



A theory of atomistic federalism for Melanesia

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Ethnic fractionalisation has challenged the performance of Melanesian states since independence. Theory suggests that raising the pay-off from cooperation requires a system of federalism that devolves constitutional power to ethnically homogenous groups that have already achieved internal cooperative equilibria. This would preserve the power of traditional leadership and give it a stake in the preservation of constitutional provisions and reduce the probability of secessionist crises. Plans to devolve power to existing provinces, as proposed for Solomon Islands, will prolong failure of the Melanesian state because provincial constructs enjoy no more legitimacy than central government constructs inherited from colonial administrations.

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Federalism has played an active role in Melanesian political history, thought, and institutions. In Papua New Guinea, Solomon Islands, Fiji and Vanuatu, where levels of kin-based ethnic fragmentation are high, federalism theoretically offers an efficient way to balance the need for centralised state functions with strong demand for self-determination among heterogeneous communities. While concepts of federalism and decentralisation have been actively applied in Melanesia, there is no federal constitution that formalises and protects the limited sovereignty of states or

provinces. At independence, all four countries inherited unitary systems where the creation and dissolution of provincial government institutions occur through acts of parliament.

The utility of government architecture endowed by colonial administrations is under severe scrutiny as violence and slow economic growth erode the strength of Melanesian states. The overthrow in 2000 of the Chaudry government by a group led by George Speight in Fiji and of the Ulafa'alu government by the Malaita Eagle Force in Solomon Islands, a mutiny by members of



the Papua New Guinea Defence Force in 2002, and the rebellion and kidnapping of the president and acting prime minister of Vanuatu by the Vanuatu Mobile Force in 1996 underscore the fragility of all states in the region. For Melanesia, federalism can in theory reduce the distraction of ethnic conflict within national government by devolving power to regional and local institutions (Henderson 2003). If such institutions exercise more legitimacy and generate public goods more efficiently, the state can better coordinate policy and maintain national unity as a federal incarnation.

Federalism was first institutionalised in independent Melanesia by Papua New Guinea. In 1977, the National Assembly of Papua New Guinea passed the Organic Law on Provincial Government, enabling the creation of 19 provincial governments to which the state transferred administrative functions. Fear of secession, especially by communities in the North Solomons, partially motivated this devolution of power to provincial governments (Hinchliffe 1980). Provincial governments had their own elected assembly and premier. However, in 1995 the central government dissolved the power of provincial governments. The only part of the country to retain any autonomy is Bougainville, due to arrangements to end the recent civil war (Reilly and Phillpot 2002).

In Vanuatu, locally elected councils in Tanna and Santo were supposed to negotiate constitutional transfer of power to regional governments with a nationally elected assembly before independence. Political upheaval prevented this event, but chapter 13 of the constitution directs the central government to legislate provisions for local government (Ghai 1988). There are currently six provinces and a new Decentralization Review Commission recently submitted a report on how Parliament can better structure the relationship between the central government and local administrative bodies

(Vanuatu, Decentralisation Review Commission 2001). The constitution mandates an official role for traditional chiefs in regional government. In practice, chiefs are expected to oversee dispute resolution and preserve social order at a local level (Miles 1993).

Federalism in Fiji occurs at the nexus between implementation of state policy and the sovereignty of traditional leaders. There are 14 provinces divided into four divisions for purposes of public administration. The central government's Fijian Affairs Board oversees the activities of provincial councils that supervise policy related to native Fijians. Because provincial administration rests on a network of *turaga-ni-koro* that represent individual villages, and since the Fijian Affairs Board refers certain matters to the Great Council of Chiefs, traditional decision makers exercise critical power in provincial government (United Nations Economic and Social Commission for Asia and the Pacific 1999). This power illustrated itself during the 2000 coup when chiefs from Ra, Ba and Radroga (provinces that comprise western Viti Levu) threatened to secede if George Speight's takeover was permanent ('Chief wants to form breakaway state', *Sydney Morning Herald*, 9 February 2000:11).

Kasper (2001) advocates a system of 'competitive federalism' to overcome Fijian government dysfunction. He argues that 'a system of autonomous local governments that exploit local loyalties and local knowledge' would 'help with the decentralised discovery of diverse solutions to the many conflicts that have accumulated at the central government level' (2001:1). Fiji's pre-colonial system of confederated villages known as *matanitu* sets a cultural and institutional precedent for success of such a federal system.

