Chapter 4

Economic Policy Making[1]

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The responsibility for economic policy making was transferred from Canberra to Port Moresby and from expatriate Australians to the locals at an accelerating pace from 1951 to 1973. The chief minister and prime minister-in-waiting noted that 'after April 1972 the elected representatives in the House of Assembly felt that they were in reality the government. We began to initiate policy' (Somare 2001, 16). This chapter shows that the period preceding independence and a decade and half after independence saw responsible economic policy making. During this era of hope, policymakers were in control of the fiscal position and on track to see rapid development. This was not to last for long, with the state losing control of its budget, prices, and the exchange rate by the early 1990s. Some of the lost ground was recovered from late 1999 to 2001, but a lot remains to be achieved.

The shift of responsibility for economic policy making from Canberra to Port Moresby was such that by 1972 the Chief Minister's Office, together with the Department of Finance, had close to full autonomy in charting the economic course for the nation. Well before attaining self-government on 1 December 1973, the processes of law making and appropriation of money for public purposes in the Territories were undertaken locally by a legislature, the majority of whose members were elected by the local population. Full independence was acquired on 16 September 1975 when Australia transferred its final responsibilities for defence and external relations (see World Bank 1965; Garnaut 1981).

Australia achieved its goal of a peaceful and amicable transfer of power and responsibility for policymaking to Port Moresby and institutions created at independence achieved the desired objective of ensuring responsible economic policy making. However, the virtuous effects of good governance on responsible economic policy making began to unravel around the early 1990s, and particularly following the Bougainville crisis, leading to repeated economic crises.

Transfer of policy-making responsibilities from Canberra to Port Moresby

The success of the shift of responsibility for economic policy making was due to good planning and methodical implementation by the then colonial administration. The hand-over of power and responsibility for policy making took place on time and in a peaceful, amicable, and orderly fashion (World Bank 1978, 5). In a series of lectures, the options for increased autonomy for the territories were aired by four distinguished academics from the Australian National University (ANU). These lectures, subsequently published as Bettison, Fisk, West and Crawford (1962) provide an excellent account of the thinking that was put into preparing Papua New Guinea for self-rule.[2]

Amongst the several achievements of the early years of self-government, two that stand out in terms of relevance for the current period are the conduct of the 1968 elections and the institutional arrangements put in place for fiscal prudence. On the former, the World Bank (1978, 22) noted that the 1968 election was an 'organizational marvel with voter registration being close to complete with two-thirds registered having voted'. On the latter, pressures for responsible budgeting were created following self-rule by new institutions and procedures established for this very purpose. The outcome was a constant dialogue between the respective ministries and departments. Expenditure requests and program proposals by agency heads were channelled through the Central Planning Office (CPO), which acted as the secretariat to a sub-committee of cabinet, namely the National Planning Committee. These freshly established institutions and procedures, and the accompanying by-product of documents, ensured control over expenditures and hence of the budget. They also served as the mechanism to inform and educate stakeholders about the nation's overall fiscal position and the linkages between programs and the national policy goals of the government.

Other features of the initial conditions included a cadre of well-qualified graduates from the University of Papua New Guinea who took the helm of political leadership during the transfer of responsibility for policy making from Canberra to Port Moresby. The church, together with a significant number of senior expatriate administrative staff, provided much needed support during this transition, though decision making rested fully within the hands of local leaders. These achievements were consistent with West's preferred strategy of preparing Papua New Guinea for independence as announced a decade earlier:

> If, by a change of emphasis in policy, a Papuan elite were to be given every opportunity within the next ten years for education and experience, when the time came for Australia to transfer sovereignty, to hand over power to that Legislative Council the Minister has seen as the sovereign body, I think we would have every reason to be hopeful that an independent state would willingly establish a special relationship,

> in terms of defence, economic aid, and diplomatic representation, with Australia. (Bettison, Fisk, West and Crawford 1962, 58).

In its thirty years of independence Papua New Guinea has maintained a special (cordial if not always warm) relationship with Australia.

