EVALUATION OF ACHIEVEMENTS
1976 – 1987

Merran van der Tak

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by
Merran van der Tak

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Institute of National Affairs
P.O. Box 1530
Port Moresby, Papua New Guinea
Telephone: 21 1044/45

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Foreword

The years 1985 - 87 were lean ones for government-business dialogue and consultation. The National Development Forum in which the Prime Minister and his senior economic ministers met with business leaders did not reconvene after August 1984. This forum had served as the primary channel of formal communication between government and the private sector following government's acceptance of the idea proposed by the I.N.A. in 1980.

Concerned that it spend its contributors' funds wisely, Council commissioned Merran van der Tak to review the Institute's published work and evaluate its impact on government policy-making. Mrs. van der Tak had just completed an assignment with the Department of Finance and Planning as Assistant Secretary, General Investment Branch. She was, therefore, an ideal choice. Mr. van der Tak's service in the Department's macroeconomic division was a bonus.

The report will be published in several volumes. This volume includes the reviewer's short summaries of the published papers with comments, evaluations and suggestions for the future. Subsequent volumes will provide collections by subject of longer summaries of the original papers. These should prove useful to firms and government departments in light of the high staff turnover in both. Significant developments that have occurred since the review was written have been included as footnotes in the text.

Council thanks Mrs. van der Tak for her lucid, rigorous reviews and evaluation. It has encouraged Council to continue to seek the support of the private sector in maintaining its programme of transparent, professional policy research and analysis.

Two of the reviewer's suggestions have already been acted upon : INA-Forum appears fortnightly in the principal daily newspaper, and a study on the macroeconomic aspects of the management of Papua New Guinea's resources will begin in January 1989, in collaboration with the National Centre for Development Studies in the Australian National University.

We would like to think that this evaluation contributed to the resumption of formal government-business consultation by the then Prime Minister Mr. Wingti in March 1988. Be this as it may, Council welcomes the resumption of consultation and its continuation in Mr. Namaliu's government.

John Millett
November 1988

Preface

Having now read all the major discussion papers published by the I.N.A. since its inception in 1976, I feel better informed than at any time during my tenure in Papua New Guinea. The range of subjects and depth of coverage are commendable, not to mention the evident results of the I.N.A.'s insistence on quality.

Despite being now on the receiving end of the I.N.A.'s remuneration to authors, I remain astonished at the quality and quantity which have been achieved with such a limited budget. The I.N.A.'s output should shame many of the public institutions tasked with similar functions.

The comments I have made on the developments in public policy are based on my stock of knowledge at the time of leaving Papua New Guinea earlier this year. They may be neither complete nor current, but I think they are representative. Except where the views of the original authors have been summarised, all views expressed are my own and not necessarily those of the I.N.A. I hope that the volume of summaries accompanying this paper will be read widely by those responsible for the process of policy making in Papua New Guinea, and that it will benefit the bridge builders on both sides of the "great divide" between the public and private sectors. To deviate slightly from the I.N.A.'s intention not to instruct, I feel that many of the papers should be heeded more closely by the decision makers.

An anecdote may put the I.N.A.'s task into perspective. Not too long ago, I was informing the Secretary for Finance and Planning that I was extremely busy and would have difficulty coping with some work which he wanted me to undertake. He challenged this on the grounds that he had not assigned me many specific tasks. I explained that I was working on a number of problems related to private investment, many of which had been brought to my attention by members of the private sector. Not without humour, he insisted that I do as he say because he, not the private sector, paid my salary. My response that the private sector paid not only my salary but also his left him silent and thoughtful.

This paper is part of the I.N.A. Council's efforts to take stock of its achievements and future direction. There are many policies and problems evident in contemporary Papua New Guinea which require attention. Despite instances of improvement and open mindedness, this paper might be sub-titled "Is Anyone Out There Listening". I hope it will be clear from the following pages that many people are paying attention to the I.N.A.'s efforts and that policy has been improved on the strength of it. The I.N.A. is playing an important role in Papua New Guinea's development.

Merran van der Tak
November 1987

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Abbreviations used

APT	Additional Profits Tax (Resource Rent)
BCL	Bougainville Copper Limited
CPI	Consumer Price Index
DPI	Department of Primary Industry (now Department of Agriculture and Livestock)
FOB	Free on Board (Export Value)
GDP	Gross Domestic Product (GNP minus factor payments abroad)
GIL	General Import Levy
GNP	Gross National Product
GRAC	Government Regulations Advisory Committee
IAB	Industry Assistance Board
IASER	Institute of Applied Social and Economic Research (PNG)
INA	Institute of National Affairs
MRSF	Mineral Resources Stabilisation Fund
NIDA	National Investment and Development Authority or Act
NIPS	National Investment Priorities Schedule
PATCRA	Papua New Guinea Australia Trade and Commercial Relations Agreement
PNG	Papua New Guinea
SPARTECA	South Pacific Area Regional Trade Economic and Commercial Agreement
TAC	Tariff Advisory Committee
UK	United Kingdom of Great Britain and Northern Ireland
USA	United States of America

Chapter 1

INTRODUCTION

The transition towards self-government in Papua New Guinea prompted at least one businessman at that time to seek a forum for communication between the predominantly expatriate business community and the new national government. Early efforts to establish a suitable representation for the business community were unproductive. Encouraged by some instances where the government sought the private sector's views, a group of Port Moresby businessmen held a meeting in June 1976 which led to the establishment of the Institute of National Affairs.

The major thrust of the new organisation was to be policy-oriented research, independent of existing institutions and of vested interests, addressing matters of importance to the nation as a whole. Funding would be provided by voluntary contributions from the private sector unaccompanied by influence over the products of the research. The founders chose three trustees to appoint fifteen Council members from the business, government, religious and academic communities, who would exercise control over the research secretariat. The initial Council aimed for balance between the communities and regions which comprised the nation.

The I.N.A. constitution, plan of action and initial research agenda were adopted in 1976.

> "The aim of the I.N.A. is to foster development of the national economy by contributing to public knowledge of issues which are important to private enterprise."

Among the activities to be undertaken were:

> "Encouraging an exchange of information and points of view between private enterprise, the government and the national workforce.
>
> The preparation of carefully formulated comment on various aspects of government policy.
>
> The preparation and publication of information and commentary aimed at improving general understanding of the national economy."

The early priorities included examination of government policy on foreign investment, price control, wages determination, transportation, manpower training, decentralisation and taxation. Most of these areas have been addressed in detail in published Discussion Papers and public seminars, and the list of subjects has been expanded. The Speech Series and more recent Working Papers supplement the major research exercise and publicise a variety of opinions on an extensive range of topics.[1]

Throughout, the I.N.A. has aimed to provide independent input to policy-making, "not to instruct but to inform and stimulate". Research papers are intended to address topical problems in a manner helpful to those involved with devising national policy, rather than seek definitive solutions.

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1. Listings of I.N.A. publications by subject and by year are provided in the appendices, with brief summaries of the Discussion Papers.

The first Discussion Paper (on foreign investment) appeared in August 1976 and was the subject of the I.N.A.'s first public seminar. (Sir) Julius Chan, Deputy Prime Minister and Finance Minister, chaired the discussion and presented a statement. (Sir) Barry Holloway, as Finance Minister, attended the second and third public seminars (on financial institutions and on prices policy). The first I.N.A. director of research was appointed in late 1978.

An I.N.A. initiative resulted in establishment of the National Development Forum which held regular meetings from June 1981 until the end of 1984. The Forum meetings constituted a dialogue between the business sector and senior members of the government on an agenda negotiated between the National Planning Office and the I.N.A. Secretariat. The Prime Minister, Mr. Michael Somare, agreed to be the permanent chairman. Since 1984, there has been an apparent reluctance from the government to continue although there has been no formal termination.*

The government has sponsored a Commerce and Industry Advisory Council and, later, the Council of Economic Affairs. Both Councils were intended to provide a forum for discussion of public policy. Both were short-lived. The I.N.A. has continued into its twelfth year but has reached a point of reappraisal. A Council meeting in 1986 decided that the I.N.A.'s formula was basically sound, but decided to devote more resources to explain the major studies in layman terms, to follow up the publications and explore the themes which they introduce.

The present climate in which the I.N.A. operates was described succinctly by Brian Brogan in his address to the Australian Institute of International Affairs in 1986[2] There has been a growing estrangement between politicians and their policy advisors. There are pressures on politicians to seek rapid personal and constituency gain during their tenure in office. There is little incentive to undertake gradual but fundamental programmes of reform.

The present paper reviews the achievements of the I.N.A. to date and offers suggestions on the direction to be taken in future. Chapter 2 examines the major publications and related developments in policy making and the economic situation in Papua New Guinea. Chapter 3 evaluates the I.N.A.'s achievements in the context of the present economic, political and bureaucratic environment. Chapter 4 suggests ways in which the I.N.A. can be effective in the future, and areas on which it could concentrate.

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*Editor's Note: These meetings were resumed under a different format by Prime Minister Wingti in March 1988 and they have been continued by his successor and current Prime Minister, Mr. Namaliu.

2. Summarised in Appendix B.

Chapter 2

MAJOR PUBLICATIONS AND RELATED POLICY DEVELOPMENTS

During his remarks at the I.N.A.'s first public seminar, Sir Julius Chan expressed disappointment at the business community's apparent lack of interest in national affairs and its failure to put forward constructive suggestions on proposed policies. The criticism seemed somewhat unfair. Until formation of the I.N.A., the community had no channel through which to respond and felt ill-qualified to present its case to the public servants. Since 1977, the business community has been presenting constructive comment on various policy issues. The following sections examine, as far as knowledge permits, whether the government has paid any attention.

Foreign Investment Policy

The first I.N.A. Discussion Paper was written by John Wylie on Foreign Investment Policy (August 1977). Starting from the premise that foreign investment could be beneficial to economic growth in Papua New Guinea, he considered the major problems to be the uncertainty facing investors, the lack of guidelines and aggressive stance taken by National Investment Development Authority (NIDA) and the inadequacy of domestic capital and expertise for achieving rapid development.

Mr. Wylie described the procedures for foreign investment in Papua New Guinea, and discussed the theoretical principles governing investment and its impacts on the economy. He found that improvements were needed in bureaucratic procedures and in safeguards for investors. In the absence of clear guidelines from the government, NIDA should develop and publicise evaluation criteria. The National Investment Priorities Schedule (NIPS) approach should be replaced with a listing of reserved activities and the provision of factual market information and feasibility studies on priority areas. NIDA should not seek to extract excessive concessions in negotiations with potential investors. NIDA should not insist on national equity participation in foreign owned companies. NIDA appraisal should be limited to large projects. Incentives should be offered only after careful evaluation of the net benefits to the economy. All functions relating to foreign investment should be consolidated within one agency.

<u>Comment</u>

NIDA still operates without clear evaluation criteria, appraises all foreign investment proposals, continues with the NIPS approach and requires national equity participation in most projects. For unknown reasons, NIDA no longer participates in negotiations on major projects, but other arms of government sometimes endeavour to extract substantial concessions. The Department of Trade and Industry is stepping into the investment promotion gap left by NIDA's inability to perform. The Department offers investment incentives, and protection has encouraged inefficient industries.

Galeva Kwarara, when Minister for Trade and Industry, revoked the NIDA Board's authority to decide on investments of less than K500,000. His successor, Sir Julius Chan, felt that it was the smaller projects which would compete with or crowd out national entrepreneurs and should be subjected to NIDA scrutiny. Probably due to NIDA's inability to perform in the broader arena of promoting growth and development, Sir Julius relegated NIDA to monitoring and controlling nationality of ownership.

There is no evidence of the government reacting to the discussion paper. Foreign investment remains an area of considerable uncertainty, inconsistency and political discretion, not to mention bureaucratic delays and impediments. Decision makers cannot agree on foreign investment controls nor on the procedures for administering them. Foreign capital inflows are characterised by occasional spurts related to major projects and there is no evidence of an increasing trend. Statements supporting principles of economic management and encouragement of foreign investment are not borne out by microeconomic decisions on specific projects.

Financial Institutions

Allan Brown prepared the Discussion Paper on The Structure and Adequacy of the Financial Institutions in Papua New Guinea (February 1978). He described the institutions and how they implement the government's monetary policy, and surveyed banks and businesses to ascertain the effectiveness of the sector. The main problems appeared to be the lack of long-term finance and the inadequate market for securities. Commercial banks had excess short-term liquidity but were reluctant to lend longer term.

Licensing additional commercial banks would increase competition and help liberalise lending conditions. Investors should be made aware of avenues for investing in unsecured deposits with finance companies which offered higher rates than the banks. Restricting offshore investments by insurance companies should increase the availability of longer term deposits with the commercial banks. Ways should be found to permit provincial governments and statutory authorities to raise medium-term debt from the public. The government should consider holding part of the Mineral Resources Stabilisation Fund (MRSF) balance with commercial banks as a way of influencing money supply.

Comment

Few of Mr. Brown's suggestions entailed actions by the government other than those already in progress. Two additional banks have been licensed since the report was written, competition has increased but lending practices still are considered conservative by many observers. Loan periods have increased but security requirements remain stringent. The commercial banks have had short-term liquidity problems. The government has not permitted public bond issues by provincial governments or statutory authorities, possibly because there is no mechanism by which it could retain adequate control. The government and central bank have used direct measures to control commercial bank lending, and the MRSF balance remains with the central bank.

Prices Policy

Terry Pitt wrote the Discussion Paper on Prices Surveillance: A Policy Appraisal (August 1979). He examined principles of economic theory related to price controls, the state of the economy and the availability of skilled manpower to implement a complex policy. Papua New Guinea had experienced relatively low levels of inflation but had suffered a dearth of investment and faced declining export commodity prices. The government proposals seemed designed to control profitability rather than prices, with potentially damaging effects on investment, and would place unrealisable demands on available accountancy skills. The government needed to ascertain whether inflation was due to excessive profit margins or to wage indexation. The CPI has inherent deficiencies which make it unsuitable as a regulatory tool for wage setting.

Mr. Pitt suggested that, if the government intended to combat inflation it should concentrate on the prices of selected, strategically important items in the CPI. Resources should be concentrated on training accountants and consumers.

Comment

> The paper was precipitated by the business community's outcry in response to the government's request for comments on its proposals. Mr. Pitt expressed satisfaction that the government had sought private sector views. Sir Barry Holloway, then Minister for Finance, attended the seminar. The government has not introduced the proposals attacked in the paper, nor Mr. Pitt's recommendations. Price control remains very much as it was in 1978, with the administering office underskilled and overworked. Procedures remain laborious and guidelines unclear. It is likely that the public reaction to the government's proposals, including the I.N.A. seminar and paper, caused the government to reconsider. The subsequent change of government may have seen a reordering of priorities and no further constructive work was done.

Economic Policy Framework in Papua New Guinea

Three early I.N.A. publications on this topic appeared in the Speech Series, and included statements in 1979 by Mekere Morauta (Secretary for Finance) and Charles Lepani (Director of National Planning) on the government's economic policies and planning process. The Discussion Paper on Some Key Issues for the Development of the Economy of Papua New Guinea by Professor Brian Reddaway was not written until 1986.

Professor Reddaway drew on his extensive experience and numerous interviews with people in Papua New Guinea to pinpoint the main impediments to increased economic activity. He saw the major problems as rapid population growth, high wages and expectations, permanent declining trends in some commodity prices, a complicated system of land tenure, and lack of funds and skilled manpower in government yet excessive intervention in private enterprise leading to widespread inefficiency and delays.

He recommended that the government concentrate on functions which cannot be performed by the private sector, and on improving the implementation of policies rather than changing the policies themselves. All branches of administration should develop guidelines for performance and delegation of authority. Poor performance should be penalised. The government should make more effort to bring customary land into development, and adopt a more supportive attitude towards potential mining investors.

Comment

True to his tenent, Professor Reddaway did not recommend many policy changes. It may be too early to judge whether the paper will have an impact, and it may take more than a learned paper to reform the entrenched behaviour of a bureaucracy. The state of visa processing in the Migration Division apparently has deteriorated to the point where something must be done, but the relevant authorities are not known to be avid readers of I.N.A. reports.* The amended Public Service Management Act may facilitate greater delegation and accountability among public servants.

Shortly after the Discussion Paper was published, at least one minister proposed an interventionist, unproductive sectoral development plan which would require considerable manpower and impose costs on the sector, but which could not achieve its objectives because the crucial variables were beyond the government's power to influence. Politicisation and poor implementation are likely to remain serious problems for a considerable time. There is an apparent lack of political will to relinquish the personal powers of ministers, even though extensive and unaccountable control had not been the intention of the governing legislation.

Localisation and Training

Chris Mackay, the second I.N.A. director of research, wrote the Discussion Paper on Private Sector Localisation and Economic Development in Papua New Guinea (March 1983) after a number of media comments had criticised expatriate dominance of the private sector. He used employment statistics, manpower estimates and surveys to determine the extent of localisation, and assessed the potential for further localisation in the light of education performance and the factors influencing economic development. The major problems were the shortage of skilled nationals, high wages relative to productivity, wastage of training effort, too little emphasis on creation of new jobs, and the high administrative costs of implementing the existing policy and work permit procedures.

Mr. Mackay suggested that time would be the most influential factor in further localisation. Education in basic skills and vocational subjects should be improved and a coordinated public-private sector training programme should be created. Incentives for training should be extended beyond the apprenticeship scheme. The road network should be improved to open up areas for cash-cropping to provide employment for school leavers. The procedures for hiring expatriates should be relaxed because they are unproductive and costly, and employers have an economic incentive to localise if a suitable national is available.

Comment

The paper documented the limited number of jobs held by expatriates and, hence, the limited potential for increasing employment for nationals through localisation. Despite various studies and plans for education, very little has been done to rationalise the education system, improve the quality of teaching and make tertiary education more responsive to employers' needs. Road construction and maintenance has not been given the highest priority. Work

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*Editor's Note: Under policy adopted by government towards the end of 1987, holders of work permits and their dependants would be automatically issued with multiple-entry visas. This policy has not yet become practice.

permit procedures for expatriates remain unproductive and costly, and are compounded by increasing controls on immigration and visa issue.

More emphasis has been placed on growth and increasing productive employment opportunities, but political statements to this effect have not been translated systematically into concrete action. There appears to be some increase in government recognition of the economic incentives for localisation and the fact that many investors require some expatriate expertise. Most of the rhetoric about expatriates dominating economic activity ignores the fact that some large, national-owned companies (including government-owned companies) hire expatriate management. Expatriates remain a convenient target for political and public rhetoric.

Private Sector - Government Relations

Michael Trebilcock examined The Role of the Private Sector in the Economic Development of Papua New Guinea (May 1983) following a number of publications on this topic in the Speech Series. He examined data on the economy's past and present performance, and conducted a survey of businessmen and bureaucrats to ascertain their perceptions of relations between the public and private sectors and their respective roles in the economy. The major problems were declining foreign investment, limited domestic capital, minimal employment growth, high wages relative to productivity, small fragmented domestic markets, limited land availability and the quality of public administration.

Professor Trebilcock proposed that exchange rate controls should be eased to reduce the increase in wages, combined with the introduction of piece rates and improved education and training to increase productivity. Investment incentives should be provided for job creation, including in the agriculture sector. The fiscal regime should be reformed. Lands Department procedures should be reformed and combined with measures to simplify the development of customary land, such as through participatory arrangements between landowners and investors. NIDA should take a more active role in promoting foreign investment. The spillover effects from enclave developments should be promoted, with improvements to roads and coastal shipping to reduce market fragmentation. Institutional financial reserves should be mobilised for development.

Comment

Some measures have been taken to relax exchange rate controls and cap wage indexation to allow a decline in real wages. A wage subsidy scheme has been introduced for job creation in new activities, but does not apply to primary industries. There has been continual but gradual review and reform of the fiscal regime. Attempts have been and are being made to simplify Lands Department procedures, with some indications of success but it is too early to draw a conclusion. The few attempts at participatory agreements with customary landowners have been exceptions, and direct dealings are still illegal.