Federal government structures most directly apply to conversations about constitutional reform in Solomon Islands. The concept of federal government was popular even before the 1978 constitution and was an



idea reinforced by a decentralised colonial administration. Establishing the architecture of a federal system, though, was seen as an exercise to be completed after adoption of the constitution (Ghai 1988). The task was never completed. The Constitutional Review Committee of 1987 formally recommended adoption of a federal system. Proponents argued that a federal system would dilute political support for secession and better distribute government resources in a geographically equitable fashion. In the midst of the recent violence and the 2000 coup, demands for federal government under a new constitution have grown even stronger, especially among those from Guadalcanal (Kabutaulaka 2002). To support the constitutional reform process currently under way, the State Government Task Force has proposed endowing each of the nine provinces with statehood within a federal system. Each state would have its own parliament and constitution (Centre for Democratic Institutions 2002).

The commentary above reveals that federalism and decentralised government are active principles of public administration in Melanesia. Constitutional federalism is seen as a viable alternative to the unitary system inherited at independence, especially in Solomon Islands and Papua New Guinea. In the push to decentralise control, however, there is an absence of debate over to which institutions power should be devolved. Most assume that the currently defined provinces should be the sovereign units of a federal system. In most cases, provincial boundaries were inherited from colonial administrations and generated by random definitions of geographical proximity. Given this, how can federalised provincial governments exercise any more legitimacy than unitary national governments, when the former is as much a relic of colonial rule as the latter? This paper argues for a federal system in Melanesia built on constitutional delegation of power to large

numbers of village or ethnically homogenous groups. Institutions that exercise legitimacy in Melanesia exist at the village level. If the state is to gain a foothold in Melanesian society, it must build its legitimacy on that already enjoyed by traditional leaders. Implementation of atomistic federalism in Melanesia presents challenges, but success would reduce the likelihood of secession, motivate registration of communally owned land, and generate a 'virtuous cycle' of political cooperation between ethnic groups.

Game theory and state legitimacy in Melanesia

Weingast (1997) models determination of political leadership as a game played by the sovereign and two groups of citizens. In order to prohibit the exercise of despotic power by the sovereign, each citizen group must prefer collusion with the other group to challenge despotic transgression over alliance with the sovereign in order to benefit from transgression against the other group. Successful collusion requires infinitely repeated interaction between the two citizen groups (that is, they will always be in proximity to each other) and a device that coordinates consensus on the boundaries of power for the sovereign. In modern democratic states, this device is a constitution with which compliance is in the sovereign's best interest. Under a scenario of Weingast collusion, preservation of the constitution is paramount in the choices made by the citizenry over preservation of the sovereign. This arrangement insures limitations on government and constrains leadership change to processes that are socially desirable (for example, prescheduled elections, impeachments by legislative assemblies).

In more complete terms, Weingast collusion can be illustrated as an infinitely-repeated, simultaneous-move game between



two agents A and B (see Table 1 below where, in each cell, agent A's pay-off is listed first). The choice for each agent in each time period is between transgression against and loyalty to an implicit (for example, a set of social norms) or explicit (for example, a constitution) social contract. In one time period, if both agents are loyal, the pay off to each is L ; if both agents transgress, the pay-off to each is T ; and if choices are asymmetric, the agent that transgresses earns M while the agent that remains loyal earns V . In theory, pay-offs represent social surplus that expresses itself in terms of tangible (for example, output from production) and intangible (for example, psychological morale) goods. In Weingast's framework, the choice by one agent to be disloyal implies alliance with a corrupt state to steal resources from and victimise the agent that remains loyal. In this context pay-offs can be portrayed as a classic prisoner's dilemma where $M > L > T > V$. The choice between loyalty or disloyalty hinges on a comparison between the one-time payoff $M - L$ from transgression and the benefit of repeated loyalty over time equal to the present value of $L - T$ received each period *ad infinitum*. Weingast collusion occurs if both agents choose loyalty on a repeated basis because the latter is larger than the former due to an L that is sufficiently high and a discount rate that is sufficiently low. This framework assumes a 'grim trigger strategy' on the part

of each agent where the choice is loyalty if the other agent was loyal in the last time period or transgression if the other agent transgressed in the last time period. An expectation of loyalty to the social contract by both agents makes initiation of a corrupt alliance with one agent by a state leader irrational because the contract forces the leader from power when knowledge of an attempted bribe is made public. Collusion between both agents denies leverage for any attempt to supercede social norms.