Papua New Guinea achieved the initial successes in economic management by well considered and responsible action by its leaders, many of whom remain active some three decades later. Garnaut (1981, 172), for example, notes that: 'The ideas that were important to the evolution of a satisfactory framework for economic policy making had been around Port Moresby for some time and had been discussed at length by Chan, Morauta and their advisers'. Mekere Morauta took office as the first Papua New Guinean secretary of Finance in late 1973 and played a significant role in seeing that fiscal discipline was maintained during those early years of self-governance. In these early years, the General Financial and Economic Policy Division (GFEP) of the Ministry of Finance, headed by a first assistant secretary (FAS), had a critical role in formulation of economic policy.[3] A Budget Priorities Committee (BPC) established systems for identification and enforcement of long-term budget priorities. According to Garnaut (1981, 172), by the second half of 1976 the major elements of 'an internally consistent macro-economic strategy' had fallen into place.

The World Bank (1978, 5) was highly complimentary of Papua New Guinea's policy making at independence, noting that:

> In the four years after its elections, the Somare government showed an impressive ability to deal with the young country's financial, economic, and political problems. An effective set of institutions for economic and financial management has been created. These include a strong ministry of finance that has developed a tight system of budget controls, operating through a budget priorities committee; a planning office; and a central bank that, with International Monetary Fund assistance, has organized a set of international accounts.

The Bank went on to note the successful introduction of the kina, approval of a set of principles to govern development policy and foreign investment, and the publishing of investment priorities by the National Investment and Development Authority (NIDA). These achievements were indeed remarkable, particularly at the inception of a new nation state and given limited resources. The Bank qualified its highly favourable assessment by stating that 'no one can say how sturdy or fragile Papua New Guinea's policy or administration will prove to be, but the short-run record provides strong grounds for optimism and few for anxiety' (*ibid*.). At independence, Australian assistance accounted for between 40 and 45 per cent of the local budget and some 45 to 50 per cent of the foreign exchange requirements. The World Bank, then, had 'reasonable grounds' to believe that this dependence on Australian aid 'might end entirely within the next 20 to 25 years' (*ibid.*, 6).

The state of public infrastructure and social service delivery at independence was good, relative to that of recent years and in comparison to the state of the economy at independence. A World Bank mission to Papua New Guinea in 1975, just before independence observed that:

> The strikingly primitive state of much of the economy and society contrasts with the surprisingly well-developed status of the central government and many of its services. Education and health care and some of the country's infrastructure — harbours, electricity supply, telecommunications, and air services — are comparatively advanced (World Bank 1978, 5).

A sharp turnaround in the fiscal position of the state, loss of budgetary control, and widespread allegations of misappropriation of public funds thus give cause for concern; it requires explanation how such good preparatory work leading to an initial phase of responsible policy making could come unstuck over a decade later.[4]

Stated goals for economic policy making

In December 1972, the Somare Government announced its development goals in the form of the Eight Aims of the national government (see Fitzpatrick 1985; World Bank 1978, 66).

The Eight Aims subsequently became the basis for the Five National Goals and Directive Principles included in the preamble to the constitution. These aims and directive principles reflected the government's concerns for equitable and sustainable growth, for the use of natural resources to benefit the wider community, and for protection of the environment. The World Bank in its 1976 economic mission to Papua New Guinea suggested two further goals: to raise the country's fiscal viability,[5] and to achieve a gradual reorientation of the economy to costs and standards that could be sustained within the country's resources. These latter two goals complement those of self-reliance in that they encompass notions of sustainability.

Policies at independence

The third National Goal and Directive Principle of the preamble to the constitution is 'for Papua New Guinea to be politically and economically independent, and our economy basically self-reliant'.

This goal encapsulates themes of localization and national sovereignty. Further, sub-paragraph 4 envisions 'citizens and government bodies to have control of the bulk of economic enterprise and production', while sub-paragraph

5 stipulates strict control of foreign investment. Sub-paragraph 6 mandates 'the state to take effective measures to control and actively participate in the national economy, and in particular to control major enterprises engaged in the exploitation of natural resources'. Sub-paragraph 8 warns against entering agreements on foreign assistance that 'imperil[s] our self-reliance and self-respect' or exposes the nation to dependence on and/or influence of 'any country, investor, lender or donor'.

There was also a clear recognition that resource exploitation would be the core strategy for economic development. The architects of the constitution were cognizant of the policy challenges posed by such a strategy: the fourth national goal and directive principle states:

> We declare our fourth goal to be for Papua New Guinea's natural resources and environment to be conserved and used for the collective benefit of us all, and be replenished for the benefit of future generations.

Sub-paragraph (1) within this goal calls for 'wise use to be made of our natural resources and the environment in and on the land or seabed, in the sea, under the land, and in the air, in the interests of our development and in trust for future generations'. It is difficult to argue that policies implemented since independence have delivered on these goals.