NIDA lacks resources to promote foreign investment and continues to function as an obstacle. Efforts are being made to improve the linkages between enclave developments and the national economy, but the potential remains limited. Some government demands for greater integration have been refused by potential developers. Coastal shipping remains over-regulated, expensive and inefficient. Some institutional reserves have been invested in major development projects, but these cases tend to be exceptions and are limited by their need for security and conservative management of contributors' funds.

Individual attitudes within government towards the private sector vary tremendously. There have been few real policy changes to promote enterprise, and discretionary political decisions remain common. Several small bureaucratic measures have been taken to facilitate investment and the functioning of the private sector, but they do not address the fundamental problem of excessive government domination and intervention.

Taxation

Taxation policy was an early agenda item for the I.N.A. Declining Australian aid and the new country's need to raise revenue to finance its development programme, with its heavy emphasis on income redistribution through fiscal measures, caused considerable concern in the business community which already contributed a substantial portion of internal revenue through corporate taxes and personal income tax on expatriates. Economic growth was not given high priority by the government, possibly because it was assumed to be inevitable. Disappointing economic performance meant that the government's increasing revenue requirements were not met by taxes on increased activity, and the burden on the small, formal economy increased.

The I.N.A. has published six major papers on taxation in the period from 1980 to 1987. The government's response over the period is described at the end of this section.

Tax Policy in Papua New Guinea by Professor Robert Neild (January 1980) was the first I.N.A. Discussion Paper on taxation. Economic principles were applied to the available statistics to estimate the burden and responsiveness of the tax system, thus pointing to measures which could improve the system's ability to meet the government's revenue needs. The major problems were the inadequate staffing of the tax authorities, the difficulties in defining income and taxable units in the large and growing informal sector, the small tax base and excessive revenue dependence on a declining number of expatriates, and the unsuitability of tax powers allocated to provincial governments.

Professor Neild recommended increased staffing of the Tax Office. He proposed that the tax period be changed to correspond with the fortnightly pay period, thus eliminating most year-end tax returns and increasing government revenue through full taxation of seasonal employment. Future revenue needs should be met by increasing use of expenditure taxes (import duties, excise duties) and export taxes (subject to studies into disincentive effects). The financial provisions of the Organic Law on Provincial Government needed review, possibly allowing provincial governments to levy an asset tax or to encourage more voluntary taxation with matching national government grants for local projects. He recommended stability in the tax system and development of a taxation plan to match the National Public Expenditure Plan, rather than piecemeal measures in each budget.

Comment

> Professor Neild's paper is an outstanding piece of critical analysis and constructive suggestion. Its quality far exceeds that of most input into government policy-making. Professor Neild also proposed a list of areas for further work - tax, housing, urban land, national entrepreneurship development - which reads like a preview of forthcoming I.N.A. publications but which has not been reflected in government policy measures.

In response to the interest aroused by Professor Neild's paper, Professor Russell Mathews was invited to address a number of public meetings on taxation in Papua New Guinea, and the main text of his presentation was published as a Discussion Paper (July 1980). He considered the Papua New Guinea situation in the context of experiences in other newly-independent Pacific countries and Australia. The main problems were that the Australian tax system adopted by Papua New Guinea was not appropriate for either country, tax policy placed too much emphasis on redistribution and not enough on growth, and the tax base was too small so that government revenue could not increase proportionately with economic activity.

Professor Mathews recommended broadening the tax base to capture as much of the informal sector as possible because income levels in developing countries generally are low and it is inequitable to concentrate the tax burden on only a small group. Pursuit of income redistributional objectives should wait until some growth had been achieved. He suggested a proportional (flat rate) personal income tax combined with proportional cash flow corporate taxes (instead of profit) to provide investment incentives, simplify administration and permit more widespread use of tax withholding. Export taxes and production taxes could be used to tax the informal sector, combined with user charges for government services. Although a sales tax would be ideal, it was unlikely to be feasible to administer.

Dr. Rajah Chelliah's paper also arose from his presentation to a public meeting (August 1981). As Professor Mathews had done, he drew on principles of tax theory and experience in other developing countries to evaluate the Papua New Guinea tax system. Dr. Chelliah agreed that the main problems were the inappropriateness of the tax system for the country's stage of development, the narrow tax base and the lack of incentives for saving and investment. His recommendations were similar to those of the previous two authors.

Professor Richard Bird was commissioned to write on The Allocation of Taxing Powers in Papua New Guinea (November 1983) following Professor Neild's recommendation for a review of provincial government tax powers. The study utilised the first comprehensive data series on provincial revenue. He saw the major problems as the inappropriateness of provincial powers, their poor management and tax administration skills combined with a lack of national government support, the degradation of service delivery and perpetuation of provincial inequalities, and emerging problems of urbanisation and increased urban-rural disparities.

Professor Bird recommended that the aim of uniformity between provinces be abandoned, and provincial inequalities be addressed through differentiated treatment and grants from the national government. The national government must reverse its recent tendency to withdraw support from the provincial governments. Minimum grant formulae should be revised to ensure a guaranteed minimum standard of service to all <u>people</u> throughout the country. The system should include a stimulus for local effort through matching grants and self-financing of urban infrastructure. Provincial governments should not be given substantial new tax powers, other than an effective form of land or personal taxation to tap the informal sector.

Comment

> It is not known whether Professor Bird's paper was successful in being considered as an input to the Committee of Enquiry to review the financial aspects of the Organic Law on Provincial Governments. It appears that the Committee itself was not successful. There has been no significant change to the national-provincial fiscal relationship so far, but it has been the subject of work within the government and reforms will be introduced in the near future. The government is undertaking a project to boost finance and accounting capabilities in the provincial governments.
>
> The paper provided little justification for its many conclusions and recommendations, even though its basic thrust seemed sound. One important defect was that it seemed to view the government fiscal system in isolation from its effects on the economy, proposing ways to solve provincial revenue deficiencies with only casual consideration of the repercussions on economic activity.

Following Professor Neild's recommendation, the government took steps to collect data to help determine the incidence and elasticity of various taxes. While the exercise was continuing, David Collins wrote a paper on Designing a Tax System for Papua New Guinea (May 1985). He analysed the tax system's ability to meet future revenue needs and drew on tax principles to suggest areas for reform, arguing that further delays while the tax data base was improved would be counterproductive. He saw the same major problems which had been identified by the first three authors. He identified solutions very similar to those of Professor Mathews.

He recommended development of a consistent set of principles to govern taxation and discontinuation of piecemeal revenue measures to finance expenditure targets. The tax base should be extended and the system rationalised without radical restructuring and instability. Subsequent changes should be restricted to tax rates and not involve imposition of new taxes. A flat rate tax would permit more use of withholding, with a single linear personal income tax above a certain threshhold income which could be indexed for inflation. Company profits should be taxed at source without discrimination. The indirect tax base should be as broad as possible, with flat rate taxes on consumption expenditure. Revenue tariffs should be uniform and applied without exemption. Export and production taxes withheld at source by marketing authorities would improve taxation of the informal sector.

Professor David Lim's paper on The Spending and Taxing Behaviour of Governments of Resource-Rich Countries: A Study of Papua New Guinea (April 1987) differed from the earlier papers in examining whether minerals revenues and Australian aid had permitted a lack of fiscal discipline. He identified the same problems with the tax system as the earlier authors, but saw the extensive wasteful public expenditure, neglect of capital spending and heavy reliance on forecast rapid growth and minerals development as the major problems.

Professor Lim recommended continued effort to broaden the tax base and increase internal revenue in line with changes in the economic structure. The expenditure programme needed to be controlled and made more efficient, with improved project evaluation and emphasis on developmental investment by the government.

Comment

> The paper's underlying premise that spending can exceed internal revenue only if there is revenue from other sources or borrowing seems to be something of a tautology. Public debt data show that borrowing has been extensive, but it would be difficult to prove that the political attitude which allowed such borrowing was lax because of aid and export earnings or was based on false expectations of "inevitable" growth. If debt service consumes such a large share of export earnings then those earnings can hardly be deemed abundant. A more relevant hypothesis might have been whether the lack of dependence on internal revenue collected from voters permitted a lack of discipline.

The government adopted Professor Neild's suggestion for a fortnightly tax period even before the paper had been published. It had the advantage of increasing government revenue and reducing Tax Office workload without involving sensitive political issues. Only a few months later, while introducing the talk by Professor Mathews, Michael Bendall warned against adopting only one of a package of recommendations. He criticised transient expatriate policy advisors for seizing opportune proposals with little thought for the implications and practical implementation.

Despite Mr. Bendall's concern, there has been gradual progress towards the reforms suggested by the I.N.A. authors. The 1981 Budget Speech explicitly acknowledged the papers by Professors Neild and Mathews, undertaking a programme of data collection, promising an enquiry into inter-government fiscal relations, and committing not to increase the rate of company tax during the four year life of the National Public Expenditure Plan. (The change of government intervened and the tax rates were increased.) There has been a shift towards indirect taxation. Export taxes have not been increased, partly because of concern for the viability of agriculture (being addressed by a study into production costs). Tax Office staffing has not been boosted.*

The government has abolished some exemptions from import duties, in line with Mr. Collins' suggestions. Efforts have been made to standardise revenue tariffs. Discriminatory tax treatment of national-owned companies has been abolished. The 1987 Budget reduced most marginal rates of income tax and reduced the number of tax brackets, although the system is still far from a flat rate. Efforts to further broaden the tax base have been proposed by advisors but rejected by politicians.

Annual budgets continue to include piecemeal changes to the tax system, although emphasis has shifted towards improving the tax system rather than increasing revenue. There have been recent moves to relate expenditure to anticipated revenue, rather than pursuit of expenditure targets. Almost all of these improvements have been introduced through the bureaucracy, but with ministerial approval.

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*Editor's Note: The Taxation Office has been strengthened in 1988 under an Australian technical assistance project.

Industrialisation and Trade Policy

Like taxation, industrialisation and trade policy has attracted considerable attention from the I.N.A. Professor John Whalley wrote on Foreign Trade Policies in Papua New Guinea (December 1982). He applied economic principles to the policies affecting Papua New Guinea's international trade and diversification of the domestic economy. He identified the major problems as stagnant economic growth and a growing trade deficit, the lack of clearly stated industrialisation policy combined with poor administration, poor understanding of trade principles, and distortionary sectoral policies.

Professor Whalley adopted a strong free trade approach and recommended that the government permit the private sector to determine comparative advantage and profitable opportunities for investment. Eliminating internal relative distortions would be more economically efficient than granting offsetting protection. Export incentives would be distortionary. The infant industry argument for protection should not be confused with start-up costs. More consideration should be given to macroeconomic measures such as devaluation to reduce the trade deficit, rather than the use of restrictive trade practices. If a policy of protection were adopted, tariffs should be used in preference to quotas and other import controls. The Tariff Advisory Committee needed to be strengthened and given clear guidelines.

Professor Helen Hughes examined Industrialisation, Growth and Development in Papua New Guinea (October 1984) drawing on her wide experience and an analysis of the state of the economy. The macroeconomic situation had improved since Professor Whalley's study, and Professor Hughes identified a series of structural and microeconomic problems impeding development as well as the effects of upward pressure on the exchange rate. Problems included the small markets, high costs of business, uncertainty, lack of infrastructure and increasing lawlessness.

Professor Hughes, also a proponent of free trade, recommended more emphasis on export-led growth than on import replacement because the Papua New Guinea economy lacked the preconditions for efficient industrial development. Incentives could not offset structural deficiencies. More investment in infrastructure would be needed to offset business costs, combined with a build-up of cash incomes in agriculture to expand the local market and develop labour skills. Vocational training at the tertiary level would improve labour productivity. Some weakening of the currency would be productive.

Major institutional changes were needed to the wage setting mechanism, including youth wages and piece rates and a reduction of benefits. Competitive pricing should reduce the costs of utilities. Any protection should be granted as a direct subsidy. Export incentives were unlikely to be particularly effective.

Professor Robson, in Trade and Trade Policy Issues in Papua New Guinea (September 1985) adopted a more pragmatic approach based on his perception of distortions in international trade which, he felt, required counteractive domestic measures. Apart from the macroeconomic pressures, he saw the main problems as the imperfections in world markets, and the lack of consistent protection policy and procedures reflected in poor performance by the Tariff Advisory Committee and ambiguities in the Tariff Code.

Professor Robson recommended a systematic and cost effective trade policy involving an element of government intervention to be formulated within a clear development strategy which identified the sectors or stages of production to be promoted. Revenue and protective objectives needed to be separated. Consistent criteria should be applied in evaluating requests for protection, using cost benefit analysis for large projects and an assessment of contribution to local value added for smaller enterprises.

Comment

> Some measures have been taken in line with the authors' recommendations, but address mainly procedural matters. The government continues to offer assistance without reference to comparative advantage, and there is still no clear statement of development strategy. The White Paper on Industrial Development, possibly resulting from Professor Whalley's recommendations, made progress towards stating the government's industrialisation policy and strengthening the Tariff Advisory Committee. It included provisions for protection and incentives to encourage investment in manufacturing industry. Three years later, the Industry Assistance Board (IAB)* has held a meeting and has almost developed guidelines for evaluating requests for protection.

The IAB Secretariat is not the skilled, authoritative body envisaged by Professor Whalley. The government maintains its right to ignore the advice of the IAB, and has continued its use of quotas and other controls rather than tariffs and subsidies. Selective activities have received substantial protection with no regard for the impacts on other sectors of the economy. The infant industry argument has been used inappropriately in the introduction of export incentives and protection, and in a wage subsidy scheme. Little has been done to reduce distortions in the economy. Currency controls have been relaxed slightly, and the pressures on the balance of payments have been eased by a measure of economic recovery.

Land Policy and Administration

Widely regarded as one of the major obstacles to development in Papua New Guinea, land availability remains one of the most politically sensitive topics and its administration has become so unwieldy that it almost defies remedy other than through massive reform. Professors Knetsch and Trebilcock undertook an extensive study of the issue documented in Land Policy and Economic Development in Papua New Guinea (April 1981). The authors evaluated aspects of policy and administration in the context of national development aims.

The authors felt that customary land must be mobilised if rural development were to proceed and provide the stimulus for broader growth. Serious land reform must come to terms with the alienability of land and the need for secure title, but would not require full registration of title to all customary land. Limited direct dealings in land should be permitted. A decentralised system of mediation and adjudication should build on the local and district land court systems.

In all cases it would be more effective to establish basic guidelines and criteria for decentralised application than for the national government to be involved in each stage of each transaction. The system of allocating government leases should be replaced with competitive bidding, or with direct dealings which would allow the

*Editor's Note: The Industry Assistance Board replaced the Tariff Advisory Committee in 1985.

landowner to reap the windfall gains (which could be taxed if the tax system were amended).

Comment

> The paper was widely acclaimed by reviewers in many parts of the economy, yet very little has been done on the basis of that document. Numerous studies have been undertaken by several agencies on land policy and administration in Papua New Guinea. There have been attempts to introduce customary land registration and promote lease-lease back of customary land. No policy reforms have been implemented successfully. Extensive reviews of the Lands Department have resulted in measures to improve administration of alienated land, and a political scandal brought some curtailment of unconstrained ministerial powers. The government continues to involve itself in all stages of all transactions, and has been unable to delineate its priorities in awarding leases.

Forest Policy

A sectoral paper on Issues in Papua New Guinea Forest Policy by Dr. Fraser alerted the L.N.A. to the dangers of investigating sectors of the economy comprising few firms which may be benefiting from policies which become the subject of critical review. There had been widespread concern that timber extraction was not being undertaken in a manner which maximised the national benefit. A study which pointed to these problems was likely to be resented by part of the L.N.A.'s constituency and jeopardise its funding. The L.N.A. relied on its mandate for independence and published, although the final document may have been edited to remove the names of some targets of criticism.

Dr. Fraser saw the major problems as rapid depletion of viable timber stands, almost total lack of reafforestation or other follow-up land use, industry domination by large foreign enterprises with every incentive for transfer pricing, excessive wastage in timber processing, and conflicting national development objectives surrounding the industry. He suggested foregoing present revenue in exchange for much greater future revenue. He recommended that the Office of Forests conduct an exercise to compare actual yields over the past ten years with anticipated yields to ascertain the extent of overestimation or misreporting.

The government should concentrate on improving the efficiency of existing operators rather than making new areas available for exploitation. Concentration in a few areas would simplify monitoring and control. Log export guideline prices should include a levy for reafforestation if timber companies would not undertake reafforestation. Timber operators should be selected more carefully. High priority should be given to developing better export marketing and prices, with more attention to the future value of resources. A substantial research effort was needed into silviculture and forest management. Land-owners should be encouraged to dedicate suitable land to forestry. Fuelwood plantations would be needed. Domestic processing capacity must become more efficient and expanded.

The paper included a survey of reputable international timber companies which did not operate in Papua New Guinea. They were surprisingly well informed. They cited the high costs of extraction and conditions, and the availability of sufficient better opportunities elsewhere. The survey left a strong impression that many companies operating in Papua New Guinea have no concern for the national interest nor for honouring their agreements with government. Dr. Fraser calculated that the industry's return to the government net of administration and Timber Rights Purchase costs was trivial.

Comment

> There has been no change to the forestry legislation and attempts to adopt a revised forest policy have not been successful. The government has established a State Log Marketing Agent utilising the Forest Industry Council, but has not clarified its thinking on use of its 25 per cent option. Recent Forests Ministers have expressed their policies as a rapid increase in log exports, quite contrary to Dr. Fraser's recommendations and the precepts of sound resource management. Forest depletion receives minimal attention relative to minerals even though natural forest has an intrinsic value which minerals in the ground do not. There is no resource rent in forestry to compare with the minerals Additional Profits Tax. The recent scandal has demonstrated the problems which can arise in an industry dominated by a few large companies exploiting a multi-million resource which is in the sole control of one person.*

Public Enterprise

Michael Trebilcock wrote the paper on Public Enterprises in Papua New Guinea (August 1982). He examined the pattern and performance of such enterprises in Papua New Guinea in an attempt to deduce the underlying rationales, since these could not be found in any policy document. The lack of clear objectives and poor financial performance were considered to be the major problems.

Professor Trebilcock recommended that the government not expect public enterprises to perform like private companies, since that would obviate the rationale for their existence. Profit should not be the only motive for a government-owned corporation, but the government needed to examine why each enterprise had been established and monitor its performance accordingly. There should be clear distinctions between private enterprise, government and government enterprise. Excessive bureaucratic interference should be avoided, and the commercial component of boards should be increased. Public accountability should be increased with regular reporting to parliament, and each public enterprise should be subject to regular independent review.

Comment

> The government has moved even further towards commercial performance criteria for statutory authorities, while many government-owned companies remain almost totally unaccountable. All commercial statutory authorities are now required to prepare a five-year corporate plan for approval, but the lack of political interest in these plans and the corporations' accountability remain a problem. Bureaucratic intereference has been reduced, albeit not always intentionally. Businessmen have been appointed to represent the government on some boards but political interference appears to have increased in many companies. There has been considerable lip service paid to privatisation and sale of government-owned companies.

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*Editor's Note: The Wingti-Chan government established The Enquiry Into Aspects of Forestry headed by a National Court Judge in April 1987. While the enquiry was in progress reforming industry legislation was drafted by that government but it never reached parliament. The Namaliu government is drafting new legislation (October 1988). At that time the report of the enquiry had not been released.

Professor Trebilcock's papers on public enterprise and on the private sector suffered from commencing with long, tangential discussions. Although he proceeded into concise analysis, many readers may not have persisted long enough to find out. Professor Trebilcock quotes a number of ministerial statements as evidence of government thinking. Many such statements were written by (expatriate) public servants for specific occasions, and were not carefully reviewed by the minister concerned. Few ministers can be relied upon to deliver only statements in which they believe and to which they feel committed. Legislation and practice are the best indicators of public policy.

