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# The Paradox of Wealth without Development

**Thomas Webster and Linda Duncan (eds.): Papua New Guinea's Development Performance 1975-2008. Port Moresby: National Research Institute, September 2010. Monograph No. 41, 165 pages. 20US$.**

> "You would think the LNG Gas Project would have changed the livelihood of the people, living within the immediate vicinity of the project site, but the real truth is that it has brought nothing for them to live or show for a project of this magnitude." The project he said has influenced a complete shift in the traditional cultural setting to a newly adopted lifestyle. It has transformed the mindset of the people (…) to one of dependency, money or compensation, and disrespect to the rule of law. He said the National Government must intervene immediately." (Interview with the director of the National Intelligence Organisation, former Police Commissioner and Controller of a State of Emergency, Gari Baki, in the *Post-Courier* of April 26, 2013 "Anarchy rife in Hela")

In his speeches, Prime Minister Peter O'Neill repeatedly refers to deficits in the development of his country, Papua New Guinea (PNG). Although the South Pacific island-state is rich in natural resources, the economic and social development of the majority population is scarcely making any progress. Rather, poverty has actually increased with the oil boom of the 1990s. As a result, there has been a nearly one-fourth decline in real per capita gross domestic product, which measures the material welfare of a country. Even the resource boom since 2004, construction of a US$19 billion liquefied natural gas project, and 7–11 percent annual growth rates in the economy that is comparable to China, have also scarcely brought any positive changes here. It is as if things are under a spell. Although hundreds of millions of Kina flow into the expansion of infrastructure and health and education facilities, it is regularly stated that: "there is nothing to show for it on the ground."

The World Bank also repeated this theme in 2012 in its country partnership strategy (Report No. 71440-PG). They found that despite rapid economic growth, increased state income and reduced state debt, no improvement can be seen in the well-being of large parts of the population. The proportion of the population living below the absolute poverty line continues to be around 40 percent. Up to 50 percent of children are undernourished. Poor access to public services (health, education, clean water) and lack of opportunities for local participation in an increasingly monetized society are criticized. The society is currently experiencing massive economic, social and ecological structural changes which are eroding social cohesion and increasing potential for conflict. In view of the fact that the millennium developmental goals will not even come close to being achieved, the World Bank speaks of the "paradox of wealth without development."

A multidisciplinary study published by PNG's state National Research Institute (NRI) in 2010 promises insights into the causes of this economic and social stagnation. The report seeks to establish the causes of failed development since the country became independent in 1975. Development is a complex, multidimensional process which is difficult to quantify. Such development aims at better quality of life, and in addition to the economy and the political sphere, it also takes social and environmental factors into account. The key assumption of the research is that: despite recent favourable macro-economic indicators, development since independence has not extended to a high proportion of citizens. The failure to achieve better participation of the local population in the money economy is the result of political failure to implement the six development plans presented since independence. Since 2003 the following goals have been set: rural development, export-led economic growth, good governance and reduction of both poverty and state debt. The reasons for the failure of most goals are difficult to identify. Lack of resources, absence of ownership of the plans, excessively broad goals, non-existence of quantifiable benchmarks and lack of reliable data have been named as influential factors.

A look back into the history of the country reveals additional causes of the failures. The euphoria at independence over the successful birth of a new nation with a constitution it had worked out for itself, its own currency and a three-level state structure vanished with the oil price shock of 1979. On top of this came the reduction of Australian subsidies from 45 percent of the state budget down to zero by 2001, which was only partly compensated for by investments from developmental aid. However, the most important argument is the inconsistent and insufficient economic growth of (on average) 3 percent (1986–2004) or 0.8 percent (1996–2004), coupled with 2.9 percent population growth annually. When the notorious mismanagement, corruption and low level of transparency and accountability mechanisms are also taken into account, it becomes clear that at the existing level of income the resources available for maintenance and investment are decreasing. The consequence is a long-term decline in public institutions.