There is evidence that *kastom* successfully coordinated a Weingast collusion in pre-colonial Melanesia that placed endogenous limits on the actions of leaders at the village level. *Kastom* refers to a code of social norms in a Melanesian community that governs relationships, land use, and sharing and transfer of resources. These norms can vary from village to village and adapt to environmental changes over time (Hviding 1996). Individuals earned leadership status in Melanesian society through simultaneous exercise of charisma and fulfillment of obligations defined by *kastom*. For example, in northern Vanuatu, while a higher rank in the social hierarchy allowed easier access to a leadership position, the loyalty of villagers was not guaranteed. 'To exercise authority, a man needed to establish and maintain his personal legitimacy as a leader, rather than rely on his structural legitimacy as a member of the graded society', which was done in

Table 1 Social contract game between agents A and B

	Agent B transgresses against the social contract.	Agent B is loyal to the social contract.
Agent A transgresses against the social contract.	(T, T)	(M, V)
Agent A is loyal to the social contract.	(V, M)	(L, L)



part through 'performance of lavish and powerful kinship rituals' (Bolton 1998:182). This case exemplifies the general tendency in Melanesia for village leaders to earn their position through merit rather than assume it through inheritance. Leaders retained their position only if they continually met expectations of their followers and exceeded the capacity of those competing for the position (Dinnen 1998).

Much like a constitution can cement a Weingast collusion between citizen groups that forces elected officials to avoid illegal behavior, *kastom* in Melanesia solidifies a social contract between villagers that compels traditional authority to abide by social norms that reinforce group solidarity and support a communal ethic in the distribution of resources. Although much less stable and sophisticated, incessant competition for leadership status in Melanesian groups can generate the same incentive to act on popular will as elections.

Political and economic behaviour within Melanesia illustrate the modern ability of *kastom* to enforce reciprocal social norms and thereby overcome problems of collective action at the village level and place boundaries on the power of political leaders and wealthier members of the community. Kabutaulaka (1998) observes that a member of parliament in Solomon Islands must be a successful 'big man' if he wants to retain office.

Voters have the same expectations of politicians today as the community had of the traditional 'big man' and most politicians react to these expectations as the village 'big man' would have—distributing wealth to members of the group and participating financially in nearly every community affair (Kabutaulaka 1998:28).

For example, members of parliament distribute money from the Constitutional Development Fund to voters in their constituencies in ways that fulfil *kastom* obligations.

Makim (2002) documents how *kastom* cemented a recent agreement between communities in North New Georgia, Solomon Islands, to implement a sustainable strategy to develop forest resources and distribute the financial benefits in a diffuse and transparent manner. Consensus was achieved without any intrusion or aid from the state, mainly because the government was increasingly paralysed by ethnic conflict in Guadalcanal.

Strong expectations among voters of 'give back' by community leaders rests on resilient norms of economic reciprocity. For example, Gibson, Boe-Gibson and Scrimgeour (1998) determined that transfers between households in a village in Papua New Guinea increased consumption by the average 'poor' family from 50 to 75 per cent of the consumption by the average 'rich' family. Because the village was located in an urban area, these results were achieved by comparatively high access to the cash economy—a phenomenon typically thought to weaken rural-based social norms.

For the state to exercise legitimacy within a country, allegiance to processes that determine state leadership and compliance with laws promulgated by such leadership must, through time, achieve the status of social norms (Diamond and Lipset 2001). Because the stability of citizen group pay-offs that achieve Weingast collusion is not guaranteed, a new constitution does not automatically define a new set of social norms, especially in Melanesia. In terms of Table 1, changes in $L-T$ and $M-L$ (or a wedge between expected and actual values) can shift loyalty from a rational to an irrational choice. For example, after 11 months of negotiation with Prime Minister Michael Somare, the citizens of Bougainville agreed to become a province of Papua New Guinea and surrender to the authority of the new country's constitution in 1975. The Panguna copper mine generated revenues for the PNG state, the Bougainville provincial government,



Table 2 Manipulation of pay-offs by a constitutional élite

	Agent B transgresses against the social contract	Agent B is loyal to the social contract
Agent A transgresses against the social contract	(T, T)	$(M-P, V)$
Agent A is loyal to the social contract	$(V, M-P)$	$(L + R, L + R)$

and the Nasioi landowners. By 1989, a critical mass of Bougainvillians agreed that the share of benefits from the mine enjoyed by the province and landholders was dramatically less than was historically promised, and in response, defected from Weingast collusion with the rest of the country, declared independence, and denied benefits of the Panguna mine to former partners under the PNG constitution (Australia, Joint Standing Committee 1997).