Urban Housing

The paper on Urban Housing in Papua New Guinea (February 1983) by Higgins and Kumar was the result of a joint project between the I.N.A. and the University of the South Pacific. The authors' foreword implied some dissatisfaction with their report due to a feeling that more knowledge of the Papua New Guinea situation was necessary for practicable recommendations. The authors identified the main problems as an inadequate and inappropriate housing supply relative to incomes and aspirations, a shortage of all resources necessary for housing development, and a lack of priority being given to housing.

They recommended that remedial action be taken before the urban housing problem deteriorated to standards elsewhere in the world. The authors concentrated on describing and explaining the characteristics of urban housing shortages in Papua New Guinea. While some of the explanations are illuminating, and help to identify the causes, the authors were not in a position to be more specific and constructive.

Comment

Employers continue to subsidise housing and erode the incentives for home ownership. National home ownership schemes have not succeeded in helping the lower middle income groups, and have been abused because they involve an extensive degree of discretion which is open to corruption. Even without abuse, such schemes have been too small and too slow to be implemented. The government currently is undertaking yet another programme of selling its houses, with priority given to incumbents. The evidence of abuse is disheartening, and little attempt is made at concealment. The housing sale programme probably will have little impact on government housing expenditure or the housing situation.

The housing situation generally is not as severe as in many developing country cities. Politicians and senior public servants lack an incentive to deal with housing because they do not have a housing problem, and neither do 85 per cent of the country's voters.

Mining Policy

A Discussion Paper on Mineral and Mining Policy in Papua New Guinea (October 1985) by Professor John Tilton with John Millett and Richard Ward, while very topical, may have been overlooked in the crisis over the Placer share issue and concentration on immediate problems (such as negotiation of two major mining projects and extraction of personal advantage).

The authors focused on exploration as a barometer of the minerals investment climate and as the main parameter for influence by public policy, since the discovery and development of reserves is governed by different forces. They saw the major problems as excessive bureaucratic delays in appraising exploration applications, compounded by government interference in technical matters, high costs in Papua New Guinea, the cost and conflicts involved in government equity holdings, and the uncertainty arising from extensive ad hoc elements and discretion in negotiation of mining agreements.

The authors recommended that the recent increase in exploration should not lead to complacency about the investment climate nor about the prospects for minerals development. The practice of on-site hearings for exploration licences should be discontinued. Exploration reporting standards should be set and monitored. The Additional Profits Tax (APT) benefits both the government and the developer and should be maintained. The government equity option should not be taken up. Infrastructure requirements should be clarified and not exceed those needed by the development. Special mining lease negotiations should be limited to very large developments, with standard agreements for smaller projects. Royalties and regulation of gold dealings by small alluvial miners should be abolished.

Comment

The government's future budget estimates are highly dependent upon successful minerals development and exploration expenditures, despite the experience with Ok Tedi. The government's stated policy to enter into no new equity commitments is not being upheld in current mining negotiations, which remain ad hoc and unpredictable. The delays in concluding negotiations arise from government demands and intervention in a range of matters, not from concern about long-term resource management. Conditions continue to be imposed which increase the developers' costs and reduce profitability (and hence tax revenue). As recommended, the government shows no signs of abandoning the APT.

A standard mining agreement is being developed but it is not known how it will be applied. Payment of royalties and withholding tax by alluvial gold miners has been abolished, and dealings have been deregulated, but this was underway before preparation of the report and may have come to the author's attention during discussions with the action officer.

The July 1987 I.N.A. seminar on negotiation of mining projects was well attended by most sectors of the community and engendered a lively debate. The audience included many policy advisors and government negotiators. Many interesting points made by the guest speaker should influence the government's position in future, provided that the government representatives bear them in mind.

Coastal Shipping

The Economics and Regulation of Coastal Shipping in Papua New Guinea (Sidney Gilman, November 1983) was the second of only two I.N.A. Discussion Papers on specific industries and their performance. As with the forestry paper, Dr. Gilman's paper singled out individual firms for comment. Dr. Gilman saw the main problems as excessive and ineffective regulation of the industry, excess and inappropriate capacity and a very high cost service.

He recommended that capacity licensing be depoliticised in an effort to improve ship size, cargo balance, unit costs, overtonnaging and other inefficiencies. An outline plan for an efficient operating strategy should be developed. A Shipping Conference system of rate and capacity negotiation between operators should be estalished, with a Shippers' Council to represent customers. The restriction of coastal shipping to registered fleets should be continued so that the system can maintain cross subsidies and regular services without being out-priced on the main routes. Pressures for further escalation of stevedore wages and benefits should be resisted.

Comment

Ministerial powers remain substantial and largely unaccountable. Ministers other than the Transport Minister involve themselves in aspects of coastal shipping, and the industry shows no signs of competitive behaviour and rationalisation. The unsuccessful, government-owned PNG Shipping Corporation continues to operate inefficiently and incur substantial losses which must be borne by the government.* The double deduction of coastal shipping costs from taxable income was intended to offset distortions arising from regulating the industry. Its recent rescission is an apparent contradiction of other government policies to promote industrial development but, in fact, reflected the conclusion that it was not achieving its objective. Numerous recommendations to deregulate the industry have been ignored. Stevedore wages and benefits continue to rise substantially and are a major component of Papua New Guinea's high port costs. The union remains strong and influenced by Australian practices and ideology.

Law and Order

The substantial I.N.A./IASER report on Law and Order in Papua New Guinea by Professor William Clifford, Judge Barry Stuart and Dr. Louise Morauta, was published in September 1984 as a wave of serious crimes in Port Moresby led to public demonstrations requiring the government to assign high priority to the issue. The main problem perceived by the authors is self-evident. During the study they identified a number of causes of increased lawlessness, including the rapid transition from a traditional society.

The authors recommended a broad, gradual approach to combat the causes of crime and increase social pressures for lawful behaviour combined with improved law enforcement and puinishment of criminals. The specific recommendations included the assignment of highest priority to law and order issues, strong measures to combat corruption in public office, greater reliance on and measures to improve the operations of the village court system, simplification of criminal proceedings, more consistency in sentencing and greater use of probation and parole. The police and corrective services required restructuring and much better training.

Comment

The Discussion Paper was a timely and central input into the government's deliberations and reaction to the public outcry. The government's ensuing 49 Points on Law and Order included many of the paper's recommendations, but omitted many others and lacked the cohesion which had been a major objective of the authors. Six months later, after another wave of crime, the government

*Editor's Note: Government sold the PNG Shipping Corporation to Steamships Trading Company Ltd. in July 1987.

declared a State of Emergency in Port Moresby as a short-term measure. Recently, the then Prime Minister, Mr. Wingti, refused to take a similar measure to combat growing criminal activity in Lae and many public statements were made about the need for long-term measures to prevent crime.

Little has been done to implement the government's 49 Points, nor to achieve fundamental social and economic reform. Widely publicised rumours of corruption and disciplinary actions against Ministers have not been upheld, although enquiries have been conducted and much has been made in public statements about the fight against corruption.*

Labour Market

The Labour Market in Papua New Guinea: A Survey and Analysis was written by Paul McGavin (September 1986). Available data were consolidated into a comprehensive series as a basis for a descriptive and analytical review of the labour force and labour market. The issues of labour supply, wages, mobility and training are addressed. The major problems are the lack of adequate labour data for informed decision-making, urban unemployment and urban drift, excessive reliance on government action by the private sector, and inadequate private sector input to and influence on education and training.

Dr. McGavin suggested that administrative wage setting impeded individuals' opportunities to reach a mutually beneficial agreement. The Minimum Wages Board mechanism should be retained for its stabilising effect on wage negotiations, but the Board should be reduced in size and should place greater emphasis on the market's ability to pay. Urban minimum wages should be reduced to promote more employment, but lower wages should not apply to existing employment. Wage indexation should be abolished because it prevents the real wage from adjusting to changing economic circumstances. The wage structure should be revised to provide an incentive for on-job training and to discourage mobility. Government and the private sector should reduce their funding of basic skills (undergraduate) education. A system of labour statistics and review should be established.

Comment

The government has reduced the minimum youth wage but it is too early to determine whether this will have an impact on wages offered or on youth employment. No measures were in evidence to improve the system of labour statistics or to amend the Minimum Wages Board. The Public Service recently granted substantial wage and benefit increases to senior officers.

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*Editor's Note: On taking office in July 1988, the Namaliu government made restoration of law and order its first priority. The Ministerial Committee on Law and Order, chaired by the Minister for Justice, is funded and active. The Committee released its "Policy on Law and Order" in August 1988. The Fraud Squad has been strengthened. Sweeping anti-corruption legislation is expected to be introduced in the November or February sittings of parliament.

Agriculture

Since early 1985, the I.N.A. has undertaken a major programme of work on the agriculture sector, coinciding with an increase in the government's statements about the sector's importance to society and to economic development. Agriculture is the sole means of support and the sole source of cash income for the vast majority of the population. It is the major provider of formal non-government employment and a substantial earner of foreign exchange. Despite continued imports, domestic agriculture in fact is producing a large portion of the country's food. The sector has developed and adapted with little direct assistance from the government.

The three I.N.A. Discussion Papers on agriculture address quite different aspects of the sector. Comments are grouped at the end of the section.

Plantation Agriculture in Papua New Guinea (June 1985) was written by Mr. C. C. Goldthorpe. He examined the characteristics of the plantation industry including organisational and management structures, the relative efficiency of different scales of production, and the industry's contribution to income and development. He saw the major problems as the lack of explicit government support for plantations, the small size and poor management of most holdings, and insecurity of title and other impediments to rationalisation.

Mr. Goldthorpe recommended that the government should make an official statement to support its tacit recognition of plantations' importance in the economy. The Plantation Redistribution Scheme legislation should be repealed to allow lease transfer to foreigners to encourage consolidation of holdings and restructure of the industry. DPI and the commodity boards should conduct a survey of abandoned plantations and seek concessional funding for a feasibility study into rehabilitation. Apart from the few very large, new plantations, all estates should improve their management recruitment and training of nationals in senior positions, and should modernise their practices by encouraging a stable, more permanent labour force through provision of improved family housing.

Dr. Barry Shaw wrote on Agriculture in the Papua New Guinea Economy (June 1985), using economic principles and the best of the available field work to analyse the role played by the sector. He found the major problems to be the lack of a coherent sectoral policy, inadequate political commitment to agricultural improvement, inadequate research and extension, and increasing unemployment and urban poverty.

Dr. Shaw recommended that the government take greater notice of the returns to subsistence when designing projects for adoption by smallholders, and focus its attention on areas of stress. All projects should be subject to field trials and tests of their sensitivity to varying conditions. Government expenditure on research should be increased considerably and made more productive, concentrating on increasing the productivity of crops which have already been adopted by smallholders.

Extension services should be revitalised and focused towards smallholders because they are the best prospects for absorbing increasing numbers of unemployed. The plantation sector should not be allowed to decline because the loss of jobs would be unacceptable. Possible ways of improving processing standards should be investigated. Interest rate subsidies should not be provided except for new tree crop projects with long gestation periods. Statistics on all aspects of agriculture must be improved.

The third and final paper, Innovation in Papua New Guinea Agriculture, was written by Frank Jarrett (October 1985) and concentrated on research and extension as the channels by which the sector would adopt new crops and techniques to improve productivity and output. The main problems are the inadequacy of human and financial resources devoted to research and the poor performance of the extension services.

Professor Jarrett recommended that the relative shares of public and private sector funding for research generally should reflect the distribution of benefits between consumers and the industries, except where a government contribution legitimises its right to act as the representative of smallholders. The use of public funds should be accountable, relevant and subject to efficiency criteria. More resources should be directed to research into traditional food staples. Salaries and conditions of employment for scientists should be improved and more use should be made of non-budget aid and other sources of scientists on secondment to on-going research programmes in Papua New Guinea.

The primary health care model should be used for extension services, and small Health and DPI teams should deal with areas suffering from poor nutrition. Village preferences should be an important factor in determining research and extension priorities in work on farm systems. The provincial governments should increase their commitment to agricultural development and their extension services. Extension officers' duty statements should be revised and enforced. The Extension Advisory Unit in DPI should rebuild the links between national and provincial DPI, and between research and extension.

Comment

There has been no formal policy statement in support of plantations and the Plantation Redistribution Scheme legislation remains on the books, albeit unfunded and inactive. There has been no government-sponsored survey of abandoned plantations. Two feasibility studies on rehabilitation of consolidated holdings have been conducted by commercial companies. The second received widespread support; the first met with a mixed reaction from politicians and is still fraught with land disputes and attempts at political intervention. Considerable political rhetoric is expended on the colonial practices of plantations and their exploitation of Papua New Guineans, although a few politicians have been actively supportive of plantation developments.

There is still no coherent sectoral policy for agriculture and the anticipated agriculture White Paper has not materialised. Government statements on the importance of the sector have blossomed and budget funding for national DPI has been increased although it is dependent on improved project proposals. The government's contribution to the crop research institutes was lower than expected in the 1987 budget and raised concerns about the government's commitment.

DPI has been reorganised many times, but is continuing its efforts to implement the Agricultural Support Services Project (World Bank) and other measures designed to improve its services to the agriculture sector. The government's mentality seems to be changing, from one which saw progress as DPI producing more, to one which places emphasis on DPI providing the means for other people to produce more. However, it is not clear how an increased budget will contribute to the latter objective. Some aspects of the coffee rust campaign included a concentration of resources on assisting smallholders, but many projects remain predicated on a consolidation of smallholdings into larger units. Political controls on the Agriculture Bank continue the practice of subsidised lending, but the Smallholder Agricultural Development Programme, with its massive subsidies, has not been funded.*

The government has been slow to reduce its research efforts which duplicate the industries' programmes. Improvements to the extension services and to the links between the national and provincial areas of responsibility are being made, but any progress would have to be gradual because of the size and complexity of the problems.

*Editor's Note: The 1988 budget provided for K60 million to be spent by the Department of Agriculture and Livestock (previously DPI) and the Agriculture Bank on smallholder projects.

Chapter 3

EVALUATION OF ACHIEVEMENTS AND THE POLICY ENVIRONMENT

The I.N.A. aims to foster development of the national economy. Most reasonable people in Papua New Guinea are pursuing this objective. Where progress has been achieved, it is rarely possible to isolate the contributions made by individual elements. I.N.A. authors spend many hours discussing their topics with interested parties; ideas flow in both directions. Professor Reddaway claimed that his approach was to steal other people's ideas and present them as his own. If the I.N.A.'s recommendations coincide with improved policies, it would be niggling to try to apportion credit.

A problem facing any agency endeavouring to contribute to policy reform in Papua New Guinea is the lack of public awareness and pressure groups representing broad areas of public interest. There is no consumer lobby so debate on protection will be one-sided. There is no lobby for the unemployed so debate on wages and investment policies will be biased. The I.N.A.'s independence and pursuit of the national interest help it to argue for all sides, thus filling a gap in society. But it does not enjoy broad popular support and political influence. The taint of erudition limits its public.

In its narrowest form, the I.N.A. objective is to contribute to public debate. In this it has been indubitably successful. The I.N.A. has provided a means for the business community to obtain an independent and expert view on the issues which concern it. The business community is enabled to present a more rigorous argument and given a channel through which to present it. On the other side, the government publicised its policies in early issues of the Speech Series and still argues its position at I.N.A. seminars.

Data research undertaken by or for the I.N.A. has provided policy advisors with better information upon which to base their recommendations. Published documents provide a store of knowledge about the various issues and theoretical principles on which policy must be formulated. This store is available to advisors and decision-makers alike. The public seminars perform a multiple role of education, exchange of views between the various groups in the economy and the opportunity for personal contact between the groups. Authors stimulate analysis and debate during preparation of their papers.

The extent to which this has fostered development of the national economy may have been affected more by the way in which public debate and knowledge are reflected in government policy rather than by the way in which the I.N.A. has improved public debate. Often it seems that the I.N.A. is the <u>only</u> forum for public debate on matters of economic policy. The main problem is whether the decision-makers are listening.

It is helpful to understand the decision-making process within the government system before considering the I.N.A.'s contribution.

Decision-making in Papua New Guinea

Most major policy decisions in Papua New Guinea are made at the ministerial level. Some decisions are taken by individual ministers as authorised by legislation, or by the ministers jointly in the National Executive Council. Decisions sometimes require parliamentary approval for legislation or a change to aggregate expenditure, but ministers generally represent a parliamentary majority and can hope to have their decisions ratified. Some policy decisions are within the powers of senior public servants. Where policies are not clearly defined, the actions of public servants create an implicit policy.

Most ministers take advice from their personal staff, their political advisers, or their departments. Many ministers have an outside "guru" upon whom they rely. In some portfolios or on some topics, ministers depend heavily on their departments, especially on technical matters (including macroeconomics). Policy decisions, therefore, can evolve from an individual's idea, sectional interest, constituency concerns, or through the laborious processes of bureaucracy.

A major ministerial decision is the most visible form of policy-making. Yet taking a decision does not necessarily mean that anything has been achieved or that anything will be achieved. Often it is seen as an end in itself. Words like "streamline" or "improve" figure frequently. Unless the decision stipulates that a certain action must be taken by a certain person by a certain time, all of which being feasible and giving effect to the decision, there may be no visible results let alone the desirable effects that the decision was intended to achieve.

Many I.N.A. authors have commented on the excessive bureaucratic burden and the shortage of competent administrators. It takes time, effort, skill and motivation to implement a decision, and the lack of any one of these can be fatal. The lag between influence, decision, implementation and effect is considerable. The I.N.A. has had a substantial impact on government decisions which simply have not filtered through yet. In this context, it is more astounding how much influence the I.N.A. has had.

Brian Brogan pointed out the growing mistrust and estrangement between politicians and the bureaucracy and the pressures on politicians to seek rapid personal and constituency gain during their tenure in office. There has been a growing tendency for decisions to be taken at the political level without reference to bureaucratic advice or ability to implement. The process of government has become increasingly politicised. The recent general election has seen the loss of several senior politicians renowned for their concern with the longer-term national interest and development.

Policies which foster development need to be well designed and carefully considered and to incorporate the views of those who will have to implement them, both within the bureaucracy and the community at large. Such policies tend to be adaptive and achieve their objectives only gradually. They do not bestow instant kudos on their perpetrators. They do not seem to be much in vogue in contemporary Papua New Guinea.

The bureaucratic chain in policy divisions throughout the government is the line between the head of the department through a deputy or first assistant secretary to the assistant secretary and branch level which comprises the action officers. Some ministers seek advice only from the head of the department; others discuss issues with the action officer.

Most action officers have a substantial workload processing the numerous pieces of paper characteristic of a bureaucracy. Many I.N.A. authors have commented that while a policy appears to exist it is not clearly stated or publicised. The bureaucrats must work within this deficiency, performing in the context of a presumed policy. Too often there is insufficient time to even consider which policies are reflected in a particular response or task. Alligators and swamps spring to mind.

More experienced officers can keep in mind the general principles and work implicitly within them. Inexperienced officers focus narrowly on the task in hand and cannot always perceive the policy underlying it. Professor Reddaway may have been correct in stating that implementation was neglected because devising new policy was more glamorous. However, rarely does a hard-working officer have the leisure to formulate and pursue a major policy revision.

I.N.A. Discussion Papers and seminars provide a useful synthesis and reminder of the broader perspective, but economics is not an exact science and even I.N.A. authors sometimes disagree on the appropriate remedial policy. Any conflicting recommendations and objectives have to be evaluated. Policy-makers have non-economic objectives which must be considered. An author may propose a coherent package of reforms but the system may be unable to introduce so many changes at one time.

