Chapter 9

A National Economy

Economic Strategy

Self-government offered a rare opportunity to review and overhaul economic policy, hitherto decided in Canberra. Ross Garnaut describes the economy rather well as 'a big lump of Australian public expenditure'. Public servants, the Panguna mine and service industries offered the only practical tax base.[1] Despite the misgivings of John Stone in the Australian Treasury,[2] the lump had grown since 1964 with the drive to create infrastructure. This spending deepened the Territory's financial dependence and complemented an extraordinary reliance on skilled Australian bank tellers, shop assistants, drivers and even labourers. And years of Australian subventions entrenched dependent attitudes. Mark Lynch, as Secretary to the Administrator's Executive Council, had to translate an economist's proposal to broaden the tax base by a Value Added Tax. This was difficult to render in Tok Pisin, except to say that the VAT was a tax on just about everything. 'There was a look of horror around the table and the debate did not get very far.'[3] Economic management remained an Australian domain. As late as the transition era, Pat Galvin attended a policy meeting in which Don Mentz of the Territories Department discussed economics with Bill Conroy, former head of Agriculture, now creating a Department of Foreign Affairs and Trade. Mentz and Conroy were old mates and old habits lingered. Conroy was flanked by two Papua New Guineans who said so little that Galvin thought they might as well be bookends.[4]

Outside the bureaucracy, however, development strategies were eagerly debated by politicians and academics. The debates were shaped by Walt Rostow's best-selling text, *Stages of Economic Growth: a Non-Communist Manifesto*, which argued that Britain's economic development should be understood as a succession of stages; that other industrial economies had passed through the same stages; and that every other nation should follow the same path. By 1970, two counterattacks had been mounted. Political economists — usually radical and pessimistic — articulated 'dependency theory', pointing to the political dimension of economic relations and the stubborn endurance of dependent relations between the world's developed metropoles and its underdeveloped peripheries. And a less radical approach grew out of E. F. Schumacher's *Small is Beautiful*,[5] advocating small-scale production using local material and local markets.

Both critiques were popular, and debate was sharpened by the belief that Papua New Guinea could learn from the errors of other newly independent countries. The 1973 Waigani Seminar, for example, heard animated papers for and against renegotiating the Bougainville Mining Agreement as well as papers canvassing broader questions of economic strategy.[6] Evangelical Tanzanians and 'Tanzaphiles' preached on Tanzania's 'African socialist' and allegedly self-reliant strategy.[7] An unusual UN Development Program team — Michael Faber's Overseas Development Group from East Anglia University — also impressed Somare. From Faber's prescriptions, Somare distilled eight aims that embodied a 'small is beautiful' strategy of national self-reliance, decentralised economic activity, gender equality and popular participation. In March 1973, he presented these as a philosophy of government.[8]

The rhetoric was seductive, especially for Pangu, but its realisation was frustrating. Each agency pioneering this strategy imploded — the Rural Improvement Program, the Village Economic Development Fund, and the South Pacific Appropriate Technology Foundation.[9] That neither surprised nor dismayed the Finance Minister, Julius Chan: he had never been a fan of adventurous economics, and his scepticism seemed to be vindicated when the Panguna mine (see below) reported vast profits while the small-scale ventures floundered.

Chan was a surprising figure to have such clout in a government led by Pangu and including self-conscious radicals. His officials found him able, courteous and attentive; but as an Australian citizen, and sometimes because of his Chinese heritage, he was suspect to economic nationalists like Kaputin and Momis. Under his leadership, a handful of young men developed economic strategies. At 28, Mekere Morauta became Secretary for Finance three years after graduating in Economics and a year after entering Treasury. Like Anthony Siaguru in Foreign Affairs and Rabbie Namaliu, private secretary to the Prime Minister, he was a product of the first year of the UPNG. He was supported by Ross Garnaut,[10] a Research Fellow in the New Guinea Research Unit drawn in to work on special projects until 1974 when he became Morauta's deputy in charge of General Financial and Economic Policy.

The other site of policy-making was the Central Planning Office, successor to Bill McCasker's Office of the Economic Adviser. To recreate this planning capacity, the Government sought an English-speaking economist who was not Australian but was familiar with Westminster traditions. The man who filled the bill as director was David Beatty,[11] who was home in Toronto after study in Cambridge and policy work in Tanzania. Unlike others who argued on the basis of Tanzanian rhetoric, Beatty did understand the Tanzanian economy and preferred more orthodox strategies.

The Central Planning Office was separate from the Department of Finance and was accountable not to Chan but to Somare. This division could have been paralysing; but Beatty, Morauta, Chan and Garnaut worked well together. The Cabinet Secretary (Paul Ryan, then Paul Bengo) chaired a daily meeting. Finance focused on strategy, and the CPO on forward planning. Beatty saw himself as 'the do-it guy while Garnaut provided the intellectual rigour'. They respected and consulted Sir John Crawford, 'the godfather of economic planning', who had taught most of them and who had helped to appoint Beatty. They also esteemed Anthony Clunies-Ross at the UPNG, who was rather more radical than they were.[12]

Another source of policy advice was the East Anglia Group, whose rhetoric (Beatty argues) was more radical than its bite. His judgment is not surprising: he had recommended Faber's appointment, having worked with him in Tanzania. Crawford detested the East Anglians but the Port Moresby team appreciated their innovative views on the informal sector. (By contrast, the Constitutional Planning Committee's economic nationalism alarmed the team, but the CPC had neither time nor the inclination to develop their ideas.) So the team pursued orthodox policies flavoured by dependency rhetoric. There really was Tanzanian influence in Papua New Guinea's economic strategy, but it had nothing to do with *ujamaa*.

