Note

The Papua New Guinea economy: the past record, the current dilemma, the future challenge

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These days it seems I am known as a critic. Some call me a pessimist, and a certain person (no names mentioned) says I am a (quote) 'panic merchant'. I'm actually a fisherman and a publisher. But look out: one day soon I think I'll publish a little book on PNG leaders' quotes, to provide some general mirth, and perhaps to haunt a particular few! Jokes aside, I prefer to think of myself as a realist, keen to analyse actual situations and use the lessons of the past for the future.

Thank you, Dr Temu and Dr Iamo, for inviting me to speak tonight. The theme of this conference is exactly the heart of the way I think about public policy and practice. We should all, as your brochure says, 'stop and think, critique past experience, learn from our mistakes, build on our strengths', so that we may realise a better future. We should take our heads out of our sovereign sands, and face the reality.

Last Friday's Editorial in the *Australian Financial Review* was entitled 'PNG heading for aid cut'. It was no doubt written, or at least inspired, by a very good friend of Papua New Guinea, Rowan Callick. Now our leaders *will* be in a dilemma. I'm sure they would love to set their Privileged Hounds on him. But some months ago they decided he was *persona non grata* on our shores, and his valid visa was to be cancelled. All of you who know Rowan—and that's probably almost everybody here tonight—will know how very dangerous he is. So I am now protected by my leaders from the evils of the *raskol* Callick, forbidden to chat to him over a glass of wine and some Kerema prawns in my own house. I have to be content with reading his printed lines. I was particularly struck by the analogy used in Friday's Editorial regarding our Parliamentarians' jingoistic attacks on the World Bank. 'Sovereignty', in the words of Samuel Johnson, is the 'last refuge of the scoundrel'.

But let's 'stop and think' here for a moment. What on earth is going on? The World Bank, IMF, ADB and a number of bilateral donors, notably Australia and Japan, were all brought here at our invitation. (The government's invitation, that is.) We asked them to help plug our gaping public financial wounds, to help diagnose the causes of our illness, to administer the appropriate medicine and to pay our hospital bills until we were ready for discharge. We have now decided we only like the palliative sugar coating on the tablets prescribed, but we do not want to swallow the bitter-tasting remedy. Nonetheless, we want them to continue paying our medical bills. The problem is,

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will we now ever be discharged, having refused parts of the prescribed cure? Will our wounds open again and haemorrhage us back from Outpatients to the ICU Ward?

The World Bank, on behalf of all the donors, has been extremely patient, waiting months and months for the government to do what it agreed it should do. Less than two weeks ago, the Bank delegation was lectured publicly by the Minister for Finance, proclaiming his government's great achievements. The minute the Bank delegation left town, the shock Forestry Act Amendment was presented to Parliament, not by some Opposition backbencher as a Private Member's Bill, but by the government's own Minister for Forests. This is the very point which has escaped public debate of the issue on our shores, though clearly not the intelligence of the so-called turncoat World Bank officials. No-one, not the most junior *kuskus* in Washington, is questioning the right of our Parliament to legislate as it pleases. What is being questioned is the implication of the Amendment for sound forestry policy. Andrew Baing introduced the legislation. It is the government's bill, the government's deliberate policy. Is it a policy which is good for Papua New Guinea? That is the question. The issue has nothing to do with patriotism or sovereignty, but everything to do with the economy, with sustainable exploitation of natural renewable resources, with due heed to environmental protection, and absolutely everything to do with the scope of political powers and discretion.

Let us not lose sight of why the government invited the World Bank and IMF to visit in the first place. They were invited to help solve some highly visible economic and social problems. They were invited at a time of fiscal and foreign exchange crisis. What brought us to this crisis?

Take heart. I am not going to present a detailed account or masses of statistics of economic and fiscal performance in the last twenty years. That should have been covered very well in all the papers presented today. But I want to raise a few key historical facts to focus our deliberations about the past, the present, and the future.