Some policy or administrative changes are within the bureaucrats' powers and they are able to introduce some measures which a politician would be reluctant to impose on voters. These measures lack the immediate visibility of political decisions but often have more real impact. The manner of bureaucratic implementation of policy decisions can have more impact than the policy decision itself. A very large number of the specific recommendations made by I.N.A. authors have actually been achieved, piece by piece, many without any formal change in policy.

Fiscal policy has been moving slowly but inexorably towards the reforms proposed by the I.N.A. authors in the seven years since Professor Neild's analysis was published. Some bureaucrats have become aware of the links between government and the private sector as a result of I.N.A. seminars, in itself an achievement because present economics education at the University of Papua New Guinea seems to pursue a different ideology.

Least visibly, bureaucrats have argued strongly and successfully against policy initiatives, often calling on outside authorities such as the I.N.A. publications to support their position.

There have been gradual improvements in many policies and procedures during the past twelve years. A surprising number of them are consistent with small suggestions made in I.N.A. Discussion Papers. Many of the sweeping reforms suggested by I.N.A. authors have not been introduced. While gradual improvements may not be sufficient in some cases such as land, incremental change often is more easily absorbed. The authors' suggestions have provided the direction and framework.

"The government" is not one indivisible mass of likeminded bureaucrats, as Professor Whalley noticed when investigating the practices of the Tariff Advisory Committee. Different individuals and departments espouse different ideologies. The force of a single personality can sway the outcome of a meeting or debate. If a department is powerful and has the support of a strong minister it can dominate the policy-making process.

The I.N.A. often addresses topics of broad economic significance rather than strictly sectoral matters within the purview of a single department. The consolidated Department of Finance and Planning is the only department of government which likewise has cross-sectoral interests. The department has enjoyed periods where its authority was undisputed.

Sectoral specialists in line agencies have a greater tendency to pursue objectives for their sectors with no regard for the impacts on the economy as a whole. The Department of Trade and Industry, for example, has taken steps to promote manufacturing industry which impose tremendous costs elsewhere in the economy. The I.N.A.'s influence will depend on which agency is in the ascendancy unless it can awaken an increased awareness of the bigger picture.

The policy climate

The most interesting observation which emerges from reading all the I.N.A. Discussion Papers in one concentrated session is the presence of common themes identified by different authors evaluating different subjects in different ways. Recommendations made on different topics overlap and are mutually supportive. If there is any truth in economics this would indicate that these common measures may indeed be necessary for sound economic development. Recommendations on land policy, investment and trade policy support each other and the recommendations on taxation.

It is not a coincidence that the taxation papers are the crux of the I.N.A.'s total contribution. The government is the dominant force and largest sector in the economy. Its annual budget is well over one-third of GDP. It influences all aspects of the economy through the pattern and extent of the taxes it collects and through its expenditures. The taxes collected influence the government's level of expenditure. Fiscal policy is the major macroeconomic tool of the Papua New Guinea government. The tax regime influences the climate for private investment. The level of private investment influences the government's tax revenue.

The other common thread is the extent of government non-tax intervention in the economy and the amount it tries to do with very limited manpower resources. In every sector and on every issue, there are government regulations requiring discretionary consideration and prior approvals. The public service's inability to handle the workload - both quantity and quality - causes frustrations and delays which impede and discourage private investment. In many cases, the government's intervention has no real effect other than to impose costs on economic activity.

Professor Lim argued that an abundance of "unearned" revenue encouraged a lack of discipline in government spending and internal revenue raising. Some policy decisions seem to pay little regard to the realities of the economy. A very large portion of internal revenue is raised from foreigners. Australian aid still accounts for 20 per cent of government revenue. The government is not dependent on revenues collected from voters. Small wonder that government money is considered a free good by most Papua New Guineans, because it seems to cost them almost nothing.

Taken together, the recommendations made by I.N.A. authors are a package of hard decisions. As long as there are minerals revenues and the anticipation of minerals revenues, and Papua New Guineans are not bearing much of the cost of bad policies, there is little incentive for taking hard decisions. Sound economic management is not seen as a necessity. Non-minerals sectors are neglected. The 1987 budget depends entirely on very rapid economic growth from minerals exploration and mine development expenditure. Protracted negotiations with Placer and Niugini Mining essentially only reapportion the return to Papua New Guinea rather than increasing that return, but endanger future projects and, hence, the development programme.

Many of the problems identified by authors during the past ten years still exist. The constituency pressures on politicians and the apparent lack of political will to introduce (unpopular) long-term measures in the national interest were commented upon by Brian Brogan. Implicit in much economic analysis is the concept of social net benefit - the national interest expressed in less political terms. The concept of social costs and benefits seems implicit in the village environment in Papua New Guinea but the fragmentation of society prevents the concept being extended beyond the wantok circle.

Given the realities of human nature and self-interest, it is too much to expect politicians with narrow popular support to strive for a national utopia not found in any country. This does not imply that the I.N.A. should cease to try to move the country's policy in the right direction. It suggests that the I.N.A. and its sponsors should not expect perfection. The theory of economics allows for sub-optimal solutions.

The target audience

Government representatives have shown reluctance to continue the National Development Forum. Attendance at I.N.A. seminars by senior politicians has diminished since the early days. Department heads and deputy secretaries sometimes make an appearance. First assistant secretaries and below usually are well represented. In general, full-length consultant reports and studies rarely are read by senior public servants and politicians, even when specifically commissioned. The more general the topic (such as "policy"), the less likely it would be to receive early attention. Even specific documents rarely were read by people above the assistant secretary, and expatriates were more likely than nationals to read a paper which was not directly related to their current tasks. Reading the bibliographies in most consultant studies leaves the impression that the main audience for research studies is subsequent consultants.

Chris Mackay remarked that nationals tended to see their academic qualifications as an end in themselves rather than simply the tools with which to learn. This is borne out by the small amount of technical reading done by many nationals once they have left university, either during working hours or outside. There are exceptions but, generally, erudite discussion papers would be read by junior officers only if they had been instructed to do so; by senior officers only if summarised and brought specifically to their attention in relation to a topical problem. Circulating one copy of a lengthy document could take months.

Trivial as it may sound, the length and erudition of many I.N.A. publications actually works against them. Few Discussion Papers include an executive summary. Most summaries tend to focus only on the recommendations. Since most of the authors are expatriate, recommendations taken out of context can appear to be instruction by "so-called expatriate experts" and can alienate rather than enlighten. Many people dislike engaging in discussions with experts who appear to know all the answers and may not read something which they fear may be over their heads.

Throughout I.N.A. publications until very recently were references to the idealistic and inexperienced (albeit qualified) expatriate advisors in influential positions in government. In some I.N.A. statements, the business community's contempt has been quite explicit. This could only alienate the people whom the I.N.A. should have hoped to influence. Such an attitude will be intolerable as more of the positions are localised. The inexperienced expatriates are being replaced by inexperienced nationals who are less likely to read or initiate a debate with expatriate businessmen or visiting experts.

Authors, quality and style of published documents

The authors of L.N.A. Discussion Papers generally are acknowledged experts in their fields, either academics or specialist consultants. Some have a long association with Papua New Guinea or undertake extensive research as part of their study, but most visit for only a short period and apply principles and their expertise to the situation they perceive. Despite their unfamiliarity with conditions in the country, the large majority succeed in making appropriate comments and recommendations. Very few suggest solutions which "old-timers" would consider quite unworkable in the Papua New Guinea context. This is due largely to the close association between the authors and the L.N.A. director, and to the pre-publication review.

For the most part, the quality of argument, presentation and proposal is extremely good. Most documents are concise and readable even if technical. A small number of discussion papers have deviated from the usually high standard. These rare exceptions are hard to avoid without greatly increasing the time and effort involved in editing. Distribution of a well-written summary would overcome shortcomings in the main text. Those who make a practice of reading long documents will tolerate inadequacies in style and are likely to detect deficiencies in the substance. Most others will read only the summary in any case.

The Speech Series and Working Papers generally are shorter and less technical but seem to rely more heavily on opinions (however well-informed) than on research and expert analysis into the specific situation in Papua New Guinea. They have an advantage in being brief, easily read, and quicker to prepare and publish so that they can be more topical than the discussion papers which have quite long lead times.

Terry Pitt mentioned frequently that L.N.A. research did not seek to provide definitive solutions. Some authors have erred too far in that direction by confining themselves to identifying the problems and exhorting that something be done. There is widespread cynicism about consultants who recommend further use of consultants. In some cases, L.N.A. authors have insufficient time to do much more than identify and analyse problems. The most useful papers specify which policy instruments could be changed, and in which direction, to effect a solution.

Topicality

As mentioned above, technical studies rarely are read by senior policy-makers even when they have been specifically commissioned to address a current problem or issue. The L.N.A. has tended to pursue an initiatory rather than reactive role, thus reducing the likelihood of its publications receiving wide attention. There have been some notable exceptions.

The L.N.A. series on taxation policy began in early 1980 with the paper by Professor Neild. Papua New Guinea was embarking on a period of low commodity prices and economic recession and increasing revenue needs were being met more and more inadequately by increasing the levies on the existing tax base. The issue was ripe for public debate. The L.N.A. papers have had a significant influence on tax reform even if the lag sometimes has been long.

The L.N.A. study on prices policy was precipitated by the government's proposed policy amendment. The discussion paper added weight to the outcry from the business community. It formed part of the public debate including a seminar attended by Barry Holloway. An impractical and counter-productive policy amendment was not introduced. The L.N.A.'s objectives were achieved.

More recently, the I.N.A.'s contribution to public policy obtained widespread prominence. Publication of the Clifford Report on Law and Order coincided with the government's need to take urgent action to combat lawlessness. Many of the Clifford Report's recommendations were included in the government's plan of action.

The I.N.A. documents which have had the most visible reaction are those which coincided with other pressures on the government to take action. Terry Pitt felt that the government's response to the taxation papers demonstrated the benefits of a continuing programme of study. It may be that the timing of Professor Neild's paper alone was sufficient (although that would do him an injustice), or that a continuing programme increases the probability of the subject being topical at some stage. If there is no public interest or policy debate a publication alone will not be sufficient to generate it.

Politicians are making frequent announcements about the importance of the private sector although this has been little more than lip service so far. As the government becomes more aware of its limitations and needs, it should become increasingly eager for dialogue.

Chapter 4

PROPOSALS FOR THE FUTURE

The I.N.A. could do much worse than continue with the approach which it has followed with such success during the past twelve years. Even without its substantial, pervasive effect on policy, it has performed a major task of education. The I.N.A. Council's recent decision to pursue the same formula but to concentrate more on layman understanding and following up the research seems appropriate. Some suggestions for implementing the decision are made below. They place a considerable burden on the permanent staff of the I.N.A. and make it vital that a suitable director is incumbent.

Channel of influence

There is no easy solution to the increasing isolation of most politicians unless they take the initiative. Short of direct contacts with receptive ministers themselves, the best channel for the I.N.A.'s influence would be through the public servants who provide advice and implement policies.

While it serves the immediate purpose to aim as high up the chain of decision-makers as possible, often it is more junior officers who will be more receptive. The influence will filter through into policy briefs and become more pronounced as the individuals work their way up the chain. A long term view is quite appropriate in dealing with economic development.

The I.N.A. director should know the officers involved in the policy areas (there are really very few people doing most of the work). This applies particularly to younger national officers. The I.N.A. will not always be fortunate enough to have an avuncular former professor from the university who is already acquainted with most of its economics graduates. If the young expatriates had few avenues for gaining experience, the young nationals may be in a worse position. The action officers for relevant issues should be included on the mailing list for notices of seminars and distribution of shorter publications.

The format

The I.N.A.'s two main avenues have been publication of discussion papers, working papers and speech series pamphlets and public meetings and seminars. Brian Brogan also provided opinions in the press on government initiatives (including the budget) and participated in other public fora. This style is difficult to improve upon but there are some possible modifications.

The Discussion Papers are substantial undertakings and provide a valuable contribution but are not always easily digestible. They entail considerable work and expense for the permanent staff. In order to maintain a manageable workload and budget, it may be useful to limit the discussion papers to perhaps two each year. If they have time, authors should be requested to summarise their findings and how those lead to the recommendations made. In other cases, the I.N.A. director should prepare such a summary, to be written in terms comprehensible to the layman. Brian Brogan's forewords to the discussion papers were a big step in this direction and he was less prone than his predecessors to exhibit the personal biases which the I.N.A. intended to avoid.

A good summary could be distributed independently of (and more widely than) the discussion papers themselves and could be abridged or serialised for publication in the press. Letters and opinions in the newspapers are extremely powerful influences on politicians in Papua New Guinea. A regular column by the I.N.A. could be useful. It could draw on topical comment by the director, recent publications, or extracts from past publications which have topical relevance. Few people still consult any but the most recent publications, partly because they are not aware of them. Much good work has been buried or lost over the years, especially with a rapid staff turnover.

Future terms of reference should encourage authors to propose, if not definitive, at least plausible, fairly detailed, remedial measures so that policy-makers and advisors have something tangible to consider. Overworked bureaucrats frequently wish that work had been done or was being done on a particular issue, but have few resources to devote to commissioning targeted studies. The I.N.A. relieves some of the burden by itself selecting topics of concern and undertaking the work. It can be most productive if it yields something concrete.

I.N.A. reports receive greater attention if they appear when the subject is topical. The long lead times necessary for major authors and reports make it impossible to time their publication to coincide with public interest in a topic unless publication can be used as a catalyst to raise public concern. The business community does not have a large popular base and will have to rely on devious tactics. Without encouraging sensationalism, some of the authors' most disturbing conclusions, judiciously presented, might be publicised in the media to arouse public awareness and provoke action by the politicians. However, this should not be used if it jeopardises the I.N.A.'s reputation for excellence and independence.

The Working Papers and Speech Series have been useful in providing short discourses on topical problems. If possible, these should be publicised more widely than has been the case. Publication in the media might be suitable in serialised or abridged form.

The public meetings have been most productive in enhancing awareness and stimulating informed debate. Many junior officers attend such occasions and the reaction is encouraging. Few young national officers have spoken in public and the occasions may strike them as awesome. While the major seminars should be continued, especially to launch the discussion papers, they might be supplemented by more frequent, less formal occasions more akin to workshops.

The speaker or moderator could be the I.N.A. director or a member of the business community willing to devote some time. Papua New Guinea suffers a continuous stream of missions and teams from international agencies, most of whom complain that they rarely deal with national officers. They could be invited to speak to an informal group. The audience could be drawn from government action officers and junior managers. Workshops could be scheduled to follow each major seminar to thrash out the issues raised.

The Department of Finance and Planning recently initiated an economic policy forum comprising economists from within the government taking turns to present a topic. It is not known whether the forum is continuing but it may be a useful starting point for informal seminars by the I.N.A. The meetings were very popular with junior action officers.

On a logistic point, many nationals would not attend a seminar outside working hours, and many could not attend during working hours. Some overlap with the lunch break might be a suitable time. A priority task for the L.N.A. might be to find a suitably located, inexpensive meeting place and a source of cheap sandwiches. It is quite possible that a government office could be used if an L.N.A. contributor cannot donate a venue.

Continued contact with the university would be essential. In addition to the usual distribution of publications and invitations to seminars, the use of students as research helpers could be considered. Visiting authors might be persuaded to address a class.

While the L.N.A.'s efforts should continue to centre around the major research papers, more emphasis should be given to bringing the issues to the public's attention and raising their awareness through the media. A two-pronged approach through the policy advisors and through the politicians' constituents may encourage better decision-making.

Subjects for future work

The L.N.A.'s constituency covers all sectors of the business community and its objective addresses the entire policy framework. If the work programme is constrained by time and budget, it would seem appropriate to concentrate on the broad issues which are not being addressed by sectoral interest groups or specialist agencies in the government. Considerable work is being done within line departments and by consultants on specific topics. What is lacking is the broader view of the interactions in the economy.

Sectoral topics such as coastal shipping, fisheries and privatisation are the subject of many studies by many agencies and have little relevance to most parts of the business community. With its past record of attracting eminent authors with extensive experience, the L.N.A. would serve a more useful role in studying the general topics of broader interest.

Many of the L.N.A. authors, during a relatively brief acquaintance with Papua New Guinea, have formulated their analysis and recommendations within the context of the Eight Aims and National Development Goals especially when other policy objectives are not clearly stated.[1] Yet these national objectives are inconsistent in some respects, and many government policies and decisions do not promote their achievement. A future major paper could address the relevance of the objectives and suggest packages of policies or approaches which would promote their achievement. Problems may arise where the aims are internally inconsistent, and where it is obvious that present policies conflict. It may be difficult to find an author with suitable expertise. The nation has progressed and changed and it would be worth re-examining its direction.

Clear themes emerged from the work already done by the L.N.A. Public administration shortcomings and excessive government intervention were identified in almost all papers. It would be useful to pursue these topics. The investment climate needs a comprehensive review. The topics addressed by the Government Regulations Advisory Committee (foreign investment, employment of non-citizens and land administration) are still relevant, as well as town planning, environment and conservation and other regulations which face all investors. There is still a need to broaden the tax base and implement other tax reforms.

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1. The Eight Aims and five National Development Goals are listed in the appendices.

One issue of particular concern is the government's policy towards resource depletion. Papua New Guinea is endowed with mineral and forestry resources which represent a stock of non-renewable assets. Yet the forests are being depleted with little regard for future generations and the long-term stream of benefits. The immediate need for revenue is forcing the government to hasten minerals exploitation. Little thought has been given to the options and implications for long-term management of the exchange rate and money supply if substantial revenue is generated by gold and oil development, and to the repercussions on other sectors of the economy. As soon as the I.N.A. timetable permits, a major paper on national asset management should be commissioned because it is the major factor influencing long-term development of the economy.*

*Editor's Note: In collaboration with the National Centre for Development Studies at The Australian National University, the I.N.A. has embarked on this task, for completion in September 1989.

APPENDIX A

BRIEF SUMMARIES OF I.N.A. DISCUSSION PAPERS NUMBERS 1 - 28

NOTE: The summaries attempt to capture the essence of the authors' findings and arguments. Views expressed are those of the authors of the Discussion Papers. Any omissions or misrepresentations are regretted.

FOREIGN INVESTMENT POLICY
John Wylie
Discussion Paper No. 1 : August 1977

Subject and approach: Foreign investment policy is evaluated from the premise that such investment can be beneficial to Papua New Guinea, and recommendations are made on how the policy can be developed and implemented to promote desirable investment.

Situation: Foreign capital flows in Papua New Guinea were favourable until substantial disinvestment took place in the years preceding Independence. About 40 per cent of imports and 65 per cent of exports are attributable to foreign investment, indicating a net foreign exchange gain. More than half of the profits earned by companies in Papua New Guinea in the past ten years has been reinvested in the country. Policy towards foreign investment in extractive industries and agriculture has been defined, but policy on manufacturing and service industries is yet to be formulated.

Major issues:
- foreign investment policy
- investment incentives
- public administration.

Major problems:
- uncertainty in the investment climate
- lack of guidelines and aggressive performance by NIDA
- lack of domestic capital and expertise.

Conclusions and recommendations: Foreign investment has provided development benefits to Papua New Guinea and permits a more rapid rate of development than is possible with only domestic resources. A degree of government control is both necessary and inevitable to ensure that resources are not exploited. Papua New Guinea has made progress towards defining its foreign investment policies and establishing the mechanism for implementing them, but there is a need for reappraisal and consolidation. Policy must be flexible to accommodate changing conditions but be essentially stable. It must balance the national interest with maintaining an attractive investment climate.

Papua New Guinea's sound economic management and foreign investment policy help improve the investment climate. A reduction of bureaucratic obstacles and improvement of safeguards for foreign investors are needed. Incentives incur direct costs to the economy and are justifiable only if they generate offsetting benefits and attract investment which would not have taken place otherwise. The most efficient incentive is a direct subsidy. Any incentive should be limited to the early years of a project, and should be granted only if it permits an unviable company to reach profitable maturity. Care must be taken to ensure that incentives do not attract inefficient industries.

