‘Institutional strengthening’ is a term used by development practitioners more as a slogan than with precise meaning. According to the Fontana Dictionary of Modern Thought, ‘institutions are activities which are repeated or continuous within a regularised pattern that is based on the standards or values of a social group rather than of an individual.’ Sociologists usually speak of four major sets of institutions: political institutions regulate the competition for power; economic institutions are concerned with the production and distribution of goods and services; cultural institutions deal with the religious, artistic and expressive activities and traditions in the society; and friendship institutions focus on activities such as marriage and the family and the rearing of the young.

Development, thus, is a process of institutional change. Societies or groups stop doing things; they do things differently; they do new things.

Institutional strengthening, it follows, relates to the selection of things to stop or start doing; whether to adapt existing ways of doing things or to adopt entirely new ways to do them; and how best to adapt existing ways.

For the vast majority of the people of Papua New Guinea, development stalled around the mid-1980s. Institutional change has been too slow in economic production and too fast in consumption.

In Papua New Guinea institutional strengthening in practice relates mainly to making government work better. This allocation of effort is, in part, short-sighted —the primary impediment to development is market failure. Neither of these two institutions is likely to achieve the ideal; governments and markets, like all human institutions, are not only imperfect but also imperfectible. The mix of imperfect government and market that delivers the socially optimal outcome, whatever that might be, is everywhere and always keenly debated.

In Papua New Guinea, in the run up to the new millennium, the crucial issue in the debate is what government can do about economic markets that have delivered one-third (and rising) unemployment and unmanageable crime. By textbook definition such markets are not well-formed and are unlikely to respond to textbook prescriptions. In this post-ideological age, pragmatism is king. ‘Who cares what colour the cat is’, asked Deng Xiaoping as he set China on the world’s highest growth
path, ‘as long as it catches mice?’ When will the World Bank, with equal candour, say of Papua New Guinea: who cares who finances agricultural export production as long as it delivers rising incomes to all Papua New Guineans and reduces crime to manageable levels? When private investment falls short, as it does in education, public investment cheerfully takes its place. Why not in agriculture?

The land and people since 1975 called Papua New Guinea existed for a long time not knowing of the wider world. Accordingly, until relatively recently it experienced very little technological or institutional change, the main engines of development. This was a time of stable, slowly growing populations and stationary standards of living, with a generous degree of leisure afforded by nature. This pattern of human settlement formed economic attitudes and institutions briefly summarised as

- many, small, self-sufficient command economies
- usufructuary rights over abundant land allocated to family units by clan leaders on the basis of subsistence needs
- household labour allocated to subsistence production by male head of household: gender biased
- male status and distribution dominating production as economic objectives
- absence of need for capital accumulation or asset maintenance
- mutual trust and support within communities
- distrust and shifting alliances between communities.

These traditional economic attitudes and institutions, which have carried through to the present time, are largely antithetical to those which are appropriate to the modern, interdependent, globalising exchange economy and rising standards of living to which Papua New Guinea aspires.

The current pervasive disappointment with development progress towards that goal reflects the ‘lose–lose’ outcome of the inevitable collision between these two sets of economic institutions in the modernising process. From the modern perspective the collision has left the economy growing at a rate far below its potential.

Unsurprisingly the most laggardly sector is the ‘traditional’ sector, variously also referred to as the rural or informal sector. After all, in the 10,000 years or 99 per cent of settled subsistence society there was little call for maximising output as the basis for rising living standards. Surplus land and labour was, and remains, the norm: Papua New Guinea is land abundant—five times the per capita world average, 10 times that of Asia—and its geography makes it productive, making for ‘subsistence affluence.’

This institutional rigidity appears not to have been recognised by development strategists. Probably it was masked during the 1970s by the 9 per cent annual growth in smallholder coffee production—here was the traditional sector responding vigorously to cash cropping opportunities, as economic theory would predict. This would have supported the 1972 Eight Point Plan which assumed high economic growth. But coffee output growth declined abruptly at the end of the decade to less than the population growth.

It seems likely that the cash cropping surge was based not on wholesale endogenous institutional change but on the absorption of mainly female labour surplus to subsistence production requirements.

The famine currently gripping the country highlights, in the most dramatic
way, the need to break down these institutional rigidities and move the rural sector to full employment. It also exposes the fallacy in the import substitution argument that, for food security reasons, Papua New Guinea should do this by growing the rice that it consumes. Farmers or government can do nothing to prevent El Nino from visiting drought upon the land periodically; but they can build up the cash reserves during the good times that would enable them to buy the extra imports needed when home production fails. Moreover, rice production would fail in a drought just as surely as would kau kau. Income, not local food production, is the best guarantee of food security.

Real rural per capita incomes, affecting 85 per cent of the population, could grow at 5 per cent per year over the next 15 years using today’s low-input, low-output mode of production, that is, requiring minimum investment, before today’s labour overhang would have been absorbed. But this can’t begin until wise and pragmatic policy addresses the dysfunctional economic institutions which have generated idle land, labour and capital, the principal characteristic of Papua New Guinea’s economy today.