The oil boom of the 1990s, until now the high point of central state mismanagement, was accompanied by extreme political instability (three prime ministers in five years), excessive fiscal expenditures, accumulated debts, the Bougainville crisis, and food shortages as a result of the El Niño climate phenomenon and the consequences of the Asian crisis. On top of these came the Dutch disease effects of exchange rate-related losses in income suffered by non-mineral exporters (increase in the value of the Kina), and policies which can be summarized under the heading "resource curse." The "Mineral Resource Stabilisation Fund", which was supposed to ensure annual state spending at a constant level and is currently undergoing transformation into the "Sovereign Wealth Fund," had to be abandoned in 2000 as a result of being completely empty.

It is true that consolidation towards political, financial and fiscal stability has been discernible since the new millennium, manifest in an independent central bank (comparable to the former German Federal Bank) and prohibition of the frequent changes of party by members of parliament. However, these partial successes did not compensate for the structural problems. The decline of public services and economic success corresponds with the decreasing capacity and work ethic in public administration and state corporations, which since the 1980s, have experienced massive politicization as a result of influence and patronage. As a result, functionally empowering the state and its employees to deal with the needs of the country's own citizens can be seen as one of the greatest challenges for PNG's development.

The last chapter of the study then closely examines conditions affecting politics and government. Characteristic here are formation of coalition governments, which reached its peak until now in 2002 with 22 participating parties (the only election in which one party won more than 30 of the 109 seats took place in 1982), and votes of no confidence, which have reduced the usual lifetime of government from five years (up until 2002) to two-and-a-half years. Even more relevant, however, is a political culture in which participants place personal enrichment ahead of national interests. Already in 1980 members of the national parliament saw their influence threatened by elected provincial governments, which – established only three years before in the course of decentralization – were already discredited after a few years as a result of cronyism, mismanagement and corruption. As a result of this jostling for power and status, funds for the development of their constituencies were then paid directly to members of parliament. These funds, which are still being paid right up to today and now amount to millions, opened the door to abuses at the national level.

Added to these came, at the latest with the 1987 elections, intimidation, violence and administrative problems (voter rolls), which the former priest, one of the fathers of the constitution and current president of the Autonomous Region of Bougainville, John Momis, criticized as “not a triumph of democracy but a triumph of money, manipulation, and backroom deals which have subverted the will of the people” (p. 149). The legal expert, Yash Ghai, who with the Fiji Constitutional Commission of which he was the chair, presented the first draft of Fiji’s new constitution in 2012, wrote the farewell to democracy at that time: “The whole parliamentary system is now lubricated by cash. Candidates unable to count on party organisation or the loyalty of supporters to win elections, rely on monetary or other material incentives to win votes. Reciprocity and ethnic ties have become the basis of politics” (p. 157). In 1989 the world’s most comprehensive judicial inquiry into forestry practices drew attention to the frightening extent of the abuse of power and corruption in the links between politics and big business.

In closing, what can be learned from the experience of the lost decades? It is clear that PNG has not made much progress with democracy. The “illiberal” democracy (as Alphonse Gelu, the present Registrar of Political Parties said of the political party system in 2000) is neither inclusive (all people having equal political rights and freedoms, regardless of their origins) nor participatory or accountable. Politicians neither respond to the needs of citizens nor act as though responsible to them. They regard themselves (if they think about it at all) as the leaders of their ethnic clientele, not as representatives of their constituency. Thus, today it is a matter of carrying out a necessary reconciliation – anchored in the constitution and the rule of law – of the central pillars making up society, democracy and the country’s cultural heritage. More than ever, PNG continues to be a geographically, culturally and linguistically divided country.

Even though indicators of social development have improved slightly since 2008, no departure from the basic structural problems of the country is visible. The decision of the government, in view of the enduring stagnation, to transfer financial resources from central agencies in the capital city over the heads of provincial governments to the 89 districts and hundreds of local-level governments (LLG) is, at least in the foreseeable future, condemned to failure, because of the lack of necessary infrastructure and personnel, and, above all, the lack of transparency and accountability. This policy would have to be implemented by locally elected political representatives of the LLGs independent from members of the national parliament. New services such as free public schools and hospitals will hardly be successful nationwide. Doubts are strong regarding the use of the immense opportunity offered by the liquefied natural gas project to benefit the economy *and* society. The study is available online at: www.nri.org.pg

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