In the absence of a definition of the national interest and clarification of investment guidelines, NIDA should develop a set of criteria by which investment proposals are appraised. Exactment of concessions should not be excessive, and should be related to the potential profitability of the investment. The benefits from insistence on national equity participation are debatable because it rarely increases effective national control of the economy while depleting the domestic resources available for national enterprises.

The National Investment Priorities Schedule approach should be discarded and replaced with a listing of activities reserved for nationals and factual market data and feasibility studies for priority activities. NIDA appraisal should be limited to large companies. All functions relating to foreign investment should be consolidated within one agency to avoid duplication.

THE STRUCTURE AND ADEQUACY OF THE FINANCIAL INSTITUTIONS IN PAPUA NEW GUINEA
Allan Brown
Discussion Paper No. 2 : February 1978

Subject and approach: The effectiveness of the financial sector in Papua New Guinea is evaluated based on a descriptive analysis of the financial institutions and a summary of the government's monetary policy, combined with a survey of relevant agents. Gaps in the financial sector are identified and suggestions made for dealing with them.

Situation: The Bank of Papua New Guinea was established under the Central Banking Act (1973) with the full range of central banking powers including control of the money supply, international reserves, the exchange rate and gold dealings. The Bank regulates the commercial banking system. There are four commercial banks with assets totalling about K350 million, of which deposits account for K280 million. The system has substantial excess liquidity. The Papua New Guinea Development Bank provides finance primarily to nationals for development projects.

Major issues:
- monetary policy and the financial markets.

Major problems:
- lack of long-term finance
- inadequate market for securities.

Conclusions and recommendations: The commercial banks in Papua New Guinea have excess liquidity at current interest rates, despite relatively low interest rates on deposits, but largely in the form of short-term deposits. The level of deposits is subject to seasonal variations and cyclical fluctuations, making the banks reluctant to lend for longer terms. The longer term loans formerly available from the Development Bank have been curtailed by restrictions on lending to non-nationals. The issue of Treasury Bills to commercial banks is limited, and the government has been borrowing off-shore despite surplus funds in the domestic system. There are restrictions on off-shore investments by permanent residents and companies, and on the off-shore dealings of the commercial banks. Control of liquidity through interest rate manipulations has proved unpredictable.

Commercial banks' lending policies are perceived as conservative, particularly with regard to security requirements and the loan term. Increasing the number of banks operating in Papua New Guinea will increase competition and help alleviate the situation. The availability of unsecured term deposits at attractive rates with the finance companies is not widely known. The proposed new finance company should consider addressing the unmet demand for longer term, higher value equipment financing. The proposals to require insurance of local risks with Papua New Guinean insurance companies and the requirement for insurance companies to place all investments in Papua New Guinea will increase the portion of their income remaining in the country and help increase the supply of longer term deposits. Provided adequate control can be retained by the central government, provincial governments and statutory authorities should be permitted to raise medium-term debt from the public. It is premature for establishment of a merchant bank or stock exchange in Papua New Guinea.

The Bank of Papua New Guinea should evaluate the possibility of allowing commercial banks to provide forward foreign exchange cover for imports. The potential conflict between the Investment Corporation's profitability and the provision of finance for new development should be made explicit. Government control of liquidity would be increased if part of the MRSF balance were held with the commercial banks. Savings and loans societies should consider raising their interest rates on loans for purchase and repair of motor vehicles. Greater branch autonomy within the commercial banks would reduce uncertainty and delays in borrowing.

PRICE SURVEILLANCE : A POLICY APPRAISAL
Terry Pitt
Discussion Paper No. 3 : August 1979

Subject and approach: The government's proposals for revising prices policy are examined in the context of economic theory, the state of the Papua New Guinean economy, the feasibility of implementing the proposals, and experience in other countries. Suggestions are made for a more effective policy.

Situation: Papua New Guinea has experienced a relatively low trend of inflation at about 5 per cent per year. The prices of some staple goods have fallen in the past twelve months. Private capital investment appears to have recovered from its low levels around Independence, but a large proportion is in the export sectors and returns on investment have been low. Existing economic policy aims to achieve a modest increase in real public expenditure, income stabilisation, maintenance of a strong currency, redistribution of income towards the rural sector, and selection of foreign investment to maximise domestic income and government revenue.

Major issues:
- prices policy
- public administration
- investment climate.

Major problems:
- shortage of skilled manpower to implement proposed surveillance
- fragile investment climate
- practical accounting problems entailed in the proposed surveillance
- CPI is inadequate as a regulator.

Conclusions and recommendations: Papua New Guinea needs a prices policy but has not yet determined whether the country's inflation is caused by excessive margins and profits (which could be addressed through taxation) or by demand factors (which would need control of the indexation effect of wages). The proposals for price surveillance may be broadly sound but there is too much confusion between the elements proposed and implementation would raise enormous technical problems. Papua New Guinea lacks the manpower resources to implement and administer such a widespread policy and it would place onerous demands on accounting staff in the public and private sectors.

For macroeconomic policy purposes, it would be more efficient to tackle the prices of strategically important items in the CPI, concentrating bureaucratic powers and resources on these items. The recent revision to the CPI increases its relevance, but the CPI remains inherently deficient as a regulatory tool for fixing wages. The CPI should be revised at regular intervals. There should be more government emphasis on training manpower to administer the policy. Accounting guidelines should be prepared to limit the areas for bureaucratic discretion in any price justification programme.

The present policy proposals seem to shift the emphasis from controlling inflation through prices towards controlling profitability. This would discourage investment. The proposed Annual Merchandising Return will not provide the information required for price monitoring. The government should clarify its competition policy. "Least-cost-source" purchasing is not always good economic policy. Import parity pricing requires further definition. Consumer education should be strengthened, preferably through encouragement of an independent consumer organisation.

TAX POLICY IN PAPUA NEW GUINEA
Robert Neild
Discussion Paper No. 4 : January 1980

Subject and approach: Tax policy problems in Papua New Guinea are examined using basic economic principles combined with statistical evidence to determine the system's incidence and buoyancy, potential simplifications, applicability to the informal sector, potential for suitable revenue increases and whether there are solutions to fiscal federalism.

Situation: Tax revenues rely heavily on expatriates although there has been a gradual reduction in their numbers and a strong emphasis on developing the informal sector which remains largely untaxed. Some tax functions have been decentralised. The ratio of public expenditure to GDP is high (40 per cent) but the tax ratio is low. Australian aid finances a large part of government expenditure. The major gains in revenue relative to GDP have come from sharp increases in personal income tax.

Major issues:

- appropriateness of the fiscal system
- revenue generation potential
- fiscal cohesion between expenditure and taxation.

Major problems:

- staffing of the tax authorities
- difficulties in defining income and taxable units
- small tax base, heavy dependence on a declining number of expatriates and growth of "untaxable" informal sector
- declining Australian aid
- unsuitable tax powers allocated to provinces.

Conclusions and recommendations: Available data are insufficient to determine the incidence of the present tax system. The revenue generating potential of the system could be offset by the declining number of expatriates and relative growth of the informal sector. The direct tax system could be simplified by establishing the pay period (fortnight) as the tax period, eliminating the need for most year-end returns, combined with broader use of withholding taxes. Reduced workload and increased staffing at the Taxation Office are the most pressing needs. Progressive direct taxation of the informal sector depends on identifying taxable units. The use of voluntary taxation with matching grants, or empowering provincial governments to levy asset taxes would be productive.

Future revenue needs can best be met through expenditure taxes (although there would be an impact on wage demands) and export taxes (although any potential disincentive effect should be investigated). The financial provisions of the Organic Law should be reviewed. A National Taxation Plan should be developed and related to the National Public Expenditure Plan.

PROBLEMS OF TAX REFORM
Russell Mathews
Discussion Paper No. 5 : July 1980

Subject and approach: General tax issues and the problems of tax reform in Papua New Guinea are examined by drawing on the experience of other newly-independent Pacific countries and Australia.

Situation: Income and profit taxes levied on the very small formal sector accounted for 56 per cent of all tax revenue in 1976/77, but the ratio of total taxes to GDP is low. Only a small portion of national income is levied in taxes. Declining Australian aid and relative growth of the informal sector impose pressure for tax reform.

Major issues:

- appropriateness of the tax system.

Major problems:

- the Australian tax system is inappropriate for a developing country
- excessive concern with distribution and little emphasis on growth
- small tax base means that revenues do not rise with economic growth.

Conclusions and recommendations: In developing countries where income levels are low the tax burden should be spread as widely as possible and rates should be set as low as possible. Distributional objectives should be secondary to growth. A proportional personal income tax combined with proportional cash flow corporate taxes would provide growth incentives, be easy to administer and promote more widespread use of withholding taxes. Export taxes and production taxes would be suitable methods of taxing the informal sector, combined with user charges for services. A broad-based consumption tax would be desirable but may be difficult to administer.

LAND POLICY AND ECONOMIC DEVELOPMENT IN PAPUA NEW GUINEA
Jack Knetsch and Michael Trebilcock
Discussion Paper No. 6 : April 1981

Subject and approach: Examination of existing policies and practices leads to proposed measures which might make land policy more effective in achieving national development goals, bearing in mind the scarce administrative resources.

Situation: Papua New Guinea is well-endowed with land. Approximately 97 per cent of the total land area is still held by customary owners; most of the remainder is owned by the government. Government leases land to potential developers usually on a 99-year lease. There is no written history or record of land rights. Land occupies a special role in Papua New Guinean society extending beyond its role as a factor of production.

Major issues:

- alienability and security of land rights
- public administration of land.

Major problems:

- scarcity of administrative resources
- customary land cannot be used as collateral for development finance
- policies and practices restrict land availability
- land policies have unpredicted consequences
- high cost of obtaining land.

Conclusions and recommendations: Land policy in Papua New Guinea is sometimes in conflict with development objectives. It is essential that customary land be mobilised if development is to proceed. Serious land reform must come to terms with the alienability of land and security of title. Greater use of land as a source of money income increases the pressure for improved opportunities to utilise land. The present system of land tenure will collapse unless land policies are reformed in the near future.

The present restrictive policies make it difficult to utilise customary land, provide a disincentive to productive investment, condone inefficient land uses and create artificial land shortages which greatly increase the cost of obtaining land. Lack of secure title to land causes uncertainty which is costly and disruptive, and is an impediment to obtaining development finance. A reformed policy should permit limited direct dealings in customary land.

Full registration of title to all customary land is not essential. A binding determination of interests could be provided by a decentralised system of mediation and adjudication by building on the existing Local and District Land Court system. The system could handle existing and prospective disputes and judge the fairness of direct dealings with third parties. Decisions and proceedings should be more formalised than the present system. Government support for the system and commitment to enforcing the decisions are essential.

In all cases it will be more effective to establish basic guidelines and criteria to be followed than for the central government to be involved in every transaction. This applies particularly to transactions in leasehold land. Speculation and windfall gains could be moderated by lease allocation on the basis of price or by a conversion tax on transactions in land. Greater use should be made of the incentive effect of more open dealings. Limited administrative capacity should be recognised both in customary land dealings and in alienated land in a more rigorous ordering of government priorities throughout the land law system.

Future policies must reflect this ordering and concentrate on moving a few crucial margins in incremental ways rather than attempt pervasive but unattainable reform. A highly complex system confers advantages on the well-endowed and well-educated and is unlikely to attract widespread social consensus and support because it will be incomprehensible. Without such support it will not command the enduring public allegiance necessary for dealing with such an emotive issue.

ISSUES IN PAPUA NEW GUINEA FOREST POLICY
Alistair Fraser
Discussion Paper No. 7 : June 1981

Subject and approach: Evaluation of the forestry industry in Papua New Guinea identifies some major defects in the existing approach and suggests better management of the timber resource depletion.

Situation: Papua New Guinea is one of the few countries which still has a sizeable resource of tropical hardwoods. The commercial value is low due to species mix, poor accessibility and transfer pricing. The industry contributed approximately K43 million to GNP in 1979, accounting for 3.2 per cent of the economy but only 1.2 per cent of government revenue. Processing timber in Papua New Guinea has shown very poor results. World prices for hardwood are forecast to rise but inaccessibility of the resource will increase harvesting costs.

Major issues:

- resource conservation and management for national benefit
- Papua New Guinean ownership and participation.

Major problems:

- too rapid resource depletion reducing economic gains
- lack of reafforestation or other follow-up land use
- impossibility of verifying reported low profitability
- excessive wastage and poor recovery of timber in local processing
- limited scope for expanding domestic processing capacity.

Conclusions and recommendations: Forestry planning has focused on rate of harvest and type of activity but the returns to the country have been low. Government revenue from the sector only slightly exceeds the costs of administration. Benefits have been consistently overestimated while the social and environmental costs have been underestimated. Actual yields over the past ten years should be compared with anticipated yields. Operating surplus is lost from the economy due to inefficient operation of some mills and transfer pricing.

Careful selection and investigation of operators is important. There are numerous examples of operators ignoring their agreements with the government. Improving the efficiency of existing operators is likely to be more beneficial than initiating further, badly controlled projects. Harvest costs in Papua New Guinea are high but prices earned are only about 60 per cent of those earned by other countries. Since the government is constrained by funds, log exports guideline prices should include a levy for regeneration.

The potential demand for timber products in Asia will raise timber prices relative to most other raw materials. Current harvesting is depleting the resource without replacement and much of the timber is being used for pulp and chip. Areas being developed are the most accessible. Access costs are higher in remote areas and will exhaust the anticipated increase in prices.

Better export marketing and prices should be a high priority. The potential future value of resources requires attention. Substantial research and training in silviculture and natural forest management are required. Areas suitable for timber plantations should be logged and then planted for maximum production of high quality hardwood timber. A pre-condition of licence could be a proper survey and inventory at the operator's expense.

Projects to date have been export orientated. If processing capacity is not expanded, the high domestic price of timber will attract imports from New Zealand and Fiji. There could be a considerable market for housing units. The satisfaction of domestic demand for timber should be a high priority in forestry planning. Forestry could contribute to energy self-sufficiency. There is a need for fuelwood plantations.

The Forest Industries Council should be broadened to include landowners, provincial governments and smaller enterprises. If the government pursues a 25 per cent option, it should engage some commercial expertise to ensure an efficient operation, and for the 25 per cent to be selected in advance from inventories, possibly identifying selected species.

PUBLIC FINANCE AND TAX REFORM
Raja Chelliah
Discussion Paper No. 8 : August 1981

Subject and approach: A public seminar address suggesting principles for an appropriate taxation system based on economic theory and the experiences of other countries.

Situation: Papua New Guinea has adopted a modified version of the Australian tax system. The level of development in Papua New Guinea means that only a few taxable units exist and contribute the bulk of the government's internal revenue. Excessive taxation of a small segment of society encourages tax evasion and avoidance.

Major issues: . tax policy.

Major problems:
. inappropriate tax system for stage of development
. narrow tax base
. lack of incentives for savings and investment.

Conclusions and recommendations: Taxation policy is only part of the economic policy framework and must be related to development policy. The main objective of taxation is to provide the public sector with real resources without causing inflation and with minimal distortion of the economy (efficiency). The tax burden must be distributed as equitably as possible and can be used to reduce economic inequalities (equity).

The objectives of equity and efficiency often conflict. The balance between them is a political decision. A head tax is the most efficient form of taxation but also extremely inequitable because each individual is different but would be liable to the same tax. The taxation options available are limited by administrative feasibility. The best way to raise additional revenue is to develop the economy and capture a part of the additional income through an elastic and broad-based tax system. A developing country with low per capita income and low rates of saving and investment needs a tax system which stimulates saving and investment.

A sales tax appears to have most potential for raising revenue in Papua New Guinea. It should be imposed at the retail level if administratively possible. The sales tax should capture the market output of all sectors, including small-scale agriculture and be supplemented with a few excise duties. The highest marginal tax rate could be reduced and the threshold increased. The resulting loss in revenue could be recouped gradually by non-indexation of income tax for a period of years. A credit or rebate should be introduced for contributions to long-term savings schemes.

With a reduction of top marginal income tax rates, the company income tax could be increased but dividend payments to residents could be grossed up to reflect company income tax paid. Dividend income would then be liable to personal income tax. Dividend payments to non-residents would not be grossed-up. There will be little real change from the present system, except that it provides a small incentive to residents to invest in shares if the company tax rate is higher than the personal income tax rate.

A land tax should be levied once all land is surveyed and registered. Credits would be given for income tax paid. A flat professions tax could be levied on professions and small businesses. These taxes would be suitable revenue sources for provincial governments. Collections should be encouraged by a matching grant from the national government, weighted inversely with per capita income in the province.

PUBLIC ENTERPRISES IN PAPUA NEW GUINEA
Michael Trebilcock
Discussion Paper No. 9 : August 1982

Subject and approach: The conventional rationales for public enterprise are examined in comparison with the scale, pattern and performance of public direct investments in Papua New Guinea in an attempt to deduce the government's policy attitude. Suggestions are made for improving the performance of public enterprise towards achieving the government's objectives.

Situation: The national government holds a controlling interest in 28 of the 3 companies in which it has a direct equity interest. Approximately 22,000 people are employed full-time in these enterprises. The annual capital and operating expenditures total about K440 million. The government holds an indirect controlling interest in a further 23 companies through the Development Bank and the Investment Corporation (both wholly government-owned). Each provincial government controls a development corporation.

Major issues:
- public direct investment in commercial activity
- public enterprise as a policy tool.

Major problems:
- lack of clear rationales and objectives for public enterprises
- poor performance, guidance and accountability
- commercial performance criteria are inappropriate.

Conclusions and recommendations: There are many public enterprises in Papua New Guinea but the underlying rationale is not apparent. Without clearly stated objective their performance can be judged only in terms of profitability. The poor profit performance and the need for effective public accountability cannot be disputed. Accepting these and attempting to control them through excessive bureaucratic domination is short-sighted. In the long term, the government has no alternative but to enhance institutional capabilities.

Requiring public enterprises to act as commercial entities denies the rationale for their existence and would dictate the complete privatisation of almost all public enterprise in Papua New Guinea. Where commercial objectives are overwhelming, privatisation should be considered. The decision making process should be reformed so that the objectives underlying a decision to invest are apparent and specified. They should form the basis for a corporate plan which identifies targets against which performance can be assessed. There must be recognition of the distinct responsibilities, roles and capabilities of managements, bureaucrats and politicians.

Excessive bureaucratic interference should be avoided. The commercial component of boards should be boosted. Public accountability should be enhanced through regular reporting to parliament. Each public enterprise should be subject to periodic independent review.

FOREIGN TRADE POLICIES IN PAPUA NEW GUINEA

John Whalley

Discussion Paper No. 10 : December 1982

Subject and approach: Economic principles and the state of the economy are used to evaluate trade policies in Papua New Guinea, leading to recommendations for the future direction of trade policy and comments on key issues relating to future policy decisions. Each industry enjoying protection is examined.

Situation: Papua New Guinea is a small open economy with exports and imports each accounting for 45 to 50 per cent of GDP. The trade regime is liberal; only a small number of products are protected and there is a virtual absence of export promotion schemes. A General Import Levy (GIL) at 3.5 per cent is imposed for revenue purposes. Economic growth is stagnant or declining due to low commodity prices and worldwide recession. Macroeconomic pressures are developing from a large and growing trade deficit. Pressures for protection and diversification are increasing.

Major issues:

- trade and industrialisation policy
- non-economic factors in decision-making.

Major problems:

- trade deficit and slow economic growth despite liberal trade policy
- lack of clearly stated industrialisation policy
- mistaken understanding of trade principles
- emphasis on diversification as an indicator of development
- investment environment which encourages rent-seeking behaviour
- Tariff Advisory Committee staffing and procedures.

Conclusions and recommendations: Diversification is not a measure of development. Protectionism leads to inefficiency and hinders growth. Increased growth from trade reduces dependence on aid and foreign transfers. Gains from trade mean that comparative advantage should underly all investment and policy decisions. Free enterprise is better qualified than government to make such decisions.