It was just as well that the team was energetic, because machinery had to be built from scratch. They had to assist in the transfer of institutions while developing policy capacities as well as monetary policies. National currency was introduced on April 1, 1975, when the kina and toea replaced Australian dollars and cents. Chan and Somare campaigned energetically to instil pride in the currency — Chan even named his children Kina and Toea. Papua New Guinea was committed to a 'hard-currency policy' that implied fiscal discipline, small deficits and minimal debt. Meanwhile, the Panguna mining agreement was renegotiated, largely by Beatty and Morauta and (in Lapun's office) Stephen Zorn. Ok Tedi negotiations continued with Kennecott and began with the big Australian, BHP: these fell to Beatty, Garnaut and (in Somare's office) Namaliu. Australian aid had to be put on a secure footing, with Garnaut and Beatty advising Somare and Deputy Prime Minister Albert Maori Kiki. Meanwhile, John Langmore, Beatty and the Central Planning Office created the National Public Expenditure Plan as a framework for the planning and management of the budget.

Decisions were also needed for a sugar project at Ramu and the Frieda River mineral prospect, but an area of particular delicacy was the policy on foreign investment, addressed by a National Investment and Development Authority (NIDA) created in 1974 with Tom Allen as director.[13] For most of the Australian era, foreign (and especially Asian) investment was severely discouraged. A policy change in 1964 softened that stance, setting conditions on which Asian funds might be tolerated. These restrictive conditions implied the need to protect the Territory from a voracious lust to invest: it must be shown that the Asian capital was not readily available from other sources; each proposal would involve 'Asian know-how, otherwise unavailable'; it would expand the Territory's exports, train the people and involve the maximum domestic processing. The benefits to the Territory must include the retention of a good proportion of the profits, and the authorities would not countenance transfer pricing or other forms of tax minimisation. Four years later, another policy review chose to apply these constraints less strictly. Even then, every proposal would have to be approved by the AEC.[14] This timidity made sense, if at all, only in Australian terms. When a Secondary Industry Committee formed in 1970, it found that the Territory had little information and less control over investment policy, which needed clarification. All investment came through Australia, and it was not clear if any originated outside Australia.[15]

Allen's aim was to ensure that Papua New Guineans received fair value for natural resources and were not marginalised. Economic nationalists saw foreign investors as exploiters, bent on extracting resources at any environmental or cultural cost. To address this menace, some wanted a government takeover of foreign businesses. On the other hand, expatriates and others defended the status quo and minimal constraints, arguing that Papua New Guineans would need ages to acquire the skills and the capital to succeed. In between, the majority accepted that foreign investment should be encouraged but regulated.

South-East Asia and Latin America provided models for legislation to entice foreign investment into priority areas, subject to conditions such as local participation, technical training, further processing, environmental protection and appropriate technology. A very different strategy was implied by the Tanzanian model, which advocated village orientation and avoiding foreign domination. What emerged from the mix of local pressures and foreign models was 'fairly flexible foreign investment legislation, with a strong regulatory bias'. This flexibility would allow the Government to turn the tap towards tighter or looser control. Final decisions would rest with the Finance Minister, who might (or might not) delegate powers to NIDA's Board of bureaucrats and private sector leaders.

With independence, expatriate anxieties ebbed and the Government grew comfortable with foreign investment. Once enterprises were registered, Allen felt an 'air of relief' in government and among the affected companies. The teams negotiating major projects were highly professional, and, when it proved difficult to attract investors into priority areas, the Government began to send investment promotion missions to Australia, New Zealand, India and Europe. So the National Investment Strategy in 1976 set the seal on the transition from Dar es Salaam to Canberra. Local businesses were encouraged but the strategy emphasised foreign investment and technology in priority areas. It still talked of intervention but it released the brakes on investment in most projects and in most activities.

Land[16]

Riots in Bougainville and Rabaul were extreme manifestations of nationwide tension between people's ideas about land and the insistent needs of a cash economy. As a young lawyer in 1972, Ilinome Tarua managed land claims along the Papuan coast in Abau. When the Land Titles Commissioner rejected an application by villagers, Tarua was warned to expect a riot; but the Commissioner knew enough about land matters to bring in a police squad.[17] Independence would be vacuous if land issues were not addressed. Olewale recalls Albert Maori Kiki, the first Lands Minister, in one of Cabinet's first meetings, protesting that foreigners had deemed great tracts of land, which in the people's eyes had real owners, to be vacant. This was a grievance felt by every Papua New Guinean.[18]

It would be hard to overstate the importance of land issues. Ideas about the nature and the value of land are what most sharply divide Pacific Islanders from the settlers of

Australia and New Zealand. Australian settlers denied Aboriginal land titles through the doctrine of *terra nullius*, while New Zealanders recognised Maori titles; but in each case land was alienated. Although some land was alienated in the Pacific Islands, the scale was usually limited. As for the land that remained, most colonial governments merely codified the ways in which Islanders owned and inherited it, while the suppression of warfare stabilised land ownership and deepened people's attachment to particular territory. That attachment inhibits 'national' sentiment and shapes the ways in which Islanders imagine themselves: they were the owners of particular land long before they became subjects of a common sovereign or citizens of an independent state. It is significant that land has been the focus of two coups in Fiji, another in the Solomon Islands, secession from Vanuatu, and civil war in New Caledonia and Irian Jaya.