In 1996 the economic picture resembles a 1975 landscape. The basic structural features of the economy are the same: the same structural constraints remain. The economy is still dominated by a small number of mostly foreign-owned enclave developments, notably in mining and forestry. The structure of production is remarkably similar with agriculture, mining and manufacturing sharing almost the same proportion of production today as 21 years ago.

The size of the government budget is still exceptionally large, with government expenditure in 1995 representing 32 per cent of GDP. An overwhelming proportion of government expenditure is on salaries and consumption items, with very little directed to maintaining and expanding economic and social infrastructure. In the 1975/76 Budget, expenditure on capital works and maintenance amounted to 18.2 per cent of total appropriation. In 1994, investment expenditure represented only 8 per cent of total appropriation. The budgeted figure for 1995 (including maintenance) was 14 per cent of total appropriation, but we have not yet heard the actual result. I strongly doubt we achieved the meagre budgeted figure.

Today we are a society characterised by paradox. If we look back over the last twenty-one years, despite the similarity in the overall shape of the economy, we do see change and progress. More Papua New Guineans have jobs, in every sector at every level. Literacy has increased. More children, especially girls, go to school. Life expectancy has increased. GDP is more than five times that of 1975, as are government expenditure and revenue. Our export earning are almost 10 times the value of those at independence.

But the paradox of it all. Despite the five-fold growth in government expenditure and revenue, the country's infrastructure is breaking down. Government services have declined to the point of being non-existent in many areas. Public assets, whether they be schools, hospitals, offices, roads or bridges, are all in a state of disrepair. Our exports earn more than 3 billion kina each year, yet we have an underlying shortage of foreign currencies. GDP has grown five times, but the distribution of income is more skewed and less equitable than in 1975. Nominal per capita income has more than doubled, but 80 per cent of the population actually earn less than the 1975 average.

Corruption, both petty and profound, permeates society today. Society is ravaged by crime. There is a general inability to enforce or maintain law and order. Social inequity and poverty are rampant.

Why? Twenty-one years ago, we set out on the Independence Highway with purpose and enthusiasm. We articulated goals and principles which were fair and equitable. We gave them apparent legal force, by including them in the Constitution. Through the National Development Strategy, we tried to translate them into specific economic and social objectives to act as the 'coat hanger' for annual budgets. We were praised at home and abroad for developing and competently managing a mix of sound socioeconomic policies.

Despite significant early achievements, our concern with economic stability in the first 10 years resulted in insufficient attention being paid to economic, employment and income growth. Low economic growth resulted in a lower level of public sector resources than required. Little success was achieved in correcting structural weaknesses in the economy, such as lack of integration, a high cost structure and paucity of infrastructure, including public utilities. The public sector had grown larger, more costly and less efficient. These problems were recognised in the early 1980s and attempts were made to rectify the policy emphasis. A comprehensive National Development Plan was promulgated by the National Planning Office between 1984 and 1986. Most unfortunately, the Minister for Finance and Planning at the time of its publication refused to adopt or implement the Plan.

That marked the institutionalisation of short-term *ad hoc* decision-making and the catastrophic decline in the power, status, morale and productivity of the bureaucracy. The results were soon apparent. In the second decade of independence, achievements were sparse. Economic growth in all sectors apart from mining, petroleum and forestry stagnated. Indications are that the general level of welfare slipped. Public administration lost direction and became more inefficient. Our record of prudent financial management was tarnished, leaving foreign currency shortages, a softly floating kina after a savage devaluation and more than 3 billion kina outstanding government debt being paid at the rate of 466 million kina a year.

With planning thrown out the window in the 1980s, the task of priority setting and systematic analysis of government initiatives became difficult. Influential ministers and ministries began to command higher levels of public sector resources at the expense of the weaker ones. Politically attractive projects came to the fore at the cost of those which were of higher and lasting benefit to the economy and the nation in the long term.