An open economy will be better off than a closed one, and a small economy like Papua New Guinea has nothing to gain from restricting trade. Internal policy-induced distortion could justify protection, but only if it is relative and not economy-wide. Eliminating distortions is preferable to counteracting them with protection. The infant industry, argument of potential externalities should not be confused with the problem of high start-up costs. The benefits from dumping should be allowed to accrue to the economy. Export incentives are distortionary.

More informed debate is needed on trade policy options and priorities. Import replacement policy is being discussed in a vacuum. Tariffs generally are not effective tools for income redistribution. Macroeconomic policies need to be examined both for measures to reduce the trade deficit and for their distributional impacts. Devaluation or floating the kina would be preferable to import controls or widespread protection.

If protection is accepted as a part of trade policy, tariffs are preferred over quotas and other controls. The Tariff Advisory Committee needs to be strengthened and supported with full-time staff to conduct in-depth analyses.

URBAN HOUSING IN PAPUA NEW GUINEA

Benjamin Higgins & Vinod Kumar

Discussion Paper No. 11 : February 1983

Subject and approach: Extensive interviews and analysis of available material on urban housing in Papua New Guinea provide the basis for describing the housing problem and some suggested areas for improvement.

Situation: Urban growth has been rapid in Papua New Guinea even though town size remains small. The configuration of the economy encourages the growth of urban areas where very few residents can afford satisfactory housing from their own incomes and where the housing stock is not keeping pace with demand. Economic growth has stagnated and even declined.

Major issues:

- public and private sector practices of housing employees
- land policy
- building industry development.

Major problems:

- inappropriate and inadequate housing supply
- shortage of all resources for housing
- lack of priority given to housing and home ownership.

Conclusions and recommendations: The housing problem in Papua New Guinea is not yet severe by world standards but measures should be introduced in the near future to prevent further deterioration as urban growth continues. Slow economic growth exacerbates the problems and limits the resources available to implement solutions. The housing shortage arises from the lack of available land in urban areas, structural problems in the construction industry, low urban incomes relative to house prices, limited housing finance, and a lack of political will to address these problems.

It appears that expatriate housing will continue to be subsidised by employers in both the public and private sectors. Unless practices change, the shortage of skilled nationals means that employers will subsidise housing for these mobile groups. Neither employers nor employees appear inclined to invest in housing so there will be a market for rental units. The evidence is that these are being supplied but mainly at the top end of the market with minimal government input to the provision of essential services and land.

The property market for other urban Papua New Guineans is feeble or non-existent. Self-help is a main feature, and government involvement is again limited to essential services and land. Direct dealings in customary land may accelerate development of a housing market, particularly in provincial centres where there is ample availability of local building materials provided they are not prohibited by restrictive, developed-country building regulations which have doubtful relevance. Increasing government assistance to urban housing, particularly for low income groups, will exacerbate urban migration.

PRIVATE SECTOR LOCALISATION AND ECONOMIC DEVELOPMENT IN PAPUA NEW GUINEA

Chris Mackay

Discussion Paper No. 12 : March 1983

Subject and approach: The progress made towards localisation in Papua New Guinea is reviewed using the evidence provided by employment statistics, manpower estimates and surveys. The factors which influence further localisation are discussed in the context of economic policy and development.

Situation: Expatriate employment has declined substantially from its peak in the early 1970s to approximately 15,000 which constitutes less than 10 per cent of formal employment in Papua New Guinea. Unskilled and semi-skilled positions, and the most senior positions in the public service are localised. Expatriates predominate in senior management and the professions. Approval of the Department of Labour and Industry is required before an expatriate can be hired. Only 40 per cent of approved expatriate positions have been filled.

Major issues:

- growth versus redistribution
- educatión policy and manpower development.

Major problems:

- shortage of skilled, qualified and experienced nationals
- high national wages relative to productivity
- substantial wastage of training effort
- excessive emphasis on transfers instead of creating new employment
- costs incurred by existing localisation policy.

Conclusions and recommendations: Localising all expatriate positions will provide jobs for only a few nationals. Connotations of control and the absence of obvious qualifications for senior management have increased pressures for localisation. Overall the private sector attitude towards localisation has been positive and considerable resources are spent on training, but premature localisation will impair viability and be counterproductive. Many positions in senior management and in the professions will not be localised for some years, due to shortages in education and experience.

The quality of education in basic skills and vocational subjects needs improvement. The social system works against regular formal employment and trained people are highly mobile. Lack of experience remains a major impediment and will be overcome with time. Increasing numbers of graduates and slower growth of public service employment will provide employers with a larger pool from which to choose. The surplus of school-leavers should be encouraged to pursue opportunities in rural areas. The government should improve the road network to open up areas for cash cropping. The present high wage structure requires reform.

There is a need for a coordinated public-private sector training programme. Incentives for training should be more flexible. The costs of training in Papua New Guinea are high and training effort will be affected by economic circumstances. Results of the recent increase in training effort will not be discernible for some years.

The success of the present policy of planned localisation will be impaired if economic circumstances deteriorate. Cost factors and the limited potential for further localisation indicate that unforced localisation would be more appropriate, combined with provisions to stimulate training. Procedures for hiring expatriates should be reformed.

THE ROLE OF THE PRIVATE SECTOR IN THE ECONOMIC DEVELOPMENT OF PAPUA NEW GUINEA

Michael Trebilcock

Discussion Paper No. 13 : May 1983

Subject and approach: An historical review of Papua New Guinea's economic performance and a profile of the modern private sector is used to rebutt the neo-Marxist critique and provide the basis for a set of economic priorities for the 1980s. The paper includes the results of a postal survey of businesses and comments arising from extensive interviews with senior businessmen and public officials.

Situation: Poor economic growth since 1970 has resulted in stagnant per capita income. Government expenditures consume a large portion of GDP, and the public sector accounts for one-third of all formal employment. The agriculture sector provides most income-earning opportunities. Total formal employment had barely increased over the decade. In-flows of foreign direct investment are dwindling; domestic sources of capital are limited. Capital goods represent a declining share of imports. Macroeconomic policy performance has been strong; commitment to democratic principles has been demonstrated.

Major issues:

- the roles of the public and private sectors and their relationship
- unemployment.

Major problems:

- high labour costs and low productivity
- availability of land for development purposes
- availability of capital
- the small size and fragmentation of domestic markets
- the quality of public administration.

Conclusions and recommendations: Labour and land are the most pressing constraints to growth. Measures should be taken to slow the growth in wage rates through easing exchange rate control and introducing piece rates and to improve productivity through education and training (public and private sector cooperation). Investment incentives should be based on job creation, and should not exclude the agriculture sector. The entire fiscal regime needs review.

Procedures in the Department of Lands should be reformed and combined with simplified procedures for making customary land available. Participatory arrangements between the providers of land, capital and expertise should be promoted. Public-private sector consultation is needed. NIDA should take a more active role in promoting foreign investment in well-defined projects. Institutional financial reserves should be mobilised. Project negotiation should aim for greater spillover effects from enclave developments. A better road network and improved efficiency of coastal shipping would help linkages and reduce market fragmentation.

THE ECONOMICS AND REGULATION OF COASTAL SHIPPING IN PAPUA NEW GUINEA
Sidney Gilman
Discussion Paper No. 14 : November 1983

Subject and approach: The economic performance and regulatory policy are evaluated by a systematic review of demand and supply characteristics of the coastal shipping industry in Papua New Guinea, leading to recommendations for the formulation of policies which will improve the efficiency of the sector.

Situation: Port Moresby, Lae, Rabaul and Kieta are the four main ports in coasting trade, with a number of other ports which fit reasonably closely into a feeder route pattern. Traffic shows no strong growth trend, although year-to-year variations exist. Traffic through the four main ports totalled 200,000 revenue tonnes in 1981 and feeder trade was 150,000 revenue tonnes. Three companies serve the main port trades, with several others operating specialised routes.

Major issues: . government regulation and competition.

Major problems:
. excessive and ineffective regulation
. excess and inappropriate capacity
. high cost coastal shipping.

Conclusions and recommendations: Many ships in the present fleet are rather small. Container ships in operation are of intermediate design and limited capacity relative to size and cost. The main-ports route is substantially overtonnaged. Freight rates are high due to small ship size, poor cargo balance, high unit costs, overtonnaging, inefficiencies and port costs. The system of ship regulation has been successful in removing poor tonnage, but capacity licensing has not been effective. The total traffic system is very small and will sustain only one or two operators.

The Minister for Transport has enormous discretionary power and need not consult or heed the advisory Coasting Trade Committee. Capacity licensing practices and the pricing structure appear to have contributed to overtonnaging. There is no outline plan for an efficient operating strategy. Any competitive moves within the system are thwarted by the need for ministerial approval of every action. Greater efficiency could be achieved by formulating a system strategy, minimising ministerial intervention, establishment of a conference of shipping lines and a shippers' council to negotiate rates. Ministerial control could be reduced to powers to restrict entry, to approve the system strategy, to ensure that coastal shipping is restricted to Papua New Guinean companies, and to prevent monopolistic practices in a rationalised industry.

Conventional/pallet operations have made considerable progress and appear to have demonstrated their viability. There is increasing shipper demand for containerisation, but capacity is limited. Gradual transition to medium sized, multi-purpose ships would increase operating efficiency and reduce costs, but would mean that the entire service could be provided with only three or four vessels, and at most two operators.

In general, port facilities are adequate. Individual requirements argue for permitting coastal shipping lines to operate independently in separate facilities, especially as there is no requirement for bonding internal cargoes. Increasing containerisation will increase the need for shared facilities, under the control of the Harbours Board. Stevedoring labour problems are emerging, especially in Port Moresby, and contributing to the high cost of port charges. Pressure for further escalation of wages and benefits should be resisted.

THE ALLOCATION OF TAXING POWERS IN PAPUA NEW GUINEA
Richard Bird
Discussion Paper No. 15 : November 1983

Subject and approach: Inter-governmental fiscal relationships in Papua New Guinea are evaluated using the first comprehensive data series on sources of provincial revenue (Axline, IASER, 1984). The findings form the basis for recommendations to make the system more efficient and flexible.

Situation: The provincial government system in Papua New Guinea was introduced in haste with a financial framework which was inflexible to the different situations of different provinces. Between three and ten functions were transferred from the national government. Provinces receive grants and shared revenues from the national government and have power to impose retail sales taxes, land taxes, head taxes and some licence fees. The basic grant reflects the 1976/77 government expenditure on the transferred functions.

The Minimum Unconditional Grant and deriviation grants are the largest sources of provincial revenue. In 1980 virtually no taxes were collected by the provinces. Head tax collections have declined dramatically. Few provincial government development corporations generate revenue.

Major issues:

- federal allocation of fiscal powers and responsibilities
- regional equality.

Major problems:

- degradation of service provision ability at all levels of government
- provincial inequalities are perpetuated by the system
- lack of management skills in many provincial governments
- inappropriate tax powers at the provincial level
- lack of national government support to provincial governments
- decline of the local government system
- increasing urbanisation problems and urban-rural disparities.

Conclusions and recommendations: It is most likely that the provincial government structure will continue to exist in substantially its present form. Failure to revise the financial system will result in further degradation of service delivery. Vertical fiscal imbalance is inevitable in a predominantly rural country; regional (horizontal) imbalance should be addressed by differentiated arrangements between national and provincial governments according to capacity. The aim of uniformity should be abandoned as unrealistic and unnecessary.

The national government must reverse its recent tendency to withdraw support from the provinces. A revised fiscal system should centre on basic grants intended to ensure minimum service standards everywhere, recognising provinces' varying abilities to perform the functions. The standards must be enforced. The system should also incorporate a stimulus or incentive to local effort, such as fees and charges to ensure that expansion of urban infrastructure and services is largely self-financing.

Provincial governments should not be given substantial new tax powers. The retail sales tax is not an appropriate tax for Papua New Guinea. At most, it could be collected by the national government and used to help finance the basic grants. Provinces should retain their present revenue sources and be helped by the national government to exploit them efficiently. It is more important to tax the informal sector. An effective land tax, particularly in urban areas, combined with a revised form of personal taxation would be appropriate for provincial governments and would help to tap the informal sector of the economy.

REPORT ON LAW AND ORDER IN PAPUA NEW GUINEA
William Clifford, Louise Morauta, Barry Stuart
Discussion Paper No. 16 : September 1984

Subject and approach: An extensive socio-economic study into the causes and effects of crime in Papua New Guinea including a survey of a broad spectrum of the population leading to a cohesive programme of gradual but fundamental reform.

Situation: A survey of businesses (Trebilcock, I.N.A. 1982) revealed that security was the most important factor impeding investment in Papua New Guinea and imposed a substantial cost on the private sector. A number of serious crimes in Port Moresby provoked a public outcry about law and order and demands for government action. There is a widespread feeling that corruption in public office is rampant and has a damaging influence on attitudes in society as a whole. Law and order is a compelling social problem affecting people and businesses throughout the country.

Summary recommendations[1] The National Executive Council should commit itself to a community-based law and order policy, and direct relevant agencies to implement it accordingly. It should establish a Law and Order Policy Development Unit to advise on law and order policy, develop an appropriate data base, commission or undertake research, publicise the government's law and order policy, and review government expenditure on law and order.

It is necessary to create a general climate to combat, prevent and punish corruption. This will require strong leadership, high standards of personal probity, a climate encouraging accountability of people in public office, and stiff penalties for those found guilty. Resignation from office should not justify exemption from prosecution. An anti-corruption unit should be created within the Ombudsman Commission to monitor practices and initiate prosecutions. Appointments to the Commission should be on terms and conditions which guarantee its impartiality and lack of fear of retribution. The Commission and other regulatory agencies should be allocated sufficient resources to maintain vigilance against corruption.

The Department of National Planning and Development should ensure that all major development projects include establishment of village courts. The National Statistical Office should develop a system for coordinated law and order statistics, and conduct

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.. Because of its length, the full report was not reviewed and summarised. This ummary is taken from I.N.A. Working Paper No. 3. The main issues and problems are elf-evident.

victimisation studies as part of national censuses and the Urban Population Surveys. The Institute of Applied Social and Economic Research (IASER) should establish a criminological unit and conduct further studies on economic and social aspects of law and order problems. The tertiary education institutions should introduce more courses on informal procedures for preventing and punishing crime, and on customary law.

Higher courts must be supportive of village and other lower-level courts. Better support services are needed for all courts. Quasi-criminal and regulatory offences should not be tried in the criminal courts. The jurisdictions of lower courts should be increased, with greater resort to district courts which should be graded to the level of presiding magistrate to reduce delays and improve consistency of sentencing. Better pre- and in-service training of judges and magistrates is needed. There should be more resort to mediation in all courts. Remuneration of judges, magistrates and village court officials should be increased.

An expert committee should be appointed to make recommendations for simplifying criminal proceedings, especially committals. The bail system must be simplified but must guarantee that the accused subsequently appears in court. A workable system would involve remand, with credit or compensation depending on the outcome of the case, and with orders restraining the movements of those released on bail. More widespread use of pardon and parole would induce good behaviour in prisoners and help reduce prison populations.

The mandatory minimum sentences should be repealed, especially for summary and several minor criminal offences, or apply only to recidivists.

Legislated sentencing guidelines are preferable. Courts should have discretion to impose a range of sentences including community work orders, intermittent sentences, restrictions on movements and other options (such as fines) which do not involve incarceration. Fine options should bear a reasonable relationship to sentence periods. A two-year intensive pilot project on probation should be established in Goroka to test its relevance and effectiveness in Papua New Guinea. Regular conferences, seminars and workshops should be held to assist judges and magistrates achieve consistency in sentencing and to improve the efficiency of the courts.

The Village Courts Secretariat should improve training and in-service programmes for its staff and for court officials. Inspection and supervision of village courts needs to be improved and their coverage extended to all rural areas. An urban village courts programme should be established. The Village Courts Act should be amended to improve handling of tribal fighting, compensation and mediation. Village courts' performance should be improved through inspection and rationalisation, and increased allowances to officials partly offset by introduction of user fees.

The Royal Papua New Guinea Constabulary should be a smaller, better trained and more specialised force placing greater emphasis on crime prevention than on arrests. Civilians should be used for a range of unspecialised tasks and specialised tasks such as administration, forensic work and training. Bailiff services and prisoner escorts should be transferred to corrective officers. Prosecutions should be undertaken by civilian lawyers, para-legal staff or, least preferably, by properly trained police personnel.

Tenure of senior policy management positions should be for at least five years, and longer for appointments to Commissioner and Deputy Commissioner. Increased remuneration should apply to skills and length of service, rather than depend on promotion, and both pay and promotion should depend on successful completion of training courses. More systematic training is needed for all levels. Police should try to improve their relationships with the community. A system of identification would assist in maintaining criminal records and combating corruption, but might be too expensive to introduce. A pilot programme for employees might be considered.

Community work orders and probations are an essential feature of corrections. Community leaders and "personalities" should be used as probation officers rather than resorting exclusively to experts. Local "lock-ups" should be used for minor offenders. Adult hardened criminals should be held separately from other categories. Corrective institution employees should have public service status and receive better training. Numbers of staff should be increased. Work opportunities for inmates should be improved, and the funds should be retained by the prisons to finance improvements.

Provincial governments should improve their relationship and liaison with village courts, and increase their financial and logistical support. Some form of democratic local government should be introduced in towns.

The private sector should improve its knowledge of the village courts and increase its use of the system. The survey of private sector costs related to crime prevention should be repeated periodically.

INDUSTRIALISATION, GROWTH AND DEVELOPMENT IN PAPUA NEW GUINEA
Helen Hughes
Discussion Paper No. 17 : October 1984

Subject and approach: Wide experience and analysis of the present situation in Papua New Guinea are used to develop policy recommendations which will promote growth.

Situation: Economic growth is lagging behind population growth. Income distribution is skewed toward urban dwellers and 85 per cent of the population is in the subsistence sector with very low cash incomes. GDP is low despite mineral earnings, aid in-flows and the country's endowment of resources. Wage levels are high but skilled labour is lacking at all levels. The economy is highly fragmented. Macroeconomic management has been sound and successful and the country has a strong export base.

Major issues:
- industrialisation and trade policies
- sectoral policies and the investment climate.

Major problems:

- structural problems (small fragmented markets, shortage of skills and capital, inadequate communications)
- a high cost structure (wages, land, utilities, compliance costs, etc.)
- uncertainty arising from indigenous traditions (land, compensation)
- lack of infrastructure to promote rural development
- upward pressure on the currency
- lawlessness
- an economic environment favouring rent-seekers.

Conclusions and recommendations: A strategy of export-led growth generally has been more successful than import replacement and holds true particularly for Papua New Guinea where the pre-conditions for an efficient manufacturing sector are not satisfied, largely for structural reasons. Experience elsewhere has shown that incentives to manufacturing cannot offset the negative effects of economy-wide problems. More investment in infrastructure is needed to reduce business costs, combined with a build-up of cash incomes in agriculture to increase the local market and develop labour skills. Manufacturing cannot provide the number of jobs necessary to combat unemployment which is one of the main causes of lawlessness.

A rapid growth of manufacturing in Papua New Guinea would be very costly. Steady growth is possible in areas where genuine import replacement or export opportunities exist, provided that policy changes are made to improve labour productivity and wages, infrastructure, education and training and access to land, and to move toward realistic exchange rates. An export strategy based on raw material processing would be highly promising.

Careful monitoring of the exchange rate must be maintained, perhaps leading to a weakening of the currency. Measures are needed to free up land for leasing to businesses and for housing. A major institutional change in wage-setting is a pre-requisite for increased employment in manufacturing; interim measures would include youth wages, reduced penalty rates (overtime) and fringe benefits, and encouragement of piece rates and bonus schemes. A vocational school system at the high school level would help provide a better-prepared labour force; an interim measure would be accelerated full-time technical education planned in collaboration with existing businesses. The tertiary education system requires drastic overhaul. Measures to reduce wages and improve edcuation will help reduce utility companies' costs but competitive pricing will be needed to reduce monopolist price setting.