The stability of Weingast collusion is best insured when the state can (and is willing to) lower the pay-offs from transgression and/or increase the pay-off from cooperation. When a constitution is promulgated for a new state, state leaders are held in check through coordination between citizen groups via Weingast collusion. Over time, stability of collusion bears an élite of professional politicians that rely on constitutional process to legitimise and sustain their power. While members of this constitutional élite compete with each other in elections, they collectively coordinate a strategy that enhances their own incumbency and raises political barriers to entry for new rivals. Victory in the current election is not the only goal; maximizing the probability of victory in future elections is also an objective, independent of loss in a current election (Wohlgemuth 2000). Thus, with enough time, leadership in a newly formed state that is tempted to bribe transgression by

agent A or B and undermine the social contract is replaced by an organic constitutional élite that sees enforcement of Weingast collusion between agents A and B as its best strategy. Policy is used to punish transgression and lower the pay-off of transgression by P and/or reward loyalty by raising the pay-off to cooperation by R . If the combination of P and R is strong enough so that $L + R > M - P$ (Table 2), then loyalty is the preferred choice and Weingast collusion becomes the only Nash equilibrium in the game.

Constitutional élites have achieved this condition in the United States and Europe through two different policies. Historically, the US federal government has relied on punishment (that is, manipulation of P) to dissuade secession by errant states. Threatened or actual secession was always countered with military repression. Republican President Abraham Lincoln's choice of a vice president from the Democratic Party (that is, Andrew Johnson) in the election of 1864 most visibly demonstrated agreement between constitutional élites to preserve the social contract of union in the United States. Defeat of southern separatists implied a P large enough to dissuade any future notions of secession. Unlike the federal government in Washington, DC, Brussels has no power to coerce loyalty of member states to the European Union. In contrast, the European Union's social contract is sustained through explicit and implicit transfers between members (that is,



manipulation of R). Poorer countries on the periphery of the European Union receive fiscal transfers from wealthier members as a bribe to enter and remain in the union. The economic gain from the free flow of labour, capital, goods and services enjoyed by each European Union member generates significant opportunity costs of exit from the union. Constitutional élites in Brussels insure survival of the union through a slow and incremental evolution established by consensus. This insures that R is large enough to make secession a sub-optimal choice.

Constitutional élites in Melanesia have raised P and R , but not enough to sustain Weingast collusion. For example, in an effort to reverse sentiments in Bougainville and raise the cost of transgression against the PNG constitution, élites in Port Moresby ordered the PNG Defence Force to blockade the island between 1990 and 1994 (Australia, Joint Standing Committee 1997). The blockade was ineffective and only strengthened the resolve of Bougainville separatists. In another example, constitutional élites in Solomon Islands sought to bribe warring factions of Malaita and Guadalcanal to show loyalty to the notion of state. The Townsville Peace Agreement of 2000 guaranteed development projects on both islands and Parliament commissioned the Draft Report on State Government in 2001 to placate demands for decentralised government (Kabutaulaka 2002). However, these initiatives were not strong enough to prevent further instability and Australian military intervention in 2003.

Impotence of the Melanesian state is caused by weak or non-existent links between the state and institutions that already exercise legitimacy in Melanesian life. Their legitimacy is a natural product of Weingast collusion sustained through *kastom* in Melanesian sub-groups. Because the US Constitution is a by-product of consensus between separate British colonies established during the first European settlement of North America, it was endowed with legitimacy already enjoyed by the former

colonies. In similar fashion, because the European Union evolved in incremental stages and motivated voluntary surrender of sovereignty, the 'European state' absorbed the legitimacy exercised by member governments.

Melanesian states inherited power, structure, and the process of law-making but no natural legitimacy from colonial governments (Larmour 2002). As a foreign regime, colonial administrations did not know how to enable Weingast collusion at a country level nor did they have a long-term stake in doing so. Successful redesign of the Melanesian state requires dilution of this mismatch and a graft of the state with traditional institutions so that legitimacy is effectively shared.