However, the massive market failure implied in the condition is rarely recognised in discussions of Papua New Guinea’s development performance. Rather, failure of government to deliver goods and service to the people tends to be perceived as the main impediment to development. Hence ‘institutional strengthening’ most often relates to making government work better. This is illustrated in the recent report of the Committee of Review of Australia’s international aid programs.

Australia directs 20 per cent of its overseas aid to Papua New Guinea, its nearest neighbour. Accordingly, the report of the Committee of Review into that aid program devotes a chapter to that country and the Pacific Islands, but only 8 of its total 321 pages specifically to Papua New Guinea (Simons Committee of Review 1997).

The abstract to the chapter reads in part ‘in particular there is a strong need to continue efforts to support good governance.’ Unlike many reports on development increasingly using the words ‘good governance,’ the authors of this report say what the phrase means, in a glossary ‘the effective management of a country’s social and economic resources in a manner that is open, transparent, accountable and equitable.’

Briefly the report’s five recommendations relating specifically to Papua New Guinea are

6.1 Allow the treaty to lapse on its expiry in 2000.
6.2 Begin with the 1998 review of the treaty to formulate the (fewer) benchmarks to replace the treaty for determining how much aid and where to direct it.
6.3 Design short courses in public administration for teaching in the University of Papua New Guinea.
6.4 Make good governance a priority, support independent institutions of governance and encourage the long term engagement with the World Bank.
6.9 Support development strategy research and development and put more staff in the field.

These recommendations flow from an acceptance of the conventional wisdom relating to Papua New Guinea’s development strategy and its disappointing performance.

The conventional wisdom, as captured by the report, implies that Papua New Guinea, despite abundant natural
resources, ranks 126 out of 174 countries in human development terms because government leadership and the public service are either incompetent or corrupt or both. It also implies that the development problem is a 1990s phenomenon, probably initiated by the economic losses stemming from the sociopolitical closure of North Solomons by the Bougainville Revolutionary Army in 1989.

There are a number of things wrong with this view. First, the surprise is not that Papua New Guinea ranks a lowly 126 out of 174 on the UNDP’s scale but that it doesn’t rank even lower, given that development takes time; Papua New Guinea started late; and natural resources in and of themselves don’t raise people’s living standards. Comparing Papua New Guinea’s development performance with its potential is more relevant than comparing it with other countries’ performance.

This is also more difficult to do, requiring an estimate of potential, which is easier to assume than to estimate. For example, economic growth did not feature in the Eight Point Plan, formulated by international consultants in the early 1970s, to guide the soon-to-be independent State; rather, it was assumed at 9 per cent per year which, if achieved, would have fully warranted the plan’s wholly distributional objectives. But it wasn’t achieved—by a wide margin—and thus began Papua New Guinea’s development problem, long before the conventional view has it beginning, the second weakness in that view.

Despite the mid-1980s review of the medium-term development strategy and the mid-1990s structural adjustment program, Papua New Guinea still does not have a good idea of what its potential economic growth rate is. AusAID would go a long way towards warranting the committee’s belief that AusAID can ‘make a difference’ by assisting Papua New Guinea’s planners estimate this central piece of planning information, including sectoral growth, particularly for the rural smallholder export sector. Getting this sector to produce to its potential is the key to Papua New Guinea’s viability. Under-performance here constitutes a huge market failure which the conventional view ignores, preferring instead to focus on government failure.

This is not to deny government failure, merely to assert that it is not the only failure nor even the main one.

Reading recommendations 6.1, 6.2 and 6.9 reveals an inconsistency. The ‘special attention’ called for in 6.9 supports the retention beyond 2000 of a Treaty, rather than allowing it to lapse as per 6.1, revised to include the benchmark system as per 6.2. This would protect Papua New Guinea against a unilateral reduction by Australia despite Papua New Guinea achieving benchmark performance. The benchmark system itself would give sufficient protection for Australia against Papua New Guinea’s non-performance.

Given that market failure is Papua New Guinea’s main development inhibitor, international aid should focus on economic reforms more than on good governance issues (recommendation 6.4). Regrettably the current reform program is unlikely to achieve the 15-year, 8 per cent annual expansion in the smallholder export sector needed to realise its potential output and ensure Papua New Guinea’s viability. The reform program assumes that this producer response, or similar, will automatically follow from removal of policy-induced price distortions in the modern sector—deregulating wages, floating the kina and reducing import tariffs. But it hasn’t yet done so five years after wage deregulation and three years after the float. With only the tariff lever left to pull, the reform
program faces the real possibility that tariff reduction too, will fail to elicit the necessary response. Accordingly, development strategists ought already to be considering what to try next.

Using the proceeds of asset sales and savings from restrained spending to finance expansion of the informal smallholder export sector would give a high rate of return in the public investment program. Local export sales would finance local social expenditures. Government would become more effective, not necessarily bigger.

More than public finance is needed. Clan leaders throughout the land need to be convinced that it is in their best interests and those of the communities for whom they are the economic managers to open up their land to export production and to recall their emigrant unemployed sons in the towns to return to their ples and plant up new land. This is the challenge—to forge a development covenant between the traditional economical managers and the modern ones.

Reference