In 1970, the Administration made a last attempt to amend land laws. Gorton's 1970 ministerial arrangements gave authority in land matters to a ministerial member, but the land bills were devised secretly and introduced without him.[19] British advisers and Kenyan models shaped four bills, amounting to 400 pages of text. The officials expected that

> direct dealing between nationals would be facilitated and the messy tenure situation in the squatter settlements resolved. But expatriates were also expected to take leases or freeholds and capital investment would be greatly encouraged.

The bills came into the House in early 1971, and members might have approved them without grasping their significance until Percy Chatterton met the New Zealand historian Alan Ward, a visiting lecturer at the university and an authority on the ways in which Maori lost land. At Chatterton's request, Ward wrote seven pages of commentary. To anyone familiar with the dispossession of Maori and Hawaiians, the bills rang alarm bells and aroused 'the suspicion that the Administration was still hell-bent on launching a complete social revolution'. Ward criticised the bills and suggested another approach based on 'occupation licences'. Chatterton distributed the paper and it unleashed a barrage of criticism of the bills from the United Party as well as Pangu. Ward's paper became 'the catalyst for indigenous members to express the very serious anxieties they had held all along'. Public meetings demanded that the bills be shelved until self-government. In the face of this resistance, the bills were withdrawn.

After the 1972 election, therefore, a Commission of Inquiry into Land Matters was created, chaired by the dignified Sinaka Goava, a founding member of Pangu. Its nine other members came from every region: Father Ignatius Kilage, Edric Eupu, Posa Kilori, Cletus Harepa, Pokwari Kali, Boana Rossi, Donigi Samiel and Philip ToBongolua. The support staff included Nick O'Neill and Jim Fingleton (who had worked on land claims in the Public Solicitor's Office), Bill Welbourne and Philip Fitzpatrick.[20] For nine months, they heard submissions around the country.

Compared with the Administration's bills, the commissioners proposed less emphasis on creating individual title, that customary land be registered sparingly, and that ownership be vested in registered 'land groups' empowered to develop the land themselves or to grant rights of occupation to other Papua New Guineans. In short, they did not propose that customary tenure be converted to Australian forms of title, but hoped that new forms of tenure would evolve out of custom, along with a Papua New Guinean 'common law' on land. But it was easier to criticise the 1971 bills than to develop alternatives. Some of the commissioners' ideas were enacted as the Indigenous Land Groups Act 1975 and the Land Dispute Settlement Act 1975, but implementation was patchy.

More explosive than arguments about customary land was the crisis over freehold land in the Gazelle. When the commissioners visited Rabaul in 1973, tension was palpable. The Administration still protected freehold titles, with police if necessary. A few Tolai had bought freehold titles to plantation land, but land ownership was still mainly a race issue, and 'squatter' occupations were increasing. The New Guinean Planters Association hung tough: planters who were willing to sell demanded prices based on the assumption of a free market in land and strong prices for produce. These prices frustrated those Tolai who were prepared to buy. To resolve the impasse, the commissioners introduced another formula for valuation, based on the average income of the property, and they proposed compulsory acquisition. That approach opened the door to realistic negotiations, and tensions began to unwind.

The commission's final report in October 1973 noted that 1.4 million hectares of land had been alienated; 160,000 hectares had passed in freehold and 340,000 in leasehold to private interests, but most was held by the Crown. Resisting demands that all land be restored to the clans, the commissioners were persuaded (by Ron Crocombe) that the Government should retain much of it for public purposes. They proposed that the public ownership of all freehold land be asserted: former freeholders would be offered renewable leases. That strategy would give the Government control of alienated land and access to the added value, and would limit speculation. Unused land was also a constant provocation, so they proposed that holders make realistic proposals to develop it, or relinquish it without compensation.

So the failure of the 1971 land bills allowed an imaginative approach. To develop these ideas, a Policy and Research Branch was created in the Lands Department. But the momentum was soon lost. Fingleton (in the Policy and Research Branch) recalls that the policy issues were intractable and inertia returned to the Lands Department.[21] It would be hard to overstate the consequences of these imperfect resolutions.

Minerals

As in the 1930s, in the 1960s, Australian officials were depressed by the limited prospects of agricultural revenue and were dazzled by minerals. The Territories Department saw Panguna (Chapters 3 and 4) not just as a source of revenue but as a model for other resource projects. Panguna was operated by Bougainville Copper Ltd (BCL), whose major shareholder was Conzinc Riotinto Australia (CRA) in Melbourne, the board of which answered to the giant Rio Tinto in London. The agreement with CRA allowed the Government to buy equity but provided no royalties to landowners.