Botswana offers an example of what Melanesian countries might be able to achieve. Tribes define the traditional form of social organisation in Botswana. Historically, they were headed by chiefs whose status was hereditary. Alongside a chief was the *kglota*, which was an assembly of men who discussed issues of collective interest to the tribe. A tradition of criticism through the *kglota* motivated chiefs to align decisions with tribal consensus.

While chiefs were not compelled to accept the advice given to them by their tribe, by and large, they did; for if individuals or groups were not satisfied with their leader, tradition encouraged them to leave the tribe and form another of their own (Alfaro et al. 2003:3).

Like *kastom* in Melanesia, tradition and power of the *kglota* established stable Weingast collusion within each tribe.

Like Melanesia, Botswana inherited a Westminster system when independence was granted by Britain, but the constitution explicitly mentions each tribe by name as a national institution. The constitution provides for a Council of Chiefs that advises government on issues of tribal and customary concern. Although the system of government



is unitary not federal, the boundaries of administrative districts match tribal boundaries traditionally recognised before declaration of the British protectorate. Within these districts, traditional authority wields measurable influence. Government ministers and members of parliament attend frequent *kglota* and resulting discussions shape policy decisions made by the cabinet. Customary courts, which rely on traditional protocols to resolve conflict, oversee 78 per cent of all litigation in the country; magistrate courts play a smaller more targeted role (Adamolekun and Morgan 1999). A seamless integration of tribal institutions with constitutional structure allows the state of Botswana to import legitimacy of chiefs and the *kglota* and to define allegiance to its democratic process as a social norm. Endowed with this legitimacy, the government of Botswana has generated a 14 per cent average annual growth rate in real gross domestic product since independence (the highest in the world) and achieved a corruption rank by Transparency International that is better than France and Italy (Alfaro et al. 2003).

The hypothesis of state failure in Melanesia (for example, Henderson 2003) caused by political illegitimacy is supported by game theory. The Melanesian state has not been able to fuse its authority inherited from colonial administration with stable Weingast collusion that *kastom* cements in village and traditional kinship groups. Because corruption and other illegal behaviour by state officials has little consequence, allegiance to and maintenance of law is not a social norm in Melanesia. In many cases, state institutions are seen as a source of resources to harvest in service of *kastom* and for the benefit of fellow *wantoks* (that is, kin to whom individuals have a customary obligation). The Nash equilibrium choice is transgression instead of loyalty. In theory, what conditions need to be satisfied for allegiance to state institutions

to be a social norm? Arce and Daniel (1994) answer this question clearly.

The conclusion is that if a society wants to create a social norm that rules out unilateral deviation and allows for unilateral cooperation in a prisoner's dilemma-type paradox, then the institutions in society must encourage coalition-building. They must therefore differ substantially from equilibrium actions that encourage individual action only or sub coalition deviations (1994:763).

Participatory government must formalise the power of traditional leadership so that state institutions are not seen as competitors. When the notion of threat is gone, traditional actors are more willing to cooperate with state-led initiatives. In Botswana, for example, tribes voluntarily surrendered all communally-exclusive mineral rights to the state after the government convinced them that this was best for national development (Alfaro et al. 2003). Because village groups currently see constitutional élites as a threat, such surrender seems inconceivable in Melanesia. However, evolution of a stable cooperative equilibrium remains theoretically possible in spite of the predominance of self-interested behaviour (Sethi 1996). The Melanesian state must redesign itself so that legitimacy is seeded through organic institutions instead of imported through colonial institutions.

Atomistic federalism and the Melanesian state

Constitutional decentralisation is a concept with wide political acceptance in the region. There is a danger, however, that the concept's popularity will generate unrealistic expectations and motivate implementation of federal systems that do not guarantee legitimacy. For example, poor institutional



design in Solomon Islands could degrade the quality of public services and diminish the prospect of effective government (Wainwright 2003). The mechanics of a federal system would work well in Solomon Islands, but devolution of power does not guarantee dilution of ethnic tension (Otter 2002). An unbalanced federal system in Papua New Guinea could exacerbate the wedge between local groups and the state over the distribution of proceeds from natural resources (Matthew 2000). For a federal system to coordinate the intricacies of devolved power effectively, the federal government must gain legitimacy as the manager of national interests. For this to happen, traditional institutions that already exercise political legitimacy must not see the state as a threat to their power.