The overriding concerns of the first Somare government were 'Independence, national unity, and politically cohesive national government' (Garnaut 1981, 163). These concerns were addressed with only limited success, and have remained high in the priorities of all subsequent governments. A combination of fiscal, monetary, trade, and incomes policies has been employed in economic management, as considered below.

Changes in economic policy making since independence[6]

Fiscal policy

The period from 1976 to 1990 can be described as one of broad macroeconomic stability with the budget deficit contained within 5 per cent of GDP, the inflation rate low and stable, and nominal interest rates low relative to those of the major trading partners. Fiscal stabilization in the first decade and a half was achieved primarily through the setting of annual expenditures in line with the long-term capacity of the economy to fund such outlays. Revenue relied on the long-term understanding with Australia on aid flows, together with mechanisms in place to stabilize income from commodity exports and judicious use of public sector borrowing. The formative years of economic policy making in Papua New Guinea were exemplary, being characterized by fiscal discipline, stable prices, and responsible governance — a remarkable achievement given limited capacities to achieve any one of the above, and considering the challenges of overcoming barriers to internal trade, seeing a rapid monetization of the economy, containing the emerging social and economic problems from rising urbanization and unemployment, and ensuring greater access to basic services for the broader population. The initial conditions, in terms of macroeconomic fundamentals, institutions, and social infrastructure were favourable for development.

The deterioration in the budget deficit started in 1991 and continued to worsen until 1999, as did other macroeconomic aggregates including inflation, interest rates, government debt and foreign reserves. Mawuli (1999) cites loss of fiscal discipline as the primary reason for the poor growth performance; this hypothesis deserves closer scrutiny in light of quantitative evidence on macroeconomic aggregates.

The hard kina strategy

Until late 1994 the exchange rate, and in particular the use of the so-called 'hard kina policy', formed the principal instrument of monetary policy. The hard currency policy maintained the external value of the kina relative to major world currencies. This policy was used to gain international credibility (including ready convertibility) of the new currency. The same policy was subsequently used to contain the risks of imported inflation, thereby stabilizing domestic prices and real outlays. The kina was launched in April 1975, pegged at par to the Australian dollar. The peg to the $A was rationalized on two counts: first, that Australia was then and likely to continue to be Papua New Guinea's major trading partner; and, secondly, that Australian banks dominated the economy (see World Bank 1978, 115). The kina was revalued by 5 per cent in July 1976 to contain inflationary pressures emanating from rising international commodity prices; this was then possible, given the favourable foreign reserve position. The kina rose an additional 12.5 per cent against the Australian dollar after the devaluation of the latter by 17.5 per cent on 29 November 1976, but fell by 7.2 per cent against other world currencies.

The hard kina policy was only sustainable in the context of mutually consistent fiscal, monetary, and income policies. Garnaut (1981, 171) notes that: 'The art of the hard kina strategy was to establish mutually consistent and sustainable trends in real government expenditure, real wages, and real aid level, and to coordinate changes in money levels of these variables with changes in the exchange rate and price level'. In essence, the hard kina strategy was used to target price stability with the above real variables being the intermediate target.

The simultaneous achievement of three goals of macroeconomic policy — namely, full employment, constituting internal balance; external balance, in terms of a sustainable current account; and price stability, implying low inflation — necessitates use of three independent instruments (Salter 1959). Typically, internal balance is targeted through government spending, external balance is targeted via the nominal exchange rate, while attaining price stability is left to the monetary authority. A hard kina strategy to target price stability was atypical, and therefore the responsibility for attaining external balance rested principally on fiscal policy, given the large share of public expenditure accruing to imports, while price flexibility was used to achieve full employment.

Garnaut (2000, 32) rationalizes that, 'A "hard currency strategy", based on cautious expenditure policies, was designed to achieve low inflation, a convertible currency and financial stability'. According to Garnaut, this strategy was implemented in the immediate post-independence period with tight control over expenditures funded with moderate levels of domestic and foreign borrowing and culminating in real per capita public sector outlays declining over time until the Bouganville crisis of 1989. The hard currency strategy was abandoned with the switch to a floating kina in 1994 in the face of continuing liquidity crises due to the loss of fiscal discipline. The float of the kina provided an opportunity, which was botched, to achieve external balance. The effectiveness of the floating kina in aligning the exchange rate to the fundamentals of the economy was 'hampered by intrusive exchange controls' (Garnaut 2000, 33). As explained later, lack of wage flexibility disallowed achievement of internal balance, thereby making the hard kina policy unsustainable (Duncan *et al*. 1998). The combination of wage indexation together with the hard kina in a climate of subdued productivity growth led to rising unemployment, thereby undermining achievement of internal balance.