There would be no tax on income for three years, and for six or seven more years little tax would be paid. Because BCL was committed for renewable terms of 21 years, the deal promised revenue for at least a generation of independence. If self-government came in the late 1970s, Australia's short-term loss would yield Papua New Guinea's long-term benefit. But Bougainvilleans would endure loss of land and environmental damage while revenue went to a remote Papua New Guinea and skilled jobs to white artisans, and thousands of 'redskin' labourers would come to Bougainville.[22]

Even before the 1972 election, a member of the House asked pointedly if negotiators had taken 'advice from acknowledged experts'. Gerry Gutman assured him (tendentiously) that expert advice had been obtained and that 'the best possible deal was secured'.[23] When he resigned from the Public Service, Gutman publicised his view that the agreement gave more benefit to Papua New Guinea than comparable mines gave to Australia:

> Papua New Guinea's share of the equity … has now a market value of about $160 million. A capital gain of over 500% in two years on investment financed by concessional loans … does not look like a bad bargain, especially when that capital gain represents only a fraction of the total benefits accruing.[24]

This assertion was misleading since Australia's economy enjoys flow-on benefits from mining, while an undeveloped economy can benefit only through taxes or equity. Public opinion had also to be considered. The mood in Port Moresby was 'extremely delicate': even 'responsible circles' saw the agreement as unfair. So much was BCL distrusted that Somare agreed to cancel the formal opening of the mine and 'only after prolonged discussion with the Bougainvillean members' would he accept BCL money for Highland famine relief.[25] In the House, Momis moved to renegotiate the agreement. This idea was debated in and out of the House for weeks, and was approved in November. Meanwhile, Rio Tinto head office in London wanted Frank Espie to persuade the Minister for Territories to lean on Somare: Espie sensibly declined.[26] Rio Tinto argued that the agreement was sacrosanct but Beatty found contrary authorities and renegotiation became legally possible as well as politically necessary.[27]

The Minister for Mines, Paul Lapun, was a leader of Pangu and the separatist Napidakoe Navitu. He had criticised the mining laws for years and the issue was inflamed at Christmas 1972, when two Bougainvilleans were lynched by Highlanders after a car accident. But the Government was desperate for revenue and Cabinet wanted somehow to reconcile opponents of the mine.[28] So Lapun proposed that BCL and Australia explore changes to the agreement. If BCL balked, he 'would have to consider other possible courses of action'. To reassure other investors, he insisted that Panguna was a special case, negotiated by Australia: Papua New Guinea would honour all agreements that it negotiated for itself. Further, it was 'imperative that the people of Bougainville see the National Coalition government … doing something to improve their lives'. Morrison naturally declined to become involved.[29]

The issue became critical when BCL announced its profits for 1973 — the first year of operation — as $A158 million. This was an astounding return on $400 million invested, made more odious by the fact that the Government received only $A29 million, mostly as dividends on its equity. BCL blamed exceptional metal prices. That was true[30] but irrelevant: profits on this scale demanded a political response. Sir Val Duncan, head of Rio Tinto and ultimate owner of BCL, invited Australia to buy Panguna as an independence present for Papua New Guinea. Garnaut calculated that the vast sum proposed would buy Rio Tinto itself;[31] but in any event, the Australians were not interested.

Chan came under pressure from Australian financial institutions, who demanded to know whether his government intended to renegotiate and, if so, whether all agreements were vulnerable. Chan's preference (he told Hay) was not to renegotiate at all, but if renegotiation did take place, 'there should be a firm statement … that it would not lead to the renegotiation of other agreements'.[32] The economic nationalists, sheltered from overseas pressures, felt no such constraint. In the end, a compromise was reached. Ministers consulted the American Stephen Zorn, as well as Beatty in the Planning Office, and Chan coaxed Garnaut and Anthony Clunies-Ross to devise a new way to tax mining. They researched the global market and knew precisely what this market would bear while BCL could only guess at Papua New Guinea's goals. Their anxiety peaked in 1974 when Momis and Kaputin demanded nationalisation, but the Cabinet had much narrower ambitions, centred on Garnaut and Clunies-Ross's Resource Rent Tax.[33]

Discussions began in 1974. When they stalled, Maori Kiki (as Deputy Chief Minister) stated that the Government's terms must be accepted or they would be enforced by law. That threat prompted a visit by Duncan himself. When his jet landed, however, 'there was no red carpet, no police band, not even a minister at the airport, simply BCL's own cars'. Duncan cooled his heels until Kiki explained that Somare was playing golf. On one view, Duncan was so disconcerted by this insouciance that he 'agreed where some of his own negotiators might not have … with the government's position'.[34] So the Government extracted more revenue, and sooner. A tax exemption on 20 per cent of profits was annulled, a tax holiday was cancelled, accelerated depreciation allowances were withdrawn, corporation tax was imposed and additional profits were taxed.[35] David had outmanoeuvred Goliath.

