



The politics of economic policy reform in the South Pacific

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This paper provides a political critique of Ron Duncan's 'On achieving sound and stable economic policies in the Pacific islands' which appeared in the June 1994 issue of the *Pacific Economic Bulletin*.

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Ron Duncan's paper raises a number of interesting political and public policy questions

- can and should governments precommit themselves to policies?
- what is the character of government and politics in developing countries?
- what is the relationship between 'soundness' and 'stability'?
- what are the conditions for successful policy reform?

Precommitment

Democratic governments try to tie their own hands in several ways. Duncan mentions the independence of central banks. Others include the creation of independent broadcasting authorities, which may later criticise the government, and fixed terms for elections, which may force governments to the polls at times inconvenient to them. Government by representatives, rather than referenda, and

implementation by permanent officials, rather than elected politicians, can both be seen as forms of precommitment, in which voters and politicians prevent themselves from acting impulsively, and in the short term. Duncan's argument that governments should bind themselves against backlash by tying themselves to international agreements therefore touches on some very pervasive questions about politics.

As John Elster points out in his book, *Ulysses and the Sirens* (1979), precommitment is paradoxical. It is form of abdication of power, itself a political act. Put simply, if we don't trust politicians, why should we trust them to abdicate?

Ulysses tied himself to the mast to prevent himself responding to the call of the Sirens, which he knew in advance would seduce him to sail his ship onto the rocks. But would he have done so if some of his crew remained unbound, able to hear the Sirens, and free to mutiny? Or if there were other ships nearby, perhaps hostile, or on a collision course? Elster uses the story

to raise questions of professional competence and responsiveness to the environment. Should Ulysses have tied himself if he knew that 'the shallow waters around the Sirens' island were too difficult for anyone but him to master' (Elster 1979:90)? Stability may be no virtue if circumstances change. So while it may be important that governments commit themselves to particular policies, it is also important that they develop the capacity to learn from a changing environment and adapt to it.

If written constitutions are one way in which politicians tie themselves to the mast, then the interesting question becomes to what extent, and how, the constitution may be amended by those same politicians. The constitutions of Papua New Guinea and the Federated States of Micronesia, for example, both contain provisions for their own regular review. In practice, and in Papua New Guinea, however, constitutional changes have been *ad hoc*, rather than as a result of the regular process. For example, in the mid-1980s the government of Papua New Guinea proposed, and parliament accepted, an amendment to the constitution extending the period of time in which a new government was free from parliamentary votes of no confidence. Parliament thus tied itself in the interests of stability of government.

The South Pacific constitutions date mainly from the 1970s, and are generally silent about economic matters (though the 'National Goals and Directive Principles' in Papua New Guinea's constitution contain watered down provisions for state ownership). However their land provisions create, and abolish, the property rights that provide rules for the economic game. For example, existing property rights, including freehold land, were strongly recognised in Fiji's constitution. The Tongan constitution grants an entitlement to land to all adult men. Vanuatu's constitution, by contrast, wiped out all pre-

existing property rights, except those of indigenous custom owners. The terms of these provisions reflect the historical context in which they were created—the balance between ethnic groups in late colonial Fiji; the emergence of the monarchy in nineteenth century Tonga; the incipient conflict between settlers and indigenous people at independence in Vanuatu.

The political settlements embodied in these constitutions cast a long shadow forward into the present. Fiji's constitution was overthrown in 1987, and land is once again an issue in negotiations over a new constitution. Entitlements to land in Tonga are running up against population pressures. The Vanuatu government is currently embroiled in a challenge to its legislation aiming to allow the sale of freehold land in Vila. Politicians of the day tied their hands to the mast of constitutions, but the Fiji case shows that in some circumstances they may later untie themselves, or the army may do it for them. The cases of Tonga and Vanuatu show how the steady pressures of population growth and urbanisation may make the original agreements unworkable.

These examples show that precommitment by domestic constitution is already a regular feature of politics in the South Pacific. However, amendment procedures provide politicians with a let-out, while some flexibility seems necessary to adapt to changing circumstances, such as urbanisation or population growth. For Ulysses, the issue becomes how tightly his hands should be tied, and what procedures need to be adopted before he can rightly release himself (maybe 'two thirds of the crew, voting on two separate occasions', or some such formula). The constitutional breakdowns on Bougainville and in Fiji are also a reminder that no constitution, nor treaty, can stand up to sustained violent political action, and that social forces capable of violence need to have stake in the continuation of constitutional rule. As

well as the army and the police, that includes the young people (mainly men) who take to the streets, or the bush, in support of Fijian communalism or Bougainville secessionism. A government beset by urban rioters, rural rebellion, or a mutinous army (or simply the serious threat of these contingencies) is likely to feel that reneging on an unpopular international treaty—or sacking the advisers who urged signing it—is an easy way out.

Government and politics

In Duncan's article, as in much of economics, the government is pictured as a group of leaders with the capacity to exercise choices, and politics as the activity of selfish interest groups. A richer picture might distinguish a loosely connected set of organisations (the 'state') from the transient group of elected officials who may try to give state activity coherence and direction (the 'government'). Policy conflict then becomes more visible within the state (between finance and spending departments, or between permanent state officials and ministers). Duncan's precommitment by treaty may be a useful tactic in these internal conflicts as well.

A richer picture of politics would allow that some groups are better organised than others, and that some interests do not need to be organised to be influential. Lindblom (1977), for example, argues that business has a privileged position in capitalist societies: its needs are anticipated and deferred to by politicians whose re-election depends on the growth and jobs that only business can provide. Businessmen rarely feel the need to demonstrate in the streets.

