoters of Independence in Australia's national interest. The problems of high level corruption reached levels in the 1990s that raised fundamental questions about the restorative powers of the polity and society. Now a new government is seeking to cut out the weaknesses, and to reinforce old strengths.

Now, as in 1964 and in 1975, successful development in Papua New Guinea is a challenge for generations and not for a single government or a few years. Now, as in 1964 and 1975, and for a long time ahead, people other than Papua New Guineans must share the load, if success is to remain a possibility.

Notes

1 Some early leaders of government and administration were acutely aware of the fragility of the institutional base upon which they were standing, and of the possibility that, however good their work, it might all be swept away by the difficulty of the task. I recall the Secretary for Finance of the early years after Independence, Mekere Morauta, returning to Port Moresby from a visit to Canberra and sharing with me an idea that had emerged from discussions with Professor Sir John Crawford. Sir John had congratulated Morauta on the high quality of economic policy and administration, and noted that it was not likely that economic management could be maintained at such a high standard. We discussed Sir John's comment, and Mekere concluded that it was worth having a period of excellent economic management, even if it were all to fall apart at a later time. At least Papua New Guineans would have a sense of what was possible, and this would encourage them in the efforts that would have to be made to do better after a period of poor government.

2 The institutional framework was modeled closely on that of Australia at the time, although the Papua New Guinea government at Independence ran fiscal and monetary policies that were far more disciplined that those of Australia at the time. An ironic consequence of the adoption of the Australian institutional framework is that Papua New Guinea retains the dysfunctional system of exchange controls that was abandoned in Australia in 1983.

References

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