There is a temptation to make provinces the sovereign units of a federal system (Centre for Democratic Institutions 2002), but in many ways, provinces suffer the same legitimacy deficit that plagues central governments in Melanesia. For example, while there is more social homogeneity in Bougainville than in Papua New Guinea, the provincial or separatist government of Bougainville is a construct separate from traditional institutions that have historically governed the activity of smaller village groups on the island. Matthew observes

[n]either, moreover, can Bougainville meaningfully be characterised as a nation-state 'in-waiting'. As we have seen, its population possesses nothing like the ethno-cultural coherence of, say, 'Bengali' Bangladesh. Given the region's massive diversity, establishing any sort of community title on the part of 'Bougainvilleans' is highly problematic (2000:739).

Breakaway of the Nasioi area from Francis Ona's leadership in 1994 exemplifies the lack of unity even during the secessionist conflict with Port Moresby (Australia, Joint Standing Committee 1997). In Solomon

Islands, loyalty to province can be as weak as loyalty to the national state. Political identity emanates from an individual's village affiliation and judgment of policy rests on the interpretation of impact on fellow *wantoks*. This explains efforts of smaller regional groups to establish their own provinces such as the breakaway of Rellena and Bellona islands from the Central Islands group, Ulawa from Makira, and Sikaiana from Malaita (Nanau 2002). With no foundation in traditional institutions or geographical boundaries, provincial governments in a federal system simply become another layer of the Melanesian state that constitutional élites populate and through which they wield ineffective power. Federalism will only work in Melanesia if the system's sovereign units administratively harness the Weingast collusion insured by traditional village entities.

Theory suggests atomistic federalism as an optimal model of decentralisation for the Melanesian state. Decentralisation is an exercise in optimisation of social disaggregation. The solution lies between two poles: a unitary state with no sovereign local units at one end and a radically individualised state at the other where each person is a separate sovereign unit. Villages and custom areas represent a natural scale of disaggregation for political decentralisation in Melanesia because these units are the outcome of a process of social development. Institutions, social norms, and codes of leadership evolved to overcome problems of collective action and provide insurance against resource scarcity. If the Melanesian state ignores this source of legitimacy, it commits a grand oversight. Provincial boundaries drawn by colonial authorities are no more natural than the national boundaries drawn between Papua New Guinea, Solomon Islands and Vanuatu. If provinces are the units to which limited sovereignty is transferred, then Melanesian federalism ultimately does



nothing to enhance legitimacy of government structures and reverse levels of 'state failure' that plague the region.

Social groups that possess a system of traditional leadership to which members express a natural loyalty, share and manage an identifiable territory of land under rules of customary tenure, and demonstrate an active sense of ethnic homogeneity should be the sovereign units to which power is devolved and limited sovereignty is constitutionally protected. Because Melanesia has the world's highest level of ethno-linguistic fragmentation, the ratio of population to sovereign units would be extremely low in Melanesia compared to other federal systems. For example, the ratio of population to languages in Africa is approximately 380,000:1 compared to approximately 5,900:1 for the region defined by Fiji, New Caledonia, Papua New Guinea, Solomon Islands and Vanuatu (Kimenyi 1998, Reilly 2003). Panizza (1999) predicts and supports empirically a positive relationship between ethnic fractionalisation and a country's optimal level of government decentralisation. A high number of sovereign units in a Melanesian federal system may at first seem risky and unmanageable, but if Melanesia is a global outlier in terms of ethnic diversity, it makes sense that a federal system unique to countries in the region would also be an outlier if ethnic diversity is a factor in the efficient design of government structure. Lacklustre performance of constitutional structures inherited at independence invites consideration of more heterodox concepts of political power distribution.

Atomistic federalism in Melanesia applies a more general concept of the ethnic federalism advocated by Kimenyi (1998) for Africa. In a country with pronounced ethnic diversity, the value any individual places on a public good will vary considerably and closely correlate with the individual's ethnic identity. Decentralisation of public good

production to ethnically defined institutions of government can generate a more efficient match between the supply and demand of local public goods (Gilbert and Picard 1996). Kimenyi (1998) observes that traditional kinship and village groups behave, in many ways, like any other voluntary club and organisation. Over time, such groups learn how to manage efficiently the preferences of their members through enforcement of social norms, organisation of inputs for production, provision of social insurance and generation of psychic goods such as entertainment, collegiality, and pride. These are the same types of social benefits the state tries to produce, but because traditional institutions enjoy the advantages from centuries of 'learning by doing', they can typically produce localised benefits more efficiently than the state (Roback 1991). Traditional groups also occupy identifiable parcels of land, which makes delineation of geographic political boundaries a less subjective exercise.

