Two recent articles on PNG invite comment. Satish Chand’s ‘Targeting Growth in Papua New Guinea’ (Chand 2006) joins an International Monetary Fund paper (see Faal, this volume) using the standard growth accounting framework to examine Papua New Guinea’s medium-term prospects for growth and poverty reduction. Dr Faal uses the framework to compute the investment rate required to achieve 5 per cent real GDP growth to 2010. He estimates that an investment level of 23 per cent of GDP is needed, as compared to the level of 19 per cent declining to 13 per cent realised since 1996; or that a productivity growth rate of 3 per cent is necessary, as compared to the rate of 0.1 per cent declining to –1.2 per cent in the period since 1996. But 5 per cent real GDP growth adequately reflects neither poverty concerns nor economic potential. Dr Chand aims for 8.5 per cent real annual GDP growth—estimated to require a combination of an investment level of 30 per cent of GDP and productivity growth of 1.5 per cent, as compared to 18 per cent and 0.2 per cent in 2004, respectively.¹

While the papers differ in the detail, they convey the same big picture message: the need for substantially higher investment rates. They also constrain labour’s contribution to the rate of growth in the labour force, as would necessarily be the case in a fully employed economy. But Papua New Guinea’s large labour overhang allows for higher contributions from labour over a finite period, an opportunity which neither paper examines. The overhang reflects the workforce in the informal monetised sector growing more slowly than the labour force in the past. This explains the negative or very low rates of productivity growth found in the analyses, that is, they represent wasted labour. Larger labour force contributions imply lower investment rates.

Dr Chand offers the conventional advice to go for growth first and address equity issues later, which would be unremarkable, again, in a fully employed economy. But unemployment rates of 40 per cent or more pose the challenge to achieve both objectives simultaneously. This can be done by targeting investment to maximise labour absorption per unit of investment, as would be the case in developing customary land to low-technology, tree-crop agriculture. By tweaking the parameters to reflect this sector
better and lifting labour input growth to the rate required to eliminate the overhang by 2020, the standard model generates single digit investment rates in achieving the objective of 8.5 per cent real growth in output. But with so much guesswork involved in putting numbers to the model’s parameters, a bottom-up project approach might be more useful to gauge the investment required to bring the economy to full employment.

The Yala and Duncan economic survey (2006) is critical of governments for investing too little of the revenue from depleting non-renewable assets, particularly minerals and oil, in creating replacement assets such as economic and social infrastructure. Its conceptual appeal notwithstanding: how practically relevant for policy is the notion of funding investment in renewable assets with the proceeds from depleting mineral and oil assets? There are two points. First, exploration, discovery and development replace mined reserves and the national stock of proven reserves tends to grow until peak production is reached. The current level of exploration suggests that time is some way off. Second, the more significant feature of mineral and oil revenue than its non-renewable origin is its foreign exchange nature, in which sense it is similar to aid. In the first half of Papua New Guinea’s sovereign life, increases in mineral and oil revenues only partially replaced decreases in aid; they were not additional revenues available to fund investment in renewable replacement assets.

A stronger criticism of policy would relate to public investment in the resource sector—which is not short of private financing—rather than in cash-strapped agriculture. Moreover, agriculture would provide a far greater employment return on public investment than mining. The 2006 budget set aside K400 million for investment in the project to pipe gas from Papua New Guinea to Australia.\(^2\) The economy will not be any bigger or employ more people or export more or yield more tax with the public investment than without it. The project required only the government’s approval, not its money. Invested in sluggish agriculture, in stark contrast to the buoyancy of the resources sector, K400 million would support economic growth, employment, exports and taxes. It would reduce unemployment, poverty and crime. In the idealised world of orthodox policy, governments need not, and would not, invest in either sector but would limit public investment to economic and social infrastructure. But the country’s fall from middle income to least developed status, according to the United Nations, and the million or so of its citizens who, since independence, have joined the ranks of the hidden unemployed, underscores the urgent need for policy capable of addressing the messier real world.

The survey identifies agriculture as offering the best potential for broad-based income growth, a widely agreed proposition. More contentiously it implies that the potential is unlikely to be realised until secure individual land title is available to underpin the investment needed to raise agricultural productivity. Evidentially, that happy state is a long way off, as the World Bank’s recent recognition of the legitimacy of group title to land—retreating from its earlier insistence on individual title—testifies. Productivity growth is the only source of per capita income growth in a fully employed economy. But raising the labour force participation rate in Papua New Guinea, which is afflicted with a near 70 per cent incremental unemployment rate, is more urgent and more important to do, and more do-able, than boosting productivity. The two paths to income growth are not mutually exclusive.

Yala and Duncan judge the 1992 wages deregulation a microeconomic reform success. Procedurally it was, as the survey
notes. Whether it succeeded in creating jobs, however, depends on whether the employment growth noted by Levantis (2000), on which the survey relies, was structural or cyclical and whether, if structural, it was due to wages reform or exchange rate deregulation which followed two years later. Levantis looked at three successive five-year periods and found higher employment growth in the 1990s than in the 1980s. But this type of comparison is inherently sensitive to the periods selected. Whereas the selected 1990s period started at the low point in the cycle, the 1980s period did not. In the decade of the 1980s, the low point in urban employment occurred in 1984, following the world recession. The high point occurred in 1989 before the closure of the Panguna mine and the contractionary policy responses plunged the economy into recession again. Over the intervening five years, formal, private sector and urban employment grew 18 per cent. In the five years from 1993, when the economy began to climb out of the recession, employment grew, again, 18 per cent. Compared with the 3.4 per cent annualised employment growth, trough to peak, employment peak to peak grew a mere 0.5 per cent annually. Levantis notes that the 1990s recovery occurred in the face of a number of employment negatives, as compared with the benign 1980s. However, there were employment positives in the 1990s, too, which the 1980s did not experience: an export boom (oil, gold and logs) and the boom in public expenditure it created, and the establishment of new protected industries (cement and fish canning). Levantis found little evidence between 1992 and 1995 of the expected fall in nominal wages; finding instead a 27 per cent fall in real wages, a consequence of currency depreciation following the float in 1994. The equivalence in employment growth in the 1980s and 1990s—despite the latter period’s lower real wage—strongly suggests that formal urban employment has been constrained on the demand side more than on the supply side. Its low level and growth have more to do with low, slowly-growing incomes in the numerically six-times larger rural sector than with high urban wages. That the 1992 wage de-regulation did not create jobs was no surprise: a labour market survey in 1991 (McGavin 1991) revealed that the market was paying more than the statutory minima, except at the unskilled level. The minimum national wage is now, after the kina’s 70 per cent loss in international purchasing power (courtesy of an overweight public sector), roughly equal to the US$2 per day poverty threshold.

Notes

1. The investment rate is net (approximately) whereas it is gross in the Faal paper.
2. However, the project as originally envisaged has virtually been abandoned.

References