Trade policy

Papua New Guinea has traditionally been favourably disposed to international trade. An open-economy policy was pursued at independence with a liberal stance towards the use of exchange controls, foreign investment, imports, and employment of foreign labour. The price incentives provided by the market were allowed to direct resource allocation. Policymakers acknowledged the positive contribution made by international trade and foreign direct investment to development. The policy environment has generally been supportive of foreign investment and the use of necessary expatriate labour. Some activities, however, were reserved for locals in accordance with the stipulation in the constitution, 'particular emphasis in our economic development to be placed on small-scale artisan, service and business activity'.

The early 1980s saw some back-sliding on free trade, as protectionist pressures grew with the political system beginning to respond to lobbying by business interests (see Garnaut 2000). The liquidity problems of the early 1990s increased dependence on import duties for public revenues. Reliance on multilateral agencies, including the World Bank, to rescue the economy from several liquidity crises saw a reversal in the protectionist tendencies of policy making. The introduction of a value-added tax in 1999 reduced the dependence on import tariffs for public revenues, providing further support to liberalization of commodity trade.

The ongoing liberalization of trade can be partly attributed to pressures arising from membership of several multilateral organizations and the signing of trade agreements. The accelerating pace of integration of the Papua New Guinea economy into the global economy may be seen as in conflict with the third national goal and directive principle of the constitution, which cautions against 'dependence on imported skills and resources'. On this count, the constitution is in conflict with current economic thinking that an open trading regime is a critical ingredient for the growth of production (Wacziarg 2002).

Incomes policy

Papua New Guinea pursued an active incomes policy through centralized wage-setting mechanisms. The Minimum Wages Board, together with the labour unions, had a significant role in setting wages until its demise in 1992. Nominal wages were fully indexed until 1992 so that any initial disequilibrium that existed in the market remained until deregulation. As a consequence, real wages in the period 1972 to 1975 were maintained at levels well above those necessary for internal balance. Wages rose rapidly in this period: for example, the minimum weekly wage in Port Moresby rose from K8 ($US9) in 1971 to K25.80 ($US35) by late 1975. Similarly, the national minimum weekly wage rose from K5.30 ($US6) to K8.90 ($US12) for workers in primary industries and to K10.75 ($US15) for other rural workers. The urban minimum wage was raised substantially above the rural minimum, increasing the incentive for rural-to-urban migration. Garnaut and Baxter (1984) estimated that real wages for adult workers in Port Moresby in 1980 would have to fall by as much as 30 per cent to return to the level prevailing in 1971.

The need for growth in employment and the potential for job growth through removal of impediments to the operation of the labour and informal markets were recognized well before independence. In 1973 the Faber Report (Overseas Development Group 1973, 60) warned against the damaging effects of increases in rural wages on employment, and argued strongly for 'a policy of minimum average wage per capita and maximum employment of numbers of wage earners'. The report noted that the informal sector was 'fully indigenous' and argued for 'a liberalization of protective restrictions limiting competition in the urban economy' (*ibid.*, 25) so as to increase opportunities for self-employment. The report also noted that, 'Given that wage employment cannot absorb the growth in the labour force, self-employment must be a major source of indigenous income' (*ibid.*, 25) and saw the informal sector as the springboard for entrepreneurs into the formal sector. Policies implemented from independence to 1992 were basically contradictory to the recommendations in the Faber report.

The labour market was deregulated after unemployment had risen considerably, together with associated social problems of urban squatter settlements and crime. During this period, the general investment climate worsened. High legislated minimum wages for unskilled labour, implying levels above those that would have prevailed under competitive conditions, became entrenched through indexation and fed the growing unemployment problem until 1992. The abolition of the urban minimum wage in 1992 by the Minimum Wages Board was too late in that conditions for investment had deteriorated so badly that wage deregulation on its own was no longer sufficient to reinvigorate private investment. The wage distortion had contributed significantly to urban unemployment and social instability, raising costs of doing business in the country.