The institutional structures which legitimised the advisory role and involvement of public servants began to crumble under the increasing pressure of political involvement and dominance. The Public Service's role to inject rigorous evaluation of political initiatives evaporated. Those few who resisted the new culture were sidelined, stacked in a public service swimming pool, or sacked. Those who remained began to concentrate their efforts on constructing survival kits—do nothing, agree with, admire and sing praises of the Ministers.

It was this new mode of 'governing' which retarded attempts to contain and resolve the explosion of landowner dissatisfaction at the Panguna mine after 1989. Virtually overnight, the government lost 20 per cent of its revenue and the country lost 40 per cent of export income. These losses required us to make large reductions in expenditure in the ensuing years. We did not make the appropriate adjustment. We actually spent more, and merrily continued to do so thereafter. Look at the figures

- in 1990, the first post-Bougainville budget, appropriations increased by 5.9 per cent
- in 1991, by 9.1 per cent
- in 1992, election year, by 14.3 per cent
- in 1993, with an enthusiastic new government, by 18.2 per cent
- between 1989 and 1993, the government's annual spending exceeded the budgeted levels by 470 million kina and resulted in unplanned foreign exchange outflow of approximately 235 million kina
- in 1994, until the mini-Budget, we were set to surpass the atrocious performance of 1993, with projections indicating an end-of-year deficit of 500 million kina, 10 per cent of GDP.

Absolute fiscal insanity.

Why did we not make the adjustment so necessary after we lost Bougainville? I believe it was because public servants adopted the 'survival kit' approach of recommending painless, politically-palatable options. For instance, it was easier to reduce expenditure across the board on paper, than to stop low priority activities altogether or to think seriously about government's role and how to fulfil it. It was because politicians and their public service disciples were dazzled by the potential riches from new resource projects. Misima mine had just opened. Porgera was around the corner and the prospect of Kutubu oil was simply spellbinding.

It is 1996. Misima, Porgera and Kutubu are in full production, but we have even more financial problems than in 1989. Devaluing kina; removing troublesome advisers; paying public servant tens of millions of kina every fortnight, but not providing the resources to allow them to actually do any work; selling off public assets; fast-tracking Lihir, Gobe-4, Tolukuma, Frieda River, oil refineries, five-star hotels, Jacksons airport, railways or countless forestry projects, are not solutions. Such-like 'reform measures' remind me of the music we heard in 1989 and 1990 when we pinned our hopes on Porgera and Kutubu. Let's change the CD.

Feelings of frustration with government and the limited opportunities being provided by society for the mass of the population manifest themselves today in basically two forms—either apathy, or street crime. It just staggers me that we seem to allow our leaders to squander public resources, to take no action against those who fill pockets of cronies, foreign and native, as well as their own. Look out public servants. The gentleman whom you enriched with your own savings by about 7 million dollars overnight by buying his famous Conservatory in Cairns, is visiting town regularly again.

Restoring a coherent policy framework, fiscal balance, planning, setting priorities, Note

careful budgeting, monitoring and controlling expenditure are all essential. But they represent only one side of the equation. The other side is less tangible but just as important—the thorny question of leadership, ethics, morality, transparency and openness in government. In my view, the most corrosive and intractable problem we face now is corruption. Our next strategy must be to attack corruption head-on. If we do not, the ubiquitous use of ministerial discretions will nullify the measures of structural adjustment and all other attempts to follow a rational, coherent system of policy and decision-making.

The key to economic recovery and discharge from hospital is not loans, foreign or domestic. It is not selling national assets and resources to foreigners or investing our savings in real estate overseas.

We have the human and natural resources to provide home-grown solutions to our problems. All we need is courage and commitment. We need a government which has the will to make difficult decisions, but the conscience to safeguard the welfare of the majority. And in approaching our problems in such a manner, we will regain self-respect as well as the respect, confidence and help of our friends.

This paper was originally given as an after-dinner speech at the conference dinner for Papua New Guinea: a 20/20 vision in Port Moresby on 5 August 1996, organised by the National Centre for Development Studies and the National Research Institute.