Or had he? For 15 years, Panguna was a material triumph: the Managing Director, Paul Quodling, reckoned that it created nearly half of Papua New Guinea's foreign earnings and 15–20 per cent of government revenue.[36] Without this income, independence would have rested entirely on Australian grace and favour. But the price was huge. O'Faircheallaigh points out that the environmental damage was calamitous 'because it raises starkly the question of power: power over land use, project design and environmental regulation, and over the distribution of benefits'.[37] Lapun would have agreed. He was rejected by his constituents in 1977 and, in the civil war of the 1990s, he lost his home. Even by 1988, he had regrets. 'When I was young they fooled me and now I am old and still alive to see the result of my decision I weep. Who cares for a copper mine if it kills us?'[38]

There were other continuities between the original agreement and its sequel. Most important — and ultimately fatal — was the fact that no one represented either Bougainville or the landowners. The new deal therefore did little to appease the province and offered nothing to landowners. Everyone seemed to believe that 'mining and its multiplier effects would promote nationalism rather than separatism'.[39] BCL was lucky: the Government's negotiating coup gave it a sense of ownership and renegotiation secured a generation of production.

Meanwhile, the American company Kennecott wanted an open-cut mine at Ok Tedi, to extract 25,000 tonnes of copper ore per day for 18 years. One hundred and sixty kilometres of road would deliver concentrate to barges to carry it to ships at the mouth of the Fly River. Kennecott angled for subsidies,[40] then presented its terms as an ultimatum. Faced with another corporate giant, in March 1975 Papua New Guinea rejected these terms. This was a well-researched response. Beatty, Garnaut and Namaliu had consulted Armine Bamfield, the guru of the mining consulting firm, Behre-Dolbeare. They needed to know how to drill the site to assess its value, before putting it on the market. Bamfield offered to do this for $20 million, and Cabinet agreed. Armed with this knowledge, they approached BHP in Melbourne (perhaps introduced by Peacock) and on Christmas Eve 1974 they helicoptered BHP's bosses over Mt Fubilan. Somare then took them to his home in the Sepik and the deal was done. When Kennecott pulled out, the Government managed the prospect until BHP took it over. In Richard Jackson's account, another Goliath was slain by David.[41]

As matters turned out, these victories were Pyrrhic. Revenues for 1973 did prove to be anomalous, so Panguna's revenues were never again as great. Jackson concedes that the deal with BHP for Ok Tedi was not quite as good as could have been extracted from Kennecott.[42] In the longer term too, Ok Tedi produced environmental damage at least as great as Panguna.

For better or worse, these sophisticated negotiations turned the country's back on a development strategy based on peasant agriculture or economic self-reliance. The negotiators created the framework for further mineral agreements and initiated a prospecting boom. In exchange for unprocessed ores, Papua New Guinea imported highly processed ideas.

Aid

For a generation, funds from Canberra grew in step with transfers to the Australian States. It would be inappropriate to continue these payments after independence, yet the Government would not survive the loss of half of its income. For several years at least, similar sums would be needed. They came in the new form of transfers from rich to poor countries: aid.

Australia's aid programs developed ad hoc from the 1950s, in step with her strategic interests.[43] By 1972, External Affairs managed the Colombo Plan and a few smaller projects, and allocated 150 officers to programs to spend one-quarter of Australian aid. Treasury deputed eight officers to handle relations with the World Bank, the Asian Development Bank and similar bodies; 135 staff in Education ran the Commonwealth Cooperation in Education Scheme; and 90 officers in Territories managed Papua New Guinea funds: this amounted to two-thirds of Australian disbursements overseas.

The Foreign Affairs approach was fixed in the 1950s. A developing country should ask Australia for experts or funds for a specific project. Australia would not initiate requests, nor did they tell recipients what was good for them.[44] Morrison had served in the unfashionable aid branch where he was dismayed by its amateurism: he lobbied to commit the Labor Party in 1971 'to reorganise the various Australian aid programs and to establish a mutual cooperation agency' when they came to power.[45] The creation of a professional and autonomous agency in the Whitlam Government was helped by the happy accident that the head of the Prime Minister's Office, Peter Wilenski, had a strong interest, and Whitlam was Minister for External Affairs for the first months of his government.

Those advantages were barely adequate to make headway against departments protecting their turf against the Government's aim of 'a unified administration to administer all aid'. In an ideal world for aid professionals, the agency would be a full department with its own minister. Existing departments preferred that the agency be subordinate – if it must happen at all. In September 1973, Cabinet compromised and created the Australian Development Assistance Agency as a statutory body.

The ADAA was born on the day of Papua New Guinea's self-government.[46] It therefore inherited the Territories Department's material responsibilities while constitutional issues were handed to the new Papua New Guinea Office. On November 30, 1973, the Department of Territories left its offices; the next day, the ADAA moved in. The new Director-General, Johnson, would sit in the chair of the last Secretary of the Department (Hay), and that was no coincidence. Johnson was selected partly to reassure Somare's cabinet that their needs would be considered with sympathy.[47]

But the succession was not smooth. The ADAA's 450 staff were drawn equally from Foreign Affairs and Territories, with a few from Education. (Treasury, resisting to the bitter end, refused to transfer either personnel or functions.) For several months, Johnson remained in Port Moresby, leaving leadership to the ranking bureaucrat, Max Loveday, from Foreign Affairs. Perversely, 'the Department which had so strongly objected to the Agency thus had the major say in its initial organisation and staffing'.[48] Until the passing of the Australian Development Assistance Agency Bill a year later, the agency operated as an office in Foreign Affairs — precisely the arrangement that everyone else had feared.