Levantis (2000) provides empirical evidence in support of increased formal sector employment after the deregulation. Even though urban real wages fell significantly after the deregulation, this could not be expected to lead to a substantial increase in employment, given the host of other non-wage structural impediments to private sector development that had built up during the period of wage indexation.

State-owned enterprise (SOE) reform

Recent major initiatives on the microeconomic front have included the privatization program, a detailed coverage of which is provided by Curtin in this volume. Here, the broad principles and motivations for the reform are considered. Sub-paragraph 4 of the third national goal and directive principle in the Papua New Guinea constitution calls for 'citizens and governmental bodies to have control of the bulk of economic enterprise and production'. This control was initially exercised by the state engaging in active supply of utilities, transportation and banking services, as well as in manufacturing. This strategy was not sustainable given the poor profitability of SOEs, increasing demands for budgetary support to loss-making enterprises that were funded by debt, and widespread abuse of the proceeds from the SOEs.

By August 1999, the national government of Papua New Guinea had accumulated a debt of K2.2 billion with K1.3 billion of this being owed to the central bank. Debt repayments for 1999 amounted to K300 million, a significant drain on the budget of around K2 billion. Foreign reserves had fallen sharply over the previous six months and the kina was at an all-time low of approximately $US0.27 as of mid 1999. The inflation rate on a year-on-year basis as of December 1998 was 24 per cent, a sharp climb from five per cent for the corresponding period a year earlier. Interest rates were at a record high, with the 180-day treasury bill rate in excess of 25 per cent. These rates were more than four times those prevailing in Australia. The high interest rates constituted a significant drain on the budget, given the high debt levels, and were also suffocating the growth of the private sector. Private sector credit growth was falling while highly-geared firms were facing liquidation. Continuing support to loss-making SOEs in this climate was no longer an option; hence the state had to withdraw from running businesses.

The incoming Morauta government announced a Reconstruction and Development Strategy, of which privatization and corporatization of public enterprises formed the core.[7] A package of policies was announced to deregulate the markets in order to enable the private sector to take the lead role in business activities. The withdrawal of the public sector from commercial enterprise was rationalized as part of a broader strategy to stabilize prices and facilitate sustainable growth. The sale of SOEs was to have a positive (net) revenue impact on the budget that would be used to reduce domestic debt, under the policy announced by the prime minister. It was argued that this in turn would lead to an easing of interest rates, and stabilization of the exchange rate and domestic prices. It was also pointed out that in addition to helping achieve the short-term goal of stabilization, privatization, and more generally the restructuring of the economy, would lead to stable and sustained growth. It was further argued that the withdrawal of the public sector from private commerce would reduce opportunities for waste, thereby enabling more effective use of resources for development.

By early 2002, ownership of one SOE, namely the Papua New Guinea Banking Corporation (PNGBC), had been transferred to the private sector, while several others were in the process of being divested, but the process stalled and as of mid 2005 no other SOE had been sold. By the middle of 2005 the kina had stabilized, the foreign exchange position had recovered to healthy levels, and interest rates on government bonds and inflation had returned to single digits; hence on most counts the announced privatization policy was delivering well ahead of its implementation.

It could be argued that the privatization strategy is not, at least in spirit, consistent with the constitution's stipulation for 'citizens and government bodies to have control of the bulk of economic enterprise and production'. But the economic reality of the situation dictated such a strategy. However, the state may still exert control over all domestic production by performing its tasks as the regulator of commerce; indeed the privatization strategy assigns such a responsibility to the state.

Value-added/goods and services tax

A value-added tax (VAT) was introduced on 1 July 1999 as part of a base-broadening exercise by the government; the VAT (subsequently renamed goods and services tax, GST) was seen as necessary in a climate of trade liberalization where the tariff reductions would erode the revenue base.[8] As part of the rationalization of the tax system, the sales tax imposed by provincial governments was abolished and a mining levy was introduced to offset the loss in tariff revenues from imports by the mineral sector (see Levantis 2001).

The constitution obliges the public to fund development of the nation according to their ability to pay. Clause (g) of the 'Basic Social Obligations' in the preamble to the constitution states this as 'to contribute, as required by law, according to their means to the revenues required for the advancement of the Nation and the purposes of Papua New Guinea'. Given that GST is compulsory on every transaction within the formal sector, this compulsion may be viewed as being contrary to the spirit of the constitution. However, the bulk of the poor avoid GST by remaining in the non-formal economy. Once again, economic pragmatism dictates that the revenue base be broadened, consistent with the global push to liberalize trade.

