Economists, move over; make way for political and strategic scientists. This subtle message infiltrated the audience at an Update on Papua New Guinea on 20 May 2004, organised jointly by The Australian National University and the Lowy Institute for International Policy. The emergent plurality in the PNG policy arena, which economists have long dominated, reflects the evident failure of orthodox economic policy to realise the country’s obvious potential. Negative per capita growth and social indicators lagging peer groups seem so unnecessary in a country so well endowed with oil, gas, mineral, timber, fishing and agricultural resources. Nor has Papua New Guinea lacked political plurality, market-oriented policy advice and policies, aid or foreign direct investment, all useful agents in turning natural wealth into higher living standards for the people. The World Bank, we were reminded in the morning session, concluded in 1978 that the country could be independent of aid within 20–25 years. A light lunch and heavy irony ushered in the afternoon session, which was devoted to discussion of the two-thirds increase in Australian aid embodied in the five-year extended Enhanced Cooperation Program (ECP) recently agreed between the two governments. What has so punctured aspirations in our nearest neighbour? How well might the ECP mend it?

Papua New Guinea practises extreme political plurality. Clan-based political units exceed in number even the oft-noted 800 different languages spoken in the country. To superimpose on this multiplexity a Westminster system, idealised as two parties alternating as government and opposition, as Australia and the international community did in 1975, and expect it to work that way, was naive. This insight, offered from the floor, struck a chord with an audience empathetic with the country in its struggle for development; a struggle perhaps made harder by well-intentioned outsiders. I wonder how many in the audience recalled that the constitution resulted from three years’ work by an all-Papua New Guinean constitutional planning committee.

The first-past-the-post voting system has typically resulted in six voters backing an unsuccessful candidate for every one backing a successful one. Some candidates succeed with as few as 5 per cent of votes cast. This has earned for Haus Tambaran, the national parliament, the sobriquet ‘House of rejects’. In a bid to form a more representative parliament, by-elections now employ optional limited preferential voting, as will future general elections, beginning with the next one in 2007. As well as making the parliament unrepresentative, clan-based, big-man politics destabilise the executive. No prime minister winning a general election,
Despite from time to time changing parties in his ruling coalition and ministers in his cabinet, has yet managed to see out a full five-year fixed term. All have fallen victim instead to the abused constitutional provision that allows the parliament that elects a prime minister after a general election to vote him out of office between elections. Prime Minister Sir Michael Somare, already twice victim to no-confidence votes, may soon face another. History suggests this would have happened even without his push to double the grace period to three years. Support for the move has declined since September 2003 when parliament passed the constitutional amendment in the first of the requisite two votes taken at least two months apart. Sir Michael, soon after welcoming into his ruling coalition the PNG Party, led by Sir Mekere Morauta (whom he deposed in the general election in 2002 and who opposes extending the grace period), referred the controversial proposal to the constitutional development commission.

Yet, political plurality and its attendant instability have three upsides. First, corruption is checked by intense competition preventing entrenchment of power—a significant point missing from much of the discussion about corruption. Second, the ease with which governments change obviates the need for military intervention to change them. Third, clan-based politics is also policy-free politics, leaving economic policies largely unaffected.

Economic outcomes are driven by economic policy. As with political institutions, Papua New Guinea has had difficulty making imported economic policies and institutions work as intended. The economic policy model adopted by Papua New Guinea clearly demarcates the roles of government and private enterprise. It also assumes that well formed markets and enforceable property rights underpin private enterprise. These assumptions do not hold in much of Papua New Guinea. Consequently, private enterprise performance has fallen far short of the model’s expectations. Specifically, unemployed males in very large numbers roam large tracts of undeveloped agricultural land or migrate to the towns in search of nonexistent jobs. They manifest as the ‘law and order’ problem. This is not a recent phenomenon. A labour surplus existed in pre-modern times, as implied in the anthropologist’s term ‘affluent subsistence’. The failure of orthodox policy is to have allowed this benign labour surplus to grow malignantly in the transition to modernity.