The anxiety of aid specialists was due to the Foreign Affairs tradition that aid was merely an instrument of foreign policy. The diplomats' view is summed up in the department's submission to a later tribunal:

> Aid lies with the framework of foreign policy and must be consonant with the Government's objectives in our relations with foreign countries. The amount and direction of our aid must be determined in the light of foreign policy objectives …[49]

In this view, aid was best administered in discrete projects, whereas Territories staff were used to long-term budget support. Don Mentz, the most senior Territories officer in the ADAA, had many occasions to confront Loveday.[50] Since different sections of the agency occupied different buildings, there were few informal exchanges to soften the conflict. So aid policies were argued piecemeal by officials in a headless statutory body. When Johnson did arrive to referee shouting matches between Mentz and Loveday, he tilted towards budget support. Even then, the ADAA reported to Senator Willesee as Minister for Foreign Affairs, not to Morrison. That gave Foreign Affairs the upper hand — unless the Territories faction could reach Wilenski in the Prime Minister's office, or Whitlam himself.

The Papua New Guinea Government wanted a very gradual reduction of aid. Garnaut explored this scenario with officers of the Australian Treasury, where Stone had become the dominant personality. As head of the aid branch of Treasury during the 1964 World Bank mission, Stone had opposed the expansion of Australian transfers: his ideas now became more influential in Treasury. Garnaut told him that his views 'would mean the collapse of everything that has been built in Papua New Guinea', but Stone reckoned that the increased flows since 1964 were a terrible mistake: the sooner Papua New Guinea faced reality and slashed expenditure, the better.[51]

That put him on a collision course with Papua New Guinea, whose government saw that a radical reduction in the public sector would jeopardise stability.[52] They proposed instead to reduce the real level of aid by 2 or 3 per cent per annum — a very modest request while population was growing by 3 per cent and aid provided half of the budget.

Morrison was unsympathetic. His essentially political view of aid was revealed when he told his caucus colleagues that he was using it as a carrot to encourage movement towards independence.[53] But he also wanted to make Papua New Guinea's leaders confront harsh realities. In Malaysia, he admired the Economic Planning Unit that formulated development projects and invited donor countries to fund them. Based on this model, he proposed a two-part budget. Papua New Guinea would have sole control over its recurrent budget (funded mainly by domestic revenue). In a separate development budget, sectors would be identified (such as education, or health) which would attract funds from Australia and others. Details would be worked out between donors and Papua New Guinea.

Morrison drafted a letter to this effect for Whitlam to send to Somare, but he used an address to the 1973 Waigani Seminar to publicise his view that Australian aid should be a matter of 'cooperation and consultation'. Somare 'hit the roof' at this reversal of what he expected, and a network of academics sprang to his aid: Peter Drysdale and Nancy Viviani at the ANU, and Garnaut and Voutas in Port Moresby who insisted that funds on the large scale of aid to Papua New Guinea made responsible budgeting impossible if they came as projects.[54] The counterattack prevailed and Paul Kelloway and other officials spent 18 months 'getting Morrison off the hook' of his unpalatable commitment. The fig leaf was to call the process neither budgetary support nor project aid but 'program aid': Australia would nominate which budgetary section they wished to fund, but would have no control. After independence, this obfuscation was quietly shelved.[55]

Morrison was more helpful in a related matter. He observed that the fear of losing Australia's budget support gripped the Territory, and that opponents of independence were playing on this fear. He and Whitlam repeatedly stated Australia's long-term commitment to aid. What Papua New Guinea needed was not just money but forward commitment. The Australian Treasury preferred to consider aid (like all other proposals) on an annual basis. To overcome this obstacle, on February 15, 1974, Morrison persuaded Whitlam to assure Papua New Guinea of $500 million over three years, beginning in 1974–75. This was the occasion when he told caucus that he was using aid as a carrot.[56]

But a single gesture, however grand, could not close the issue. The size of the sum was hard to explain. Government funds flowed from so many taps — including Defence, Public Works and Civil Aviation — that it was impossible to name a lump sum to replace them. A serious disagreement centred on 'golden handshakes', the termination payments to Australian public servants (see Chapter 10). Critics demanded that this money was outside the $500 million: Morrison insisted that it had always been factored in as 'aid in one form or another'.

The climax of this dispute came just before independence, during the preparation of Australia's August 1975 budget. Somare, Chan and Maori Kiki met their counterparts at Kirribilli House in Sydney. Discussion raged through an afternoon, with Whitlam and his Foreign Affairs Minister, Willesee. But the key figure was absent: the Treasurer, Bill Hayden, was represented by the Assistant Treasurer. Hayden was sure that the Whitlam Government would stand or fall on the 1975 budget and he could not afford to let it blow out. He feared that if he attended he would be persuaded to exclude golden handshakes from the $500 million, and increase the overall commitment to Papua New Guinea. Such a concession would reopen debate on every other item in his budget. The case fell on ears that were not deaf but closed, and ministers were so shocked that their anger spilled over in public.[57]

> 'Australia has dumped us', Somare said bitterly [and] … reported that, when he asked Whitlam for a commitment after independence, Whitlam 'did not give an answer'. 'That's a big question mark', he was reported to have said.