The remaining policy void

Many of the challenges of development that were highlighted prior to independence remain relevant today. Bettison, for example, noted in 1962 that:

> Along the western border of Papua and New Guinea from Daru in the south to Aitape and Wewak in the north, communication has been difficult, resources poor and the people have remained isolated, difficult to introduce to a cash economy and, in the highlands, undiscovered (Bettison, Fisk, West and Crawford 1962, 22).

The highlands no longer remains undiscovered, but the difficulties in communication, the problems of isolation, and the difficulty of introducing a cash economy remain some forty years later. The fact is that Papua New Guinea is made up of several smaller economies with limited opportunities for trade. The income disparity between regions persists because opportunities for commodity trade are limited by the high costs of transportation. Similarly, opportunities for internal migration, which could reduce the income disparity between regions, are hampered by the lack of secure, long-term access to land. The last also hampers mobilization of credit for investment, and growth of the rural economy.

These problems may be relieved by expansion of infrastructure, entailing expansion of regional road networks, coastal shipping, and the telephone grid. This would facilitate increased internal trade, one of the preconditions for development. Reductions in the monopoly powers of service providers in telecommunications, aviation, shipping, and ports would reduce costs and thereby encourage trade. Access to competitively priced transport and communication services would increase the size of the market, thereby providing the benefits of economies of scale.

Attention has to be given to problems arising from the rapid growth of urban populations. The state must, as a matter of urgency, consider options for expanding water and sewerage systems in Port Moresby and Lae. The burgeoning squatter settlements have to be contained to allow urban planning. The state could assist in facilitating secure long-term access to land for residential and commercial development within the urban centres by acting as intermediary between landowners and tenants. Consideration may be given to expansion and commercialization of the functions of the National Housing Commission[9] to contain growth of squatter settlements. The private sector could be gainfully involved in these areas, with public sector underwriting security of property rights to land and contracts. *Eda Ranu* has made some progress down this path in provision of water in Port Moresby.

More concerted effort has to be given to creating opportunities for productive employment. Expansion of road infrastructure has to remain a long-term objective. Fisk (Bettison, Fisk, West and Crawford 1962, 39) noted, in relation to investments necessary for road infrastructure for access to cost-effective transportation, that the 'sheer magnitude of the investment problem involved in the provision of such an infrastructure is frightening; but it must be faced'. He went on to state that, 'In the absence of an unexpected bonanza, such as the discovery of rich oil fields, *there is no other path to a viable economy*'. In hindsight, even the discovery of rich oil fields has not been sufficient to create a viable economy.

In the immediate short term, better returns may be derived from existing infrastructure by enabling migration to such infrastructure. The state might consider facilitating secure long-term access to land around the major roads by acting as the intermediary between landowners of such land and those wishing to access the lots. The goal would be to move labour to the available infrastructure to create opportunities for gainful employment. This would ameliorate some of the problems arising from fragmented and thin markets, as well as those emanating from high transportation costs that have acted as a drag on internal trade and growth of output. Such developments would need to be taken piecemeal, and be driven by demand, possibly starting on the peripheries of Port Moresby and Lae. The private sector could be encouraged to provide the real estate service, with the state facilitating access to secure property rights and public safety.

It has long been recognized that rapid development of the indigenous agricultural cash economy is crucial for a viable Papua New Guinea. Fisk (Bettison, Fisk, West and Crawford 1962, 25) considered an economy to be viable if it is 'sufficiently independent to be able to refuse aid without catastrophic economic and social consequences if the terms on which the aid is offered are politically unacceptable'. On this definition, Papua New Guinea was not a viable economy during the repeated liquidity crises of the 1990s.

According to Fisk, self-determination and political independence are empty without clear prospects of independence from external aid, at least for recurrent expenditures. Crawford considered political independence separate from economic viability, and argued that external assistance would be necessary for the latter. He asserted that, 'Continued economic progress of New Guinea along modern lines will call for heavy external aid for a long time to come' (Bettison, Fisk, West and Crawford 1962, 61). Crawford saw Papua New Guinea requiring aid for development at least until the early 1980s, and the then Australian leadership showed willingness to provide such support for as long as the people of Papua New Guinea wanted it.[10]

Both West and Crawford, in their lectures some thirteen years before independence, noted that 'the problem of promoting self-government in the Territory as a whole is one of substituting wider loyalties for local village ones' (*ibid.*, 62). The primary challenge for economic policy, according to Crawford was to change the economy from subsistence 'with a fringe of European plantations and urban industries to a modern agricultural and even industrial economy' (*ibid.*, 63). Crawford in 1962 envisaged full self-government in ten to fifteen years, should the process of hand-over be commenced then. Many of the challenges for economic policy making identified by the four distinguished academics in 1962 remain. There was considerable success in addressing several of the initial concerns in the first decade of independence, but many of the problems returned with a vengeance in the 1990s. The solutions for many of the current policy dilemmas lie in the successes of the past; the challenge for now is to rediscover them.