The strongest argument Kimenyi (1998) makes for ethnically based jurisdictions in a federal system is their ability to solve the same game theory coordination problem identified by Weingast (1997)

...there are various factors that unite members of a tribe that facilitate solving prisoner's dilemma problems such that cooperative outcomes are achieved. Consequently, there is a strong case for defining boundaries of local units along ethnic lines. For such units to be efficient in meeting the preferences of their populations, they must possess a fair degree of autonomy (Kimenyi 1998:58).

In theory, ethnic delineation insures the legitimacy and efficacy of jurisdictional governments and establishes a solid foundation upon which a national political identity can emerge and the legitimacy of a federal state can evolve. As illustrated earlier, this approach enabled an effective national strategy for the state of Botswana.



As hypothesised above, village groups in Melanesia provide an economic safety net and social order—two public goods often assumed to be the burden of the state. As highlighted earlier, Gibson et al. (1998) document the propensity of wealthier households in an urban PNG village to allocate money and resources to poorer households in the village. The transfers are large enough to shrink significantly the income gap between rich and poor households. Pitts (2001) observes that village courts in Papua New Guinea can effectively enforce local elements of law and order. Instead of relying on imprisonment as a punishment mechanism, village courts emphasise ‘restorative justice’ that requires a criminal and his family to compensate victims and their families through traditional means, often through gift exchange. Devolution of power to village groups allows the state to shift some of the burden of public good production to traditional institutions that are already producing them with no subsidy from the national treasury. This enables the state to more quickly establish its legitimacy and frees resources for economic development.

Atomistic federalism in Melanesia implies the existence of dozens if not hundreds of jurisdictions that are members of a federal system. A federal constitution would define and protect limited sovereignty for these jurisdictions much like the tenth amendment of the US Constitution. While an atomistic system would help the Melanesian state to graft its legitimacy onto that already enjoyed by traditional institutions, the tasks of defining ethnic jurisdictions, determining citizenry for each jurisdiction, and demarcating geographical boundaries are barriers to implementation. Before colonial control, traditional warfare was constant, and territorial boundaries between communal groups was fluid. With no system of written contracts and claims to fall back on in

Melanesia (with the exception of Fiji), the process of demarcation for constitutional purposes will require patience and a keen ability to invoke traditional methods of conflict resolution. As they do now, enterprising individuals will seek to manipulate the process of demarcation for individual gain (Lea 2001). False claims of citizenship in an existing group or declaration of independent ethnic groups and communal land ownership that cannot be historically validated will be common elements of a strategy to game the system (Lea 2002).

The process of demarcation mimics the process required for land registration. Historically, traditional groups have opposed, sometimes violently, efforts to register communal land because registration was interpreted as a first step in a state policy of confiscation (Lea 2001). If, however, demarcation achieves constitutional protection of the sovereignty of traditional institutions and their management of customary land, rural dwellers would have a strong incentive to help, rather than hinder, the process of boundary determination. Geographic delineation of communal ownership better motivates economic activity linked to land, preserves the ability of traditional land management to meet basic consumption needs of village members, and contributes positively to economic development (Nari 2000).

While atomistic federalism would introduce a new scale of decentralisation, the dozens or hundreds of jurisdictions it would create could significantly lower the probability of secession. The smallness of jurisdictions would make unilateral secession by one jurisdiction rationally infeasible. The average jurisdiction would not have the critical mass of population necessary for its survival as an independent state and neither would it have the size to be taken seriously by outside powers like Australia and New Zealand. In order for



secession to be feasible, jurisdictions would have to form a coalition against the state. However, the stability of such coalitions would be threatened by the defection of jurisdictions that accept bribes from the state for loyalty just as occurred during the Bougainville crisis in Papua New Guinea.

If constitutional protection of traditional sovereignty is strong and guaranteed, incentives to join a secessionist coalition are weak. Since all Melanesian states are plagued by latent secessionist efforts, any institutional changes that insulate states from this threat enhance long-term stability and lower the political risk associated with countries in the region.