Somare was sure that Andrew Peacock, who had made the initial commitment to golden handshakes, never intended that it count as part of the aid budget.[58] Hearing the ministers' outrage, Peacock travelled with them to Port Moresby, and began planning for a different form of commitment by the future Fraser Government. Meanwhile, the Papua New Guinea budget was in serious trouble. The first budget after independence had to cut government consumption expenditure by 10 per cent, a feat rarely achieved by any modern government.

That was not the only bruising encounter. Galvin recalls an incident in 1973 when the Australian Minister for Transport came with Morrison to negotiate the creation of Air Niugini as the government-owned carrier. The discussions went so well that Somare and Morrison had a few drinks before the formal reception. At the reception itself, Morrison took offence at a personal slight and declared that he was about to leave. Roland Kekedo was host of the reception: Morrison tried to punch him, Somare intervened and Kekedo floored him.[59]

A National Economy?

The management of Papua New Guinea's economy in the transition years was heroic: the country managed a budget cut of 10 per cent without panic, catastrophe or violence.[60] A more persistent hazard was slower to come into focus. A week after self-government an arms manufacturer arrived, asking about the small arms needs of ministers. He was the first in a queue of agents offering to sell aircraft, print currency, produce statues of the Chief Minister and so on. Some would visit ministers' houses with contracts ready for signature, and a few ingratiated themselves before it was clear that they were carpetbaggers.[61] In the next years, as the integrity of office-holders was tested, the Leadership Code was too weak, even in tandem with the Parliamentary Accounts Committee and the Auditor-General's office.

The Cabinet Secretariat had a mandate to marshall the facts of an issue before it came to Cabinet. A tragic exception occurred with the tabling of a strengthened Leadership Code. The leading public servants of the day — Morauta, Namaliu, Siaguru and Lepani, Papua New Guinea's 'Gang of Four' — persuaded Somare to introduce a tougher code. This was tabled in Cabinet without supporting argument. Chan and the PPP objected to the separation of ministers' business interests from their political roles. They combined with ministers who objected on procedural grounds (the absence of documentation) to defeat the proposal. The grand coalition fell apart, and Chan succeeded Somare as Prime Minister.[62]

But by then the institutions were built. While public attention focused on the CPC and its tussles with government, economic strategies and structures were quietly put in place. It was a matter of pride that there was low inflation, no balance of payments crisis, a hard currency and a resource rent tax. Ministers, their advisers and public servants created a coherent structure to regulate foreign investment and enterprise. Like every government before and since, they wrestled in vain with land issues, although they did defuse the Gazelle crisis. By good luck and very good management, they extracted more benefit from the mining sector than the Australians had.

But a paradox must be noted. This careful management and sophisticated negotiations undercut the village-centred and self-reliant rhetoric in which economic policy was couched in public. The decolonisation of the formal economy imported more values, institutions and procedures from the industrial world than had been introduced in 70 years of colonial rule.

Appendix: The 'Eight Aims' outlined by Michael Somare as a philosophy of government.[63]

1. A rapid increase in the proportion of the economy under the control of Papua New Guinean individuals and groups, and in the proportion of personal and property incomes that goes to Papua New Guineans.
2. More equal distribution of economic benefits, including movement towards equalisation of incomes among people and toward equalisation of services among different areas of the country.
3. Decentralisation of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade, and more spending channelled to local and area bodies.
4. An emphasis on small-scale artisan, service and business activity, relying where possible on typically Papua New Guinean forms of economic activity.
5. A more self-reliant economy, less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production.
6. An increasing capacity for meeting government spending needs from locally raised revenue.
7. A rapid increase in the active and equal participation of women in all forms of economic and social activity.
8. Government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development.