Whereas private sector output is far below its full employment potential, public sector output exceeds the economy’s capacity to supply its foreign exchange demand. Whereas a too-small productive private sector manifests as a law and order problem, a too-large public sector manifests as a balance of payments one—witness the exhaustion of reserves under a fixed exchange rate regime and the loss of the kina’s international purchasing power under the consequent float. This failure of orthodox policy is to have confused an unproductive economy with an uncompetitive one due, according to theory, to an exchange rate overvalued by aid and mineral rents and the root cause of poor growth. But growth under the much-depreciated kina has been slower than when it was strong—indeed it has been mostly negative.

Correcting these two structural imbalances in the economy constitutes the essential economic problem in Papua New Guinea. It is readily solved: but only by considerably blurring the orthodox model’s public–private boundary. Part of the solution lies in the current public expenditure review, which plans to slice 3–4 per cent of GDP from the budget. Since much of this would entail retrenchment, so that retained public servants could have the wherewithal to do their jobs, the government will need external help in financing it—as Australia is assisting it in the defence force downsizing currently
underway. But, in my estimation, an increase in export-based taxes would also be required to bring the economy into external balance. The unorthodox part of the solution lies in financing agricultural export expansion on land owned by the people directly from the budget, generating employment and foreign exchange simultaneously. Leaving markets to allocate resources works when markets exist; but, when they do not, as Papua New Guinea's hollow economy proves is the case, public policy must do so.

The five-year, A$1 billion ECP's great strength is its timing—getting at the problem while the economy and government are still functioning, unlike the Solomon Islands intervention. Its greater weakness is its narrow diagnosis of the problem. It aims to make key government agencies work better, principally police as well as treasury and justice, whereas making the economy work better would yield better returns. Moreover, the ECP does not address a principal cause of the poor departmental operating performance it aims to lift; that is, the budget constraint. For quite some time, public sector employees have lacked the 'tools' they need to perform their duties. Police without vehicles and radios are ineffectual. Poorly housed, they are unhappy. Indiscipline results.

Australian government officers at the Update seminar cautioned against expecting too much from the ECP, which, they said, was mainly about getting better value from long-standing, ongoing aid programs. A more substantive coverage of expected benefits from an intervention costing two-thirds as much as underlying aid, or almost twice Papua New Guinea's entire budget for the law and order sector, would have been in order. 'Capacity building' is at the core of the ECP, a phrase that induced paroxysm in at least one member of the audience. It is true the phrase and its twin, 'institutional strengthening', have been the expressed objectives of innumerable assistance programs come and gone over the years without much trace. ECP designers aim to avoid the 'consultant–client' relationship they claim was the weak feature of past programs and foster instead a professional collegiate relationship with mentoring overlay.

Whatever its design label, the actual relationship will be the one that develops between the people involved at the time and in the circumstances they face. Two circumstances in particular will confront the ECP, much as they have frustrated previous capacity building efforts. Personnel turnover makes it hard to build capacity. Some 750–1,500 Australians, on one to two year contracts, would be needed to fill 300 positions in Papua New Guinea’s public service for five years. Turnover of PNG personnel would be significant as well. Second, operational imperatives ineluctably crowd out the training function—a dynamic with particular relevance to a police force under siege, the ECP's predominant target. Whereas the institutional twinning arrangement between the two countries’ treasuries and the Australian National University’s targeted training courses have much potential for improving individual competencies and collegiate relationships, they are only a small part of the ECP.

Australia and Papua New Guinea conduct a flexible aid relationship. This flexibility should allow some portion of the half a billion dollars of annual aid to be directed at re-scaling and re-scoping government, which offers the best returns for most Papua New Guineans and Australian taxpayers alike.

Notes

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1 The Update followed closely on the publication of a special edition of the Pacific Economic Bulletin devoted to Papua New Guinea.