Many would argue that a nation with dozens or hundreds of federal political units requires redundancy in government activity on a grossly inefficient scale. This argument assumes that executive, legislative, and judicial units that comprise the federal government would have to be replicated, to some extent, within each village or custom area jurisdiction. Traditional government at the local level is successfully executed in many Melanesian communities without a salaried bureaucracy. If village units are granted enough autonomy so that *kastom* complements instead of competes with the function of government at the local level, replication of federal government institutions is not necessary. Self-government enabled by *kastom* has been achieved in the absence of a cash economy. This suggests that an atomised federalist structure might in fact lower the costs of administering the Melanesian state. Such a hypothesis is consistent with Moesen and van Cauwenberge (2000) who found an inverse correlation between the size of government (relative to the economy) and the intensity of federalism in a sample of 19 OECD countries.

Traditional institutions in Melanesia are not democratic in a modern sense. The power given to chiefs and family heads can generate

unequal access to personal opportunity and resources. The reciprocity of *kastom* typically guarantees sufficient access to village resources to meet basic needs, but it does not seek to achieve perfect equality in economic distribution. Traditional institutions tend to favour men as decision-makers and sideline women in policy determination. However, innovative government design could preserve government roles played by traditional institutions while compensating for deficits in democracy. For example, along with devolution of limited sovereignty to village units, constitutional reform could set aside parliamentary seats for certain groups 'disenfranchised' by traditional political protocols. Women could simultaneously contribute to local government in a traditional manner but participate in the election of women directly to the federal parliament.

Conclusion

Ethnic fractionalisation has handicapped the performance of Melanesian states since independence. From colonial administrations they inherited unitary systems of government that stunt production of public goods, subsidise constitutional élites that enjoy no legitimacy, and position traditional institutions as political competitors rather than partners. In a game of transgression against or loyalty to the state, traditional groups have repeatedly opted to transgress and enforce a Nash equilibrium that yields impotence for the Melanesian state. Negative dynamics in unitary states in Africa revealed by Kimenyi (1998) also apply to the experience in Melanesia.

Members of a particular tribe consider themselves different from those of other groups and have an interest in increasing the welfare of their members relative to that of other tribes...Consequently, a tendency



exists for tribal groups to compete for the control of the instruments of transfer because such control assures the controlling group a consistent flow of transfers (1998:44).

In many ways, the Melanesian state has become an open access resource from which groups compete to harvest foreign aid money, natural resource rents, and tax revenues for short-lived gain. Interaction between groups via the state mirrors a one-shot game that renders results consistent with the classic prisoner's dilemma.

For the Melanesian state to thrive, political interaction must support a Nash equilibrium where the pay-off from cooperation for all groups is higher than the pay-off from transgression. Raising the pay-off from cooperation requires a system of federalism appropriate to the high levels of ethnic fractionalisation found in Melanesian countries. Theory suggests an atomistic system that devolves constitutional power to dozens or even hundreds of ethnic groups that have achieved internal cooperative equilibrium through evolution. Traditional leadership enjoys unquestioned legitimacy because it accedes to the restrictions and obligations placed on it by social norms enshrined in *kastom*. A federal system where each geographic jurisdiction matches the boundary of an historically discrete ethnic group preserves the power of traditional leadership and gives it a stake in the preservation of constitutional provisions. Support of a federal constitution by village leaders would, over time, allow the state to import the legitimacy enjoyed by traditional institutions.

Theoretical justification for a radically decentralised federalist model in Melanesia is offered here; the country-by-country mechanics of its constitutional implementation are not. Admittedly, the realities of practice always fall short of the purity of theory, but application absent of theoretical grounding generates dysfunctional

institutions and policy. Consensus is growing that federal systems of government are more appropriate than unitary systems in the Melanesian context. However, in the race to consider constitutional reform there seems to be no attention to the question of legitimacy. A federal system that devolves power to existing provinces will inspire temporary confidence, but the impotence of the Melanesian state will again reveal itself as the incentives for traditional groups to compete instead of cooperate with each other through the state will not have changed. For the Melanesian state to command loyalty requires a constitution that protects and harnesses the legitimacy of discrete and heterogeneous traditional institutions. Since ethnic identity is so highly atomised in Melanesia, a federal system that institutionalises limited sovereignty for a large number of jurisdictions presents a logical way to meet this requirement.

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