Conclusion

Early policy making in Papua New Guinea placed significant emphasis on equity in income distribution and access to social services, sometimes with full realization of the costs of such interventions to growth. One of the main assertions stated in the preamble to the constitution is ' that our national wealth, won by honest, hard work be equitably shared by all'. The second national goal and directive principle requires that 'every effort to be made to achieve an equitable distribution of incomes and other benefits of development among individuals and throughout the various parts of the country'(clause (3)) while clause (4) calls for 'equalization of service in all parts of the country, and for every citizen to have equal access to legal processes and all services, governmental or otherwise, that are required for the fulfilment of his or her real needs and aspirations'. On these counts, economic policy making has failed. Morauta's (2000, 3) statement, that 'We have not made the most of our resources and our wealth. Our destiny remains unfulfilled' is most telling.

The first minister of Finance, Sir Julius Chan, noted in his 1976/77 budget speech that:

> Without stable revenue, a stable currency and a sound economy the positive work of development would be undermined from the start — a fate, I must add, which has overtaken many developing countries that began with the highest hopes (quoted in Garnaut 1981, 158).

Papua New Guinea has indeed been overtaken in its pursuit of development, and Chan was in the driver's seat during part of this period. Much of policy making in Papua New Guinea has been to the neglect of internal balance. Unemployment has consequently received little attention, and the large and rapidly growing pool of labour in search of work demands urgent attention.

The struggle to stabilize the currency and regain fiscal balance was commenced late in 1999 and continues. But the challenge of policy making for sustainable development in Papua New Guinea is more one of rediscovering what worked in the past than of continually trying new initiatives.

Postscript

The record of policymaking in the new millennium has been more positive than that of the 1990s. This may be due in part to the lessons from the tough times of the late 1990s, but it could equally be the product of healthy terms of trade due to a mineral boom since 2002. Commodity prices, as of late 2008, were once again declining with the potential to hurt the fiscal position of the state, the value of the kina and the general economic health of Papua New Guinea. Policy making in Papua New Guinea may once again be tested during the economic downturn of 2009. This time round, however, the government has the capacity to borrow and thus cushion some of the effects of the downturn.

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Endnotes

[1] Helpful comments from Ron Duncan, Ross Garnaut, Ron May and Peter McCawley are acknowledged with the usual disclaimer.

[2] ANU's active involvement with policy making in Papua New Guinea dates back to 1953 when Oskar Spate, Cyril Belshaw, and Trevor Swan were commissioned by the Australian government 'to investigate the economic structure of the Territory with a view to suggesting gaps in knowledge' (Terrell 2000, 1). Since then a string of ANU academics, including Sir John Crawford, Professor Peter Drysdale, Dr Andrew Elek, Professor E. Fisk, Professor Ross Garnaut and Dr Ron May have been involved in the design and implementation of policy in Papua New Guinea.

[3] Ross Garnaut took up the FAS position in April 1975.

[4] Garnaut (2000, 35) claims that 'by 1999, Papua New Guinea had become a kleptocratic state', a statement highlighting the damning state of governance (and policy making) in the country.

[5] This was to be measured by an increase in self-reliance, the last being defined as the proportion of the government's total budgetary expenditure financed from domestic resources and foreign loans.

[6] This section covers selected policies, up to 2002.

[7] Corporatization had been pursued since the early 1990s; the Morauta regime used the privatization strategy as a means to accelerate and expand the corporatization program.

[8] As of 1998, approximately 25 per cent of total tax revenues of K1.6 billion were from import duties; this share fell to 15 and 7 per cent by 1999 and 2000, respectively.

[9] This would be more akin to Fiji's Native Lands Development Commission (NLDC) than the Housing Authority of Fiji.

[10] See the statement of Minister Paul Hasluck as quoted in Bettison, Fisk, West and Crawford (1962:65).