If a product is worth protecting it should receive assistance as a direct subsidy so that consumer prices are not raised and to avoid the distorting effects of tariffs. Tax holidays are less effective than accelerated depreciation (especially if linked to shift-work which utilises capital more effectively). Export incentives (marginal cost pricing, import tariff drawbacks, grants, etc.) cannot be particularly effective in Papua New Guinea. Soundly-based export industries will not require assistance, and the country is rich in resources and has potential markets.

DESIGNING A TAX SYSTEM FOR PAPUA NEW GUINEA

David Collins

Discussion Paper No. 18 : May 1985

Subject and approach: The existing tax system in Papua New Guinea is reviewed in relation to likely future revenue needs, data availability and tax administration capacity. Basic taxation principles permit recommendations for reform without further delays until additional data are collected.

Situation: Internal revenue accounts for only two-thirds of government revenue, with the largest components being personal income tax and import duties. The most important revenue source, Australian aid, is programmed to decline. Reliance on income-based taxes as a proportion of total revenue is low. Most income-based revenue derives from a declining number of expatriates.

Major issues:

- appropriateness and effectiveness of existing fiscal regime
- internal revenue-generation potential.

Major problems:

- small and dwindling tax base and declining budget support aid
- large untaxed informal sector which is difficult to tax
- scarcity of information on the effects of tax reform
- excessive concern with progressive taxation when simplicity and revenue generation are more important for Papua New Guinea.

Conclusions and recommendations: A tax system should be based on a set of consistent principles which provide a politically acceptable balance of economic efficiency, fairness, revenue generation, simplicity and effectiveness as a tool of fiscal policy. The Australian model is inappropriate for Papua New Guinea because of the large informal sector.

Delaying reform will hinder development of an integrated tax strategy, especially if increased revenue needs are met with pragmatic taxes.

Improvements in information will be limited. It is possible to extend the tax base and rationalise the system without radical restructuring and without inducing uncertainty about future tax policy. Subsequent changes should be restricted to rates and not extend to changes in the tax base.

A flat tax rate permits broader use of withholding taxes which provide the best prospect for increased revenue. A single linear tax above a certain threshhold should be applied to all income earners. The threshhold and dependant rebates should be regularly indexed for inflation. Company profits should be taxed at source without discrimination and dividends should be taxed as income by recipients but withheld at source.

The indirect tax base should be as broad as possible. Flat rate uniform taxes on consumption (wholesale tax collected at source, excise taxes and some service taxes), exports and imports minimise unintended distortion and provide a potentially substantial revenue base. Export and production taxes withheld by marketing authorities could extend coverage of the informal sector. Revenue tariffs should be uniform and applied without exemptions.

PLANTATION AGRICULTURE IN PAPUA NEW GUINEA

Christopher Goldthorpe

Discussion Paper No. 19 : June 1985

Subject and approach: The characteristics of plantation agriculture in Papua New Guinea are examined to determine the role of the industry in the economy. Plantation organisations and management structures are examined in detail and relative efficiency assessed.

Situation: Most plantations in Papua New Guinea produce perennial tree crops for export. The agriculture sector accounts for about one-third of market sector GDP and about 40 per cent of export earnings. Many crops are in decline, and only coffee and oil palm have grown consistently over the past decade. Smallholders account for at least half of the production of the major crops. Oil palm is the only plantation sector showing growth, and there has been negligible replanting of other crops by plantations. In 1983, plantation employment was 34,300 people after its peak of 45,000 in 1979. There are approximately 700 plantations in Papua New Guinea with an average size of 171 hectares. Most are too small to support high calibre management. As many as 200 plantations are abandoned. There are few large estates.

Major issues:

- efficiency of scale and specialisation
- land tenure and nationality of plantation ownership.

Major problems:

- lack of explicit government support for plantations
- small holdings and poor management
- insecurity of title, impediments to rationalisation.

Conclusions and recommendations: Plantations produce about 40 per cent of tree-crop export earnings, have high levels of productivity, generate taxable income and provide significant employment. The government's recognition of their importance to the economy has been only tacit, and should be strengthened by an official policy statement.

Larger plantations are more efficient than smaller holdings. The industry should restructure into larger units which can support better management to increase international competitiveness. There has been some restructuring in coffee and rubber. Restructure of cocoa and coconuts plantations has been impeded by the Plantation Redistribution Scheme legislation, which should be repealed to allow transfer between foreigners. Any sacrifice of national ownership will be only moderate and temporary, and beneficial in the longer term when more viable properties can be repatriated. There is a substantial amount of abandoned hectarage. DPI and the commodity boards should conduct a survey and seek concessional funding for a feasibility study for their rehabilitation.

Labour is a large cost item in plantations making man management an important function. Estates should adopt a two-tier recruitment policy. The lower tier would be people with supervisory and man-management skills and the upper tier would have higher formal educational qualifications, preferably in agriculture. The prospects of substantial promotion for the latter group should reduce present high turnover rates. Until sufficient nationals of adequate calibre are available there should be continued recruitment of expatriates. Managers should be recruited from the pool of tropical agriculture expertise in Asia and Africa.

All plantations should move towards recruitment of a stable, more permanent labour force through the provision of modern, family housing and social amenities.

Fear of appropriation under the Plantation Redistribution Scheme has led to the decline of many plantations. Tree crops require secure, long-term land title, adequately covered by the prevailing 99-year usufructuary leases in Papua New Guinea. Existing freeholds should be replaced by such leases which are more appropriate to the Melanesian system.

AGRICULTURE IN THE PAPUA NEW GUINEA ECONOMY

Barry Shaw

Discussion Paper No. 20 : June 1985

Subject and approach: The role of agriculture in the Papua New Guinea economy is analysed using economic principles and the best of the available field work.

Situation: Subsistence is the largest component of agriculture in the economy but the lack of information has resulted in underestimation of its importance. The agriculture sector accounts for more than 26 per cent of formal employment but the number of jobs is growing only slowly. Rapid population growth and declining employment in other sectors mean that substantial numbers of educated people seek opportunities in the smallholder sector. Subsistence is closely integrated with the monetary economy. Farming systems are relatively efficient in terms of labour input per unit of output but there is considerable scope for increasing output (and hence incomes) through straightforward technological improvements.

Major issues:
- agricultural policy.

Major problems:
- lack of coherent sectoral policy and political commitment
- inadequate research and extension
- increasing unemployment and urban poverty.

Conclusions and recommendations: Agriculture will continue to be extremely important in Papua New Guinea. The subsistence economy is robust and showing considerable adaptability. High returns to subsistence activity are the major cause of failure for government projects. Farmers have tended to reject those crops which do not provide a return to effort comparable with subsistence.

Direct government assistance is needed only in areas of stress. Project evaluation should compare expected returns with returns from subsistence and other activities, and proposals should be subject to field trials and tested for their sensitivity to varying levels of inputs. Government expenditure on research should be increased considerably, made more productive and concentrate on productivity increases in crops which have been adopted by farmers. Extension services should be revitalised and should not be biased towards medium scale projects because their potential for absorbing increasing numbers of unemployed is limited.

There are strong links between subsistence and smallholder cash cropping, with most farmers engaged in both activities. The domestic food production system is performing well. Statistical data are poor, but there are numerous indications that marketed food production has increased considerably over the past decade, and that imported food does not account for an increasing share of consumption. Shifts towards higher protein content foods, both domestic and imports, are common to most countries once incomes increase. Price indices show that the economy has gained from concentration on export crops while importing some foods.

Rapid population growth and declining employment mean substantial growth in the numbers of educated unemployed. Decline in the plantation sector will result in an unacceptable loss of jobs. Viable and responsive parts of the plantation industry should be encouraged. Plantations do not detract from smallholder development. All activities suffer from high and rising urban wages and protection of inefficient import replacement projects.

Standards of living can be increased only if there are moves to contain population growth combined with improvements in the smallholder sector. Improved pruning and cleaning will greatly increase productivity. There is considerable scope for improving processing standards which will generate substantial revenue. Few smallholder improvements require loan finance. Interest rate subsidies do not make the difference between viable and non-viable projects. Gradual devaluation of the kina would favour rural areas.

Most importantly, the poor quality of statistics on all aspects of agriculture must be improved if successful policies are to be formulated.

TRADE AND TRADE POLICY ISSUES IN PAPUA NEW GUINEA

Peter Robson

Discussion Paper No. 21 : September 1985

Subject and approach: The main issues of trade policy are identified by a review of trade trends and prospects and the domestic and international trade regimes which affect Papua New Guinea. The issues of protection, preferential trade agreements and international marketing are discussed in depth.

Situation: Trade comprises a large share of GDP in Papua New Guinea. The trade regime is generally liberal. Import controls have been used for protection in only a few (albeit substantial) cases. The General Import Levy (GIL) is imposed at 4 per cent ad valorem for revenue purposes. Export products and export and import markets are highly concentrated. Between 1974 and 1983, foreign exchange earnings and grants relative to imports fell from 105 per cent to 77 per cent. Substantial trade deficits have been incurred and foreign debt service has increased rapidly. Despite optimistic projections that exports will increase more rapidly than imports in the next five years, the current account will continue in deficit.

Major issues:

- trade and industrialisation policy
- the impact of macroeconomic policies on the terms of trade.

Major problems:

- balance of payments pressures and increasing debt service
- distortions and imperfect competition in the real world
- lack of consistent criteria for granting assistance
- procedural problems and inadequacies of the Tariff Advisory Committee
- ambiguity and unintentional protection in the Tariff Code which is designed primarily for revenue raising.

Conclusions and recommendations: Trade policy is an instrument of development policy. An element of protection in Papua New Guinea is inevitable for political and social reasons and could be desirable to offset external distortions. The White Paper on Industrial Development, the 1985 Budget and the Industrial Assistance Act (1985) indicate government's intention to promote industrial development more vigorously and systematically.

A positive trade policy (intervention) should be systematic and cost effective and formulated within a clear development strategy which identifies the sectors or stages of production to be promoted. Revenue and protective objectives need to be separated. Unintended distortion can be avoided by aiming for uniform rates of effective protection and imposition of countervailing production taxes if high rates of duty are imposed on certain products for revenue reasons. A reactive element in responding to requests for protection is defensible if consistent criteria are applied. For small projects where financial and economic cost-benefit analysis is not possible, contribution to local value-added should be assessed.

There is no medium-term prospect for significant diversification of Papua New Guinea's exports. Many potential manufactured exports face restrictive markets; rules of origin limit the benefit of preferential trade agreements. It is risky to establish industries whose viability depends on preferential market access. Simple, effective and wide-ranging drawback regulations would promote manufactured exports but aggressive devaluation is not an appropriate mechanism.

Trade agreements with Australia and New Zealand have modestly improved the terms of sale for primary products. There is little benefit from extending preferential trade links in the region on a reciprocal basis. Price distortions may exist in sectors where foreign ownership predominates but the existing mechanisms are not adequate to deal with them. Concern about bilateral trade balance is inappropriate but import sourcing distortions need further investigation.

INNOVATION IN PAPUA NEW GUINEA AGRICULTURE
Frank Jarrett
Discussion paper No. 23 : October 1985

Subject and approach: A review of agricultural research and extension in Papua New Guinea suggests ways to improve the sector's performance through innovations, and to facilitate innovation through the research and extension institutions.

Situation: Papua New Guinea is a small open economy with fragmented markets. The economy is predominantly agricultural and exports of cash crops are significant. There is a large subsistence component, but many farmers engage in informal cash earning opportunities. Only 10 per cent of the population is engaged in formal employment, and about 85 per cent of the population lives in rural villages. Population growth is rapid. The balance of payments current account has been in deficit since 1980, Australian aid is declining, and the terms of trade have been deteriorating since 1978.

Major issues:
- agricultural research and extension
- relative roles of government and the private sector.

Major problems:
- inadequate resources devoted to research, impeding innovation
- inadequacy of extension services to disseminate innovations.

Conclusions and recommendations: Productivity in agriculture must be improved if living standards are to increase with population growth. Increasing the production of food and export crops requires innovation in production and post-harvest processes. Scientific skills available in the country are insufficient and policies limit the use of foreign sources. The link between research and extension is poor and suffers from the three-tier delivery system. Extension service delivery is not meeting its objectives.

Public and private sector funding should reflect the distribution of the benefits. The use of public funds should be accountable, relevant and subject to efficiency criteria.

Population pressure and malnutrition are localised problems. Small DPI-Health teams should be used to deal with areas at risk. Village preferences should be an important factor in determining research and extension priorities in farm systems. Farmers' experiences should be used in developing an appropriate extension service. Agricultural innovations should be targeted at increasing the productivity of women in the village situation and help to provide them with a cash income. A more scientific base will be needed if productivity is to increase rapidly.

The objective of extension should be clearly defined. The extension service must have the flexibility to adapt to changing circumstances. The Extension Advisory Unit has an important role in rebuilding links between national DPI and the provinces, and between research and extension. It could use the primary health care system as a model. The provincial governments should increase their commitment. Duty statements should be revised and enforced.

Recruitment of scientists for research is impeded by the inadequacy of salaries and conditions offered. Greater use should be made by government and the universities of non-budget aid from Australia and of secondments from overseas for training the required pool of national scientists and technicians. Problems in recruiting adequately qualified staff is impeding implementation of projects designed to improve the quality of research and extension. A change in the policy stance towards the use of overseas sources is needed.

Research on livestock should be reduced and smallholder livestock should be integrated with agricultural research on farming systems. More resources should be spent on research into food staples such as taro. Overseas assistance should be used to develop a methodology for determining research priorities. The major industries should play a large role in research, with industry levies matched by government contribution to ensure adequate representation of smallholder interests.

THE LABOUR MARKET IN PAPUA NEW GUINEA : A SURVEY AND ANALYSIS
Paul McGavin
Discussion Paper No. 24 : September 1986

Subject and approach: A descriptive and analytical review of the dimensions and issues of labour market policy in Papua New Guinea is intended to point the way to growth-inducing changes in policies and practices concerning labour supply, wages, mobility and training. Available data on the labour market are consolidated into a comprehensive series to assist the evaluation.

Situation: Labour market statistics in Papua New Guinea are extremely poor and inhibit rational decision-making by the government and the market sector. Almost all current growth in wage employment is attributable to plantation agriculture. Non-citizen employment seems to have stabilised at about 6 per cent. About 10 per cent of the population is participating in the labour force, and this percentage appears to have been static since Independence. Unemployment figures indicate extensive aspirations for wage employment. Surplus urban labour indicates that urban minimum wages are too high, but rural labour markets indicate that the rural wage is appropriate. Both urban and rural wages have declined in real terms since 1980.

Major issues:

- minimum wage setting
- education, training and localisation policies.

Major problems:

- inadequate data for decision-making
- urban unemployment and urban drift
- excessive reliance on government and government intervention
- inadequate market sector input to education and training.

Conclusions and recommendations: A market wage reflects the price at which workers are willing to offer their labour services and the value of those services to the employer in terms of increased output. Administrative wage setting impedes the opportunities for individuals to reach a mutually beneficial agreement. Urban unemployment indicates that the minimum urban wage is too high, and prevents less productive workers from finding employment. Rural labour markets indicate a balance between supply and demand, due partly to free inter-provincial migration, implying that the rural wage is appropriate.

The Minimum Wages Board serves a stabilising function and should be retained but reduced in size and placing greater emphasis on the market's ability to pay. Selective categories of employment could be exempted from the minimum wage provisions in an effort to generate employment. Wage indexation prevents the real wage from adjusting to changing economic circumstances and should be abolished.

Employers maintain inadequate data on labour deployment and costs, impeding efficient operation of the market. Each employer should prepare an annual labour budget, and submit the data to a Labour Information Committee which would liaise with a Labour Information Desk which consolidates and publishes the data in a timely manner. The Desk would arrange an annual independent expert review of the labour market in Papua New Guinea.

Semi-skilled and skilled labour is extremely mobile, and reduces the returns to employers' training expenditures. The wage structure should be revised to permit lower wages during training to encourage more on-job training, and bonding of trainees should be permitted. Individuals are the greatest beneficiaries of basic skills acquisition (undergraduate education) and should bear the costs. Many skills are acquired most efficiently in the workplace. Firms should concentrate their efforts on on-job training, sponsorship of job-related education, and some graduate education of international standard.

MINERAL AND MINING POLICY IN PAPUA NEW GUINEA
John Tilton, John Millett, Richard Ward
Discussion Paper No. 25 : October 1986

Subject and approach: The major features of Papua New Guinea's minerals policy are highlighted and related to their underlying objectives. The implications of the changing international situation are examined leading to proposals for amending the existing policy.

Situation: Papua New Guinea could benefit from recent interest in gold exploration and mining. Published reserves show a wide spread of gold, copper and silver deposits throughout the country. The two existing developments at Panguna and Mt. Fubilan are very large-scale porphyry copper mines. International interest has moved away from this style of mining, and copper prices are likely to remain low for some time. Most present attention is focused on medium-scale gold mines, such as Misima, Porgera and Lihir. Mining policy has evolved from negotiations with Bougainville Copper Limited and Ok Tedi, and is not entirely appropriate to the evolving international situation.

Major issues:

- government role in mine development
- fiscal regime.

Major problems:

- excessive bureaucratic delays and uncertainty facing exploration
- excessive government involvement in technical areas
- high cost of mine development in Papua New Guinea
- government equity holdings provide a conflict of interest
- excessive ad hoc elements which increase uncertainty.

Conclusions and recommendations: Minerals policy in Papua New Guinea has focused correctly on maximising government revenue but some elements are inappropriate if medium-scale gold mining is to be encouraged. The rapid recovery of interest in exploration indicates that the fiscal regime is not too onerous, but the trend may not be stable because activity is heavily concentrated in three firms and is a result of present relatively high gold prices. The Additional Profits Tax generally is advantageous to both the government and the company.

A government equity option at cost increases the burden on other investors which must be offset in some way, such as reduced tax burden. The present system of approving exploration licences is based on sound principles but requires considerable skilled manpower and causes delays and uncertainties. There is no need for an on-site hearing; explorers should be made responsible for obtaining landowners' approval. Exploration reporting standards should be set.

Infrastructure requirements should be clarified and should not exceed those necessary for the mine unless the government finances any additional items. The required level of environmental protection will be a political decision based on the trade-off with government revenue. There is no clear policy distinction between the different scales of mining operations. Only very large mines should require negotiation. Other mines should be covered by standard regulations and agreements. Small alluvial gold miners should not have to pay royalties, and gold dealing should be deregulated. Limiting government's involvement in the mineral sector to areas of greatest public interest will help reduce the need for skilled manpower.

SOME KEY ISSUES FOR THE DEVELOPMENT OF THE ECONOMY OF PAPUA NEW GUINEA

Brian Reddaway

Discussion Paper No. 26 : December 1986

Subject and approach: Some important issues are reviewed by drawing on extensive experience, applied common sense and discussions, leading to recommendations for enhancing the long-term economic development of Papua New Guinea.

Situation: Papua New Guinea is a lower middle-income developing country with rapid population growth and a large proportion of the population engaged in agriculture. The small size and fragmentation of the country preclude many forms of manufacturing. The proportion of imports to income is very high, enabled by substantial exports and grant aid. The highly democratic form of government has attractions but also costs and is characterised by inefficiency. The minimum wage is very high, increasing costs of production and encouraging urban migration despite poor employment prospects. The decline in Australian aid is likely to lead to balance of payments problems.

Major issues:

- economic growth and efficiency
- public administration and government intervention
- land policy and administrative procedures
- mining policy
- agricultural policy.

Major problems:

- rapid population growth
- high wages and expectations
- government shortages of funds and skilled administrators
- excessive government intervention in private enterprise leading to widespread inefficiency and delays
- excessive focus on policy changes rather than implementation
- complicated system of land tenure
- permanent declining trends in some commodity prices.