If this richer picture is true, leaders play an active role in defining and anticipating 'interests' as well as simply responding to pressure from them. In terms of Duncan's argument, they can do more

than simply tying their hands. They can also try to define the terms of the debate, and to anticipate the needs of unorganised interests.

A richer view of politics would also allow that developing countries, like those in the South Pacific, have quite distinct policy processes. Interest groups are weakly developed, or dependent on state support. The state plays a much larger role in society, and hence much is at stake in contests over policy. State officials themselves may become the strongest opponents of government policy, while shortages of money, skills and equipment mean that whatever policy is chosen may not be implemented.

In terms of the Ulysses metaphor, in developing countries like those in the South Pacific, the Sirens may turn out to be sponsored by the shipowners, while shipboard life is so relatively attractive that no one wants to go ashore. And tying yourself to the mast may be irrelevant if the crew is mutinous, or the ship does not respond to the rudder.

Soundness and stability

Duncan sensibly suggests that Pacific Islands governments should move from unsound and unstable to sound and stable policies. Soundness refers to the content of the policies—comprehensive property rights, high savings and investment, low trade barriers and so on (I will leave to economists whether these policies are in fact sound in every circumstance). Stability refers to the confidence that investors will have that these conditions will continue long enough to make a profit.

It might be worth disentangling these concepts further. There are two other possibilities: stable but unsound policies, and unstable but sound policies. Each combination of stability and soundness may have different policy and political

implications. Examples of the stable but unsound policies might include unclear property rights such as unregistered land in Melanesia. Their existence may slow down investment, but the financial costs of land registration, constitutional protection of customary ownership, and the political costs of favouring one set of land claims over another, regularly deter politicians from action. So the policy is stable.

Examples of unstable but sound policies might be those occasions when governments get industry policy right: picking winners, identifying niche markets, providing the subsidy that tips the balance in favour of a good investment, and so on. The policies that sustain Western Samoa's car parts factory might be an example. They are sound if in conventional terms they go no further than correcting market failures. But they are unstable in the sense that they must be responsive to rapidly changing international circumstances. A stable industry policy will only get it right sometimes. Or it will reflect the capture of government by a particular sector seeking protection. In that sense good industry policy is sound but unstable, constantly teetering on the edge of unsoundness or stability.

If we accept there are four possibilities, Duncan's requirement that policy move from being unsound and unstable to sound and stable becomes doubly demanding. We also need to consider the possibility, and perhaps greater likelihood, of getting only half way there: to stable but unsound policies and sound but unstable ones.

Crisis, insulation and safety nets

Duncan argues that crisis allows economic reform to take place, but that two conditions are necessary for the reforms to survive against the resistance of interest groups hurt by them. The first of these conditions, identified in comparative research by Bates and Krueger (1993), is

insulating the advisers responsible for the reforms. The second is the provision of a safety net for those who are adversely affected, such as workers in vulnerable industries (Duncan 1994). The rest of Duncan's article is devoted to the former rather than the latter.

Little work that I am aware of has been done on social safety nets in the South Pacific, the second strategy in Duncan's article for making reforms stick. However MacWilliam (1994) has made the connection by describing state support for the prices of smallholder agriculture in Papua New Guinea as 'like working for the dole'. Rationales for state intervention, he argues, are increasingly political rather than economic: price support will keep young men in the villages, rather than drifting to crime in towns. Elsewhere, state-sponsored social security systems are rudimentary, and generally only applicable to state employees. Governments have relied on a large subsistence sector, and 'customary land tenure' to provide for those thrown out of paid employment by economic change. Hence while customary land tenure appears as an economic negative in the early part of Duncan's argument (as the absence of comprehensive property rights) it may need reappear as a political positive later on (as a social safety net).

The big crises in recent South Pacific politics have been of two kinds: decolonisation, which was generally achieved by the writing of a constitution which sought to tie the hands of subsequent governments; and domestic events that challenged or overthrew that constitutional settlement, notably the Fiji coups of 1987, and the second attempt, which began in 1989, at Bougainvillean secession from Papua New Guinea. Decolonisation often favoured nationalistic economic reforms. The Fiji and Bougainville crises provided an occasion for economic reforms of the kind favoured by the World Bank: reductions of public

expenditure in both countries; and deregulation and the introduction of a value added tax in Fiji.

Crisis is a social, political and often journalistic construction of events and as such can be deconstructed. What counts as a crisis? In whose interest is it talked up? And who wants to, and can, talk it down? Crisis may provide an opportunity for reform, but it also threatens interests that depend on a perception of stability. Investors often find themselves in a dilemma. Companies with mining interests in other parts of Papua New Guinea, for example, had an interest in presenting Bougainville as marginal and exceptional: otherwise they would have had difficulty in raising capital for their own mines. International banks and lending agencies similarly face contradictory pressures: talking up a crisis will limit their capacity to raise funds to survive it. Media ownership may become important to the spin put on events.

Once, and if, the crisis is recognised, reforms (any reforms) may be easier to achieve, but Duncan's article is mainly concerned with making them stick after politics-as-usual is restored. His arguments for embodying them in international obligations are sensible. International agreements may have an additional benefit: they tie national governments' hands against each other, as well as against domestic constituencies. They thus serve to strengthen arrangements, such as fisheries and forest management, that benefit everyone in the long run, but from which each is tempted to defect for short-run advantage. However, international agreements hand their opponents a potent nationalist card: 'why are foreigners telling us what to do?'. So politicians would be well advised also to seek domestic forms of precommitment, including constitutional provisions and other kinds of political action to create support for their policies.

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