Footnotes

1. Garnaut, in 'Hindsight'.
2. Interview, Garnaut.
3. Mark Lynch, in 'Hindsight'.
4. Interview, Pat Galvin.
5. E. F. Schumacher, *Small is Beautiful: A Study of Economics as if People Mattered*, New York, 1973.
6. M. Faber and D. Seers (eds), *The Crisis in Planning*, London, 1972; E. K. Fisk, 'Planning in a Primitive Economy: From Subsistence to the Production of a Market Surplus', *Economic Record*, 40 (1964), pp. 156–74. Jean Zorn and Pater Bayne (eds), *Seventh Waigani Seminar: Foreign Investment, International Law and National Development*, Butterworths, Sydney, 1975.
7. Michael Somare, *Sana*, pp. 78–9. See also Azeem Amarshi's chapters in A. Amarshi, K. Good and R. Mortimer, *Development and Dependency*.
8. N. Hughes, *The Eight Aims of the New Papua New Guinea*, Port Moresby, 1973, pp. 15.
9. Ray Anere, 'Economic Issues, 1975–1985', *Yagl Ambu*, 12 (March, 1988); T. K. Moulik, 'Crisis of Community Leadership', *Catalyst*, 3 (1985).
10. Interview, Ross Garnaut.
11. Interview, David Beatty.
12. Anthony Clunies Ross and John Langmore, *Alternative strategies for Papua New Guinea*, OUP, Melbourne, 1973.
13. Thomas Allen, in 'Hindsight'.
14. A452/1, 70/2960, ff. 34–32, summary statement.
15. Ibid., Administrator to Department, November 9, 1970, enclosing minutes of committee meeting.
16. Much of this discussion derives directly from Alan Ward's paper in the 'Hindsight'workshop.
17. Ilinome Tarua, in 'Hindsight'.
18. Ebia Olewale, in 'Hindsight'.
19. Alan Kerr, in 'Hindsight'.
20. Philip Fitzpatrick, *Bamahuta: Leaving Papua New Guinea*, Pandanus Books, Canberra, 2005.
21. Jim Fingleton, in 'Hindsight'.
22. Denoon, *Getting Under the Skin.*
23. ibid.

24. The *Age*, September 6, 1972.
25. 69/5655, Information paper 71/807 to AEC, October 18, 1972, and undated memo by Ross Burns. Ray Ballmer told A. W. Richardson about the cancellation on October 25.
26. 69/5655, Don Mentz, October 23, 1972, reporting a phone call from Espie.
27. Interview, David Beatty.
28. Ibid., and interview with Bill Brown.
29. 69/5655, Lapun to Hay, January 17, 1973; and memo dated January 23, 1973.
30. Copper soared from £450 per tonne at the end of 1972 to a record £1,135 a year later. Gold and silver prices enjoyed similar spikes. Prices slumped during 1974, but too late to avert renegotiation.
31. Interview, David Beatty.
32. 70/2960, Ministerial Schedule 397, Hay's minute of November 2, 1972.
33. Ciaran O'Faircheallaigh, *Mining and development: foreign-financed mines in Australia, Ireland, Papua New Guinea and Zambia*, London, 1984; Richard T. Jackson, *Ok Tedi: the Pot of Gold?*, Port Moresby, 1982.
34. Jackson, *Ok Tedi*, pp. 60–1; interview with Don Vernon, Melbourne, January 1998.
35. O'Faircheallaigh, *Mining and development*, p. 458. The Additional Profits Tax would yield 70 per cent on annual profits once BCL had earned 15 per cent on its capital.
36. Paul Quodling, *Bougainville: the Mine and the People*, Melbourne, CRA, 1990, 5ff. and p. 35.
37. Ciaran O'Faircheallaigh, 'The Local Politics of Resource Development in the South Pacific', in S. Henningham and R. May (ed.), *Resources, Development and Politics in the Pacific Islands*, Bathurst, 1992, p. 262.
38. Letter in the *Times of Papua New Guinea*, October 26, 1988, cited by John Connell, 'Compensation and Conflict: the Bougainville Copper Mine, Papua New Guinea', in John Connell and Richie Howitt (eds), *Mining and Indigenous Peoples in Australasia*, Sydney University Press, 1991.
39. Don Carruthers, 'Interview with James Griffin', *Weekend Australian*, June 9–10, 1990.
40. 71/2788, Kennecott — Preparation for Negotiations, August 1971.
41. Jackson, *Ok Tedi,* pp. 82-3; and interview with David Beatty.
42. Ibid.
43. Daniel Oakman, *Facing Asia: A History of the Colombo Plan*, Pandanus Books, 2004.
44. MacDonald, in 'Hindsight'.
45. The agency was abolished and replaced by March 1976. Nancy Viviani and Peter Wilenski, *The Australian Development Assistance Agency*. The quotation is from the ALP election platform.
46. Prime Minister's Office press release, September 18, 1973, cited in Viviani and Wilenski.
47. Don Mentz, interviewed in Canberra; Bill Morrison, interviewed in Canberra, April 2001.
48. Viviani and Wilenski, *The Australian Development Assistance Agency,* p. 14.
49. Foreign Affairs submission to the Royal Commission on Australian Government Administration, October 1974, cited in Viviani and Wilenski, p. 7.
50. Interview, Don Mentz.
51. Garnaut, in 'Hindsight'.
52. Ibid.
53. Morrison's notes for an address to the Party room, Morrison papers, National Library of Australia.
54. Viviani and Wilenski, *The Australian Development Assistance Agency*; interview with Morrison.
55. Interview, Paul Kelloway.
56. Morrison's notes for an address to the party room, Morrison papers, National Library of Australia.
57. Somare's comments occupied the whole front page of the next day's Melbourne *Weekly Times*.
58. James Griffin, 'July–December 1975', in Moore with Kooyman, *A PNG Political Chronicle 1967–1991.*
59. Interview, Pat Galvin.
60. Garnaut, in 'Hindsight'.
61. Lynch, in 'Hindsight'.
62. Moore with Kooyman, A PNG Political Chronicle 1967–1991. Garnaut believed that Critchley opposed the tougher code, assuming that it would destabilise the coalition, and pointing out that corruption was the normal way of doing business in South-East Asia.