Conclusions and recommendations: The government has an important role to play but, because of funds and skills shortages, should confine itself to those functions which cannot be performed by the private sector. Efforts to improve policies are less important in Papua New Guinea than a system for actually implementing policies. A simple administration system with effective monitoring yields better results than elaborate discretionary procedures which entail prior approvals. There should be efficient guidelines enabling delegation of decision-making in all branches of administration. Public servants should have an incentive to do good work and should be fired if incompetent.

Extension services generally do not perform to expectations but some improvement may result from current experiments with a "bottom up" approach which starts with concrete projects at the village level. The coffee rust campaign, being a new problem, has required a "top down" approach but the measures being taken seem appropriate. The new Land Administration Improvement Programme should answer some of the justifiable criticisms of the Lands Department. Delegation of authority and circumscription of ministerial powers should speed up land dealings and prevent corruption. Customary land could be developed by either voluntary or more compulsory registration.

Development of minerals prospects is essential and can be facilitated by a helpful and supporting attitude by government. The Mineral Resources Stabilisation Fund should be extended to cover the entire sector and should be managed with regard to a long-term view of budget prospects. Prospects for coffee and cocoa seem healthy but prices for palm oil and copra may be in permanent decline. Long-term planning should take account of changes in the trends of projections rather than the projections themselves.

The uncompetitiveness of business in Papua New Guinea can be overcome only gradually and only through the consistent application of a combination of policies. The economic development prospects are not unfavourable if Papua New Guinea can attract new capital investment and make better use of existing resources by concentrating on efficient implementation of policies and an appropriate complementarity between the public and private sectors.

THE SPENDING AND TAXING BEHAVIOUR OF GOVERNMENTS OF RESOURCE-RICH COUNTRIES : A STUDY OF PAPUA NEW GUINEA
David Lim
Discussion Paper No. 28 : April 1987

Subject and approach: The government's internal revenue collection and expenditures for the period 1965-1984 are used to test the hypothesis that "abundant" foreign aid and export earnings have promoted laxity in fiscal discipline. The evident past trends are applied to budget projections to ascertain whether their targets are likely to be achieved.

Situation: Papua New Guinea is richly endowed with resources and enjoys a high level of budget support aid from Australia which averages about one-third of the national budget. Internal revenue depends mainly on the small formal sector. Few attempts have been made to broaden the tax base. Public debt is a high proportion of GDP and debt service consumes a large share of export earnings. Total government spending is a high proportion of GDP.

Major issues:

- fiscal cohesion
- internal revenue-generation potential
- public expenditure discipline and management.

Major problems:

- small and dwindling tax base, poor results from fiscal measures
- declining aid and export earnings
- large and wasteful public expenditure
- declining rate of savings and neglect of capital spending
- budget targets highly dependent on rapid growth and the mining sector.

Conclusions and recommendations: Plentiful resources provide scope for sustained improvements in living standards through the purchase of investment goods, but can also lead to erosion of fiscal discipline. The level of total government spending in Papua New Guinea is high but public accounts show continuing growth in consumption expenditure and little expenditure on physical infrastructure. National accounts show stagnation in major segments of the economy, particularly in agriculture.

The available data and techniques did not demonstrate conclusively that abundant aid and export earnings had encouraged fiscal laxity. However, the high levels of public expenditure, wastage and administrative inefficiency combined with low internal revenue collections can be tolerated only if there is an abundance of revenue. Efforts to increase revenue have not broadened the tax base effectively. Internal revenue has not kept pace with changes in the economic structure. The high risk in the revenue side of the present budget increases the need for a controlled and efficient expenditure programme. The number and direction of management and other reforms contained in the budget indicate government's recognition of the problem.

Appendix B

DOMESTIC PRESSURES ON DEVELOPMENT IN PAPUA NEW GUINEA[1]

Brian Brogan

Working Paper No. 5 : February 1986

Policy trends since Independence and the prevailing policy environment are examined to explain the present pressures for development but also the constraints and potential problems.

Papua New Guinea enjoys many natural resource advantages and a tradition of stability. Its sound and stable macroeconomic management enjoyed general praise until recent criticisms about the neglect of sectoral strategies. It is likely that the macroeconomic policy designers had intended to provide a stable framework in which sectoral strategies could be developed, and not to promote stability as the only objective. Growth was not emphasised because it seemed inevitable, not because stability was seen as more important.

The exchange rate ("hard kina") policy essentially entails fiscal and monetary restraint combined with wage-fixing and regular exchange rate adjustments. The importance of the policy has been over-emphasised by its critics and by its supporters, but it has become viewed as a fixed package synonymous with discipline. The existence of such an authoritative framework stifled policy debate in the late 1970s, causing advisors to react within the policy and not examine whether it should be changed to reflect changing circumstances.

This conservatism led politicians to become disenchanted and alienated from bureaucrats and has coloured their attitudes to advice. Initial close relations between politicians and bureaucrats began to break down in the late 1970s. There is a growing element of volatility in policy-making.

The colonial administration, high levels of aid and borrowing have focused attention on expenditure rather than net benefit, raising grassroots expectations of material advancement which are a potential source of destabilisation. Clan loyalties and the expectations of constitutents, and the high turnover at elections, mean that politicians endeavour to maximise personal and political returns rather than embark on slower programmes of improvement in the national interest.

The introduction of the Medium Term Development Strategy and five-year planning indicated an end to the former policy rigidity. The change in government in November 1985 has halted progress on the strategy.

The law and order situation, land administration and employment creation are among the most serious issues now facing government. With low levels of growth it may be necessary to introduce a population policy if living standards are to improve. Government is now acknowledging that publicly-funded programmes are inadequate for addressing the problems of slow growth. Macroeconomic stability is no longer receiving excessive emphasis.

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1. The paper was prepared as background to an address to the thirteenth National Conference of the Australian Institute of International Affairs in Melbourne.

Despite intentions expressed since as early as 1982 to simplify the procedures and encourage foreign investment, little has actually occurred. The rising tide of economic nationalism has led to increasing protectionism in manufacturing and rural industries. Removing competition does not compensate for lack of capital and entrepreneurial skills. The present urge to diversify the economy and import sources is based on non-economic arguments, indicating that Papua New Guineans are willing to forego some growth in the interests of nationalist aspirations.

Papua New Guineans are not opposed to change but external and internal pressures for rapid progress will prevent a gradual and sensible development path. Pressure for over ambitious development impels quick-fix solutions for what are often intractable problems and leads to frequent changes of direction. Coupled with weaknesses in the bureaucracy, it is doubtful that a consistent long-term policy can be implemented let alone receive continuing political support.

Appendix C

I.N.A. PUBLICATIONS BY SUBJECT

SUBJECTS IN ORDER OF FIRST APPEARANCE

(Necessary and varying lags between initiation and publication mean that this listing is a possible distortion of the actual sequence.)

* Denotes publication of proceedings of public seminar.

FOREIGN INVESTMENT POLICY

* **Foreign Investment Policy,**
John Wylie, August 1977, Discussion Paper

FINANCIAL INSTITUTIONS

* **The Structure and Adequacy of Financial Institutions in Papua New Guinea,**
Allan Brown, January 1978, Discussion Paper
Deregulation and the Challenge to the Papua New Guinea Finance Sector,
Sir Noel Foley, August 1985, Speech Series

PRICES POLICY

Prices Policy,
Barry Holloway, August 1978, Speech Series,
Price Surveillance – An Accountant's Assessment,
Reg Gynther, November 1978, Speech Series
Price Surveillance – A Policy Appraisal,
Terry Pitt, August 1979 Discussion Paper

ECONOMIC POLICY FRAMEWORK IN PAPUA NEW GUINEA

PNG's Economic Policy Framework,
Mekere Morauta, February 1979, Speech Series
The PNG National Public Expenditure Plan,
Charles Lepani, November 1979, Speech Series
The Papua New Guinean Economy : Performance, Prospects and Priorities,
Michael Trebilcock, August 1982, Speech Series
Economic Policy in 1986,
Brian Brogan, November 1985, Working Paper
Some Key Issues for the Development of the Economy of Papua New Guinea,
Brian Reddaway, December 1986, Discussion Paper
Domestic Pressures on Development in Papua New Guinea,
Brian Brogan, February 1986, Working Paper
The Budget and the Papua New Guinea Economy,
Brian Brogan, January 1987, Working Paper
A Commentary on the 1988 Budget and its Underlying Strategy,
John Millett, November 1987, Working Paper
Government Expenditure in Papua New Guinea,
Conrad Blyth, June 1988, Discussion Paper

LOCALISATION AND TRAINING

Localisation and Training in a Developing Country,
Lance Taudevin, April 1979, Speech Series
Private Sector Localisation & Economic Development in Papua New Guinea,
Christopher Mackay, March 1983, Discussion Paper

PRIVATE SECTOR/GOVERNMENT RELATIONSHIPS

Corporate Responsibility,
Neil Chamberlain, April 1979, Speech Series
The Importance of Good Government-Business Relations,
B. C. Rowe, July 1980, Speech Series
Honour in Profits,
E. S. Owens, C.B.E., December 1981, Speech Series
The Role of the Private Sector in the Economic Development of Papua New Guinea, Michael Trebilcock, May 1983, Discussion Paper
Government, Business and the Professions,
Michael Sharpe, September 1983, Speech Series

TAXATION

Finance and the Provinces,
Michael Manning, August 1979, Speech Series
Tax Policy in Papua New Guinea,
Robert Neild, January 1980, Discussion Paper
Problems of Tax Reform,
Russell Mathews, July 1980, Discussion Paper
* **Public Finance and Tax Reform,**
R. J. Chelliah, August 1981, Discussion Paper
Retail Sales Taxes and the Provinces,
A. J. Regan, February 1982, Speech Series
The Allocation of Taxing Powers in Papua New Guinea,
Richard Bird, February 1984, Discussion Paper
Designing a Tax System for Papua New Guinea,
David Collins, May 1985, Discussion Paper
The Spending and Taxing Behaviour of Governments in Resource-Rich Countries : A Study of Papua New Guinea,
David Lim, April 1987, Discussion Paper

INDUSTRIALISATION AND TRADE POLICY

Import Replacement in Papua New Guinea,
Brian Brogan, July 1980, Speech Series
Foreign Trade Policies in Papua New Guinea,
John Whalley, December 1982, Discussion Paper
The North-South Debate : Implications for Papua New Guinea and Other Small Developing Countries, John Whalley, June 1982, Speech Series
Are Modern Industrial Techniques Applicable to a Developing Country?,
K. Brown, July 1983, Speech Series

Industrialisation, Growth and Development in Papua New Guinea,
Helen Hughes, October 1984, Discussion Paper
Does Papua New Guinea Need a Trade Policy?,
Peter Robson, June 1985, Speech Series
Trade and Trade Policy Issues in Papua New Guinea,
Peter Robson, September 1985, Discussion Paper

LAND POLICY AND DEVELOPMENT

Land Policy and Economic Development in Papua New Guinea,
Jack Knetsch and Michael Trebilcock, May 1981, Discussion Paper
* **Proceedings of Public Seminar on Land Policy and Economic Development in Papua New Guinea,** June 1981
Land Administration in Fiji - Lessons for Papua New Guinea,
T. L. Davey, July 1984, Speech Series

FOREST POLICY

Issues in Papua New Guinea Forest Policy,
A. L. Fraser, August 1981, Discussion Paper
* **Proceedings of Public Seminar on Issues in Papua New Guinea Forest Policy,** February 1873

FISHERIES POLICY

Development and Management of Papua New Guinea's Marine Fish Resources,
Parzival Copes, May 1982, Speech Series

PUBLIC ENTERPRISE

Public Enterprises in Papua New Guinea,
Michael Trebilcock, August 1982, Discussion Paper
The Government as Entrepreneur - Public Enterprises in Papua New Guinea,
Michael Trebilcock, April 1982, Speech Series

ENERGY PROSPECTS

The Energy Outlook for Developing Nations,
K. Gosper, August 1982, Speech Series

HOUSING

Urban Housing in Papua New Guinea,
Benjamin Higgins and Vinod Kumar, January 1983, Discussion Paper
* **Proceedings of Public Seminar on Urban Housing in Papua New Guinea,** February 1984

MINING AND MINERALS

The World Economy - and Prospects for the Development of PNG Mineral Resources, D. C. Vernon, February 1983, Speech Series
Trends in Mineral Exploration and Development - Some Causes and Effects with Special Reference to Gold, L. Adie, November 1983, Speech Series
Mineral and Mining Policy in Papua New Guinea,
John Tilton, with John Millett & Richard Ward, October 1986, Discussion Paper
* **The Developing Mineral Sector, Opportunities and Challenges,**
September 1987
Gold Price Forecasting : Commodity and Monetary Perspectives,
G. Anders, December 1987
The Resources Sector and Balanced Economic Growth,
R. K. Gosper, March 1988

GOVERNMENT ECONOMIC POLICY STATEMENTS

Economic Policy of the Third Somare Government,
P. Bouraga, March 1983, Speech Series
Economic Growth and the New Medium Term Planning Strategy,
P. Wingti, June 1984, Speech Series
A Better Tomorrow,
The Rt. Hon. Sir Julius Chan, K.B.E., March 1986, Speech Series

FOREIGN AFFAIRS

The Papua New Guinea/Australia Relationship,
R. Namaliu, March 1983, Speech Series

COASTAL SHIPPING

The Economics and Regulation of Coastal Shipping in Papua New Guinea,
Sidney Gilman, December 1983, Discussion Paper

PUBLIC SERVICE MANAGEMENT

Matching the Public Service to Papua New Guinea's Needs and Resources,
A. M. Siaguru, May 1984, Speech Series

LAW AND ORDER

The Law and Order Project,
William Clifford, August 1984, Speech Series
Law and Order in Papua New Guinea, Volumes 1 and 2
W. Clifford, L. Morauta, B. Stuart, September 1984, Discussion Paper
Coordinated Planning : A Prerequisite for Law and Order,
Barry Stuart, May 1985, Working Paper
* **Development in Law and Order 1985,**
Institute of National Affairs, November 1985, Working Paper

POPULATION AND EMPLOYMENT

The Development of Small Business in the Pacific - Problems and Solutions",
D. Burrowes, May 1983, Speech Series
Population and Economic Development in Papua New Guinea,
Brian Brogan, May 1985, Working Paper
The African Experience with Youth Employment Programmes and the Problem of Youth Employment,
Ian Livingstone, July 1986, Speech Series
The Pacific Island Labour Markets,
Richard Blandy, August 1986, Speech Series
The Labour Market in Papua New Guinea : A Survey and Analysis,
P. A. McGavin, September 1986, Discussion Paper
Professional and Skills Earnings in Papua New Guinea : 1986 Market Sector Survey Data,
P. A. McGavin and R. A. Gill, April 1987, Working Paper
Development of Small Papua New Guinean Enterprises
G. Meredith, August 1987, Discussion Paper

AGRICULTURE

Why Papua New Guinea Needs Plantations,
C. G. Goldthorpe, April 1985, Speech Series
Plantation Agriculture in Papua New Guinea,
C. G. Goldthorpe, June 1985, Discussion Paper
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The Role of the Volunteer in Economic Development,
Frank Judd, June 1980, Speech Series
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D. M. K. Sagonda, March 1983, Speech Series
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Appendix D

I.N.A. PUBLICATIONS BY YEAR

* Denotes publication reviewed for the present study

1977 Discussion Papers

* **Foreign Investment Policy,** John Wylie

1978 Discussion Papers

* **The Structure and Adequacy of Financial Institutions in Papua New Guinea,** Allan Brown

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Price Surveillance – An Accountant's Assessment, Reg Gynther

1979 Discussion Papers

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Finance and the Provinces, Michael Manning
The PNG National Public Expenditure Plan, Charles Lepani

1980 Discussion Papers

* **Tax Policy in Papua New Guinea,** Robert Neild
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Speech Series
The Role of the Volunteer in Economic Development, Frank Judd
The Importance of Good Government-Business Relations, B. C. Rowe
Import Replacement in Papua New Guinea, Brian Brogan

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* **Land Policy and Economic Development in Papua New Guinea,** Jack Knetsch and Michael Trebilcock

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* **Issues in Papua New Guinea Forest Policy,** A. L. Fraser

* **Public Finance and Tax Reform,** R. J. Chelliah

<u>Speech Series</u>

Honour in Profits, E. S. Owens, C.B.E.

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* **Public Enterprises in Papua New Guinea,** Michael Trebilcock

* **Foreign Trade Policies in Papua New Guinea,** John Whalley

<u>Speech Series</u>

Retail Sales Taxes and the Provinces, A. J. Regan

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The Papua New Guinean Economy : Performance, Prospects and Priorities, Michael Trebilcock

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<u>Speech Series</u>

The World Economy - and Prospects for the Development of PNG Mineral Resources, D. C. Vernon

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The Papua New Guinea/Australia Relationship, R. Namaliu

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Matching the Public Service to Papua New Guinea's Needs and Resources,
A. M. Siaguru
Economic Growth and the New Medium Term Planning Strategy, P. Wingti
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* **Designing a Tax System for Papua New Guinea,** David Collins
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* **Agriculture in the Papua New Guinea Economy,** Barry Shaw
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* **Innovation in Papua New Guinea Agriculture,** Frank Jarrett

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Why Papua New Guinea Needs Plantations, C. G. Goldthorpe
Does Papua New Guinea Need a Trade Policy?, Peter Robson
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Working Papers

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* **Mineral and Mining Policy in Papua New Guinea,**
John Tilton, with John Millett and Richard Ward
* **Some Key Issues for the Development of the Economy of Papua New Guinea,**
Brian Reddaway

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A Better Tomorrow, The Rt. Hon. Sir Julius Chan, K.B.E.
The African Experience with Youth Employment Programmes and the Problem of Youth Employment, Ian Livingstone
The Pacific Island Labour Markets, Richard Blandy

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Commodity Price Stabilisation in Papua New Guinea - A Work-in-Progress Seminar, Eds. B. Brogan, J. Remenyi
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The Role of Tourism in Development, Proceedings of I.N.A. Seminar
Development of Small Papua New Guinean Enterprises, Geoffrey Meredith
The Developing Mineral Sector, Opportunities and Challenges, Proceedings of I.N.A. Seminar

Working Papers
The Budget and the Papua New Guinea Economy, Brian Brogan
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Gold Price Forecasting : Commodity and Monetary Perspectives, G. Anders

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The Impact of Volcanic Hazards at Rabaul, Papua New Guinea,
Russell Blong and Colin Aislabie
Government Expenditure in Papua New Guinea, Conrad Blyth

Speech Series
The Resources Sector and Balanced Economic Growth, R. K. Gosper

Appendix E

PAPUA NEW GUINEA'S EIGHT AIMS

- 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 income that goes to Papua New Guineans.

- More equal distribution of economic benefits, including movements towards equalisation of incomes among people and towards equalisation of services among different areas of the country.

- 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.

- An emphasis on small scale artisan, service and business activity, relying where possible on typically Papua New Guinean forms of business activity.

- 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.

- An increasing capacity for meeting government spending needs from locally raised revenue.

- A rapid increase in the equal and active participation of women in all forms of economic and social activity.

- Government control and involvement in those sectors of the economy where control is necessary to achieve the desired kind of development.

Appendix F

CONSTITUTION OF PAPUA NEW GUINEA - NATIONAL GOALS

1. Integral human development : ensuring that everyone has freedom for self-development.

2. Equality and participation : equality of opportunities for all citizens to participate in and benefit from development.

3. National sovereignty and self-reliance : political and economic self-reliance and independence.

4. Natural resources and environment : the nation's natural resources to be conserved and used for collective benefit and to be replenished for future generations.

5. Papua New Guinean ways : the achievement of development using Papua New Guinean social, political and economic organisations.

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