



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

ASPECTS OF ECONOMIC DEVELOPMENT IN PAPUA AND NEW GUINEA

G. O. GUTMAN*

Department of Territories, Canberra

In Papua and New Guinea today a rapidly growing market economy and a primitive subsistence economy exist side by side. Australian policy calls for more economic development and quicker advancement of the indigenous people. This means that tribal subsistence society must be drawn increasingly into the development of the market economy. Broad strategies for reaching these objectives are considered along with a closer examination of problems of land tenure, wage policy and planning machinery.

Background

Economic development has been defined as “a process in which the people of a region come to exploit to a fuller extent the productive resources available to them”. My aim is to outline the form this process is currently taking in Papua and New Guinea.

The total area of the Territory is a little less than 200,000 square miles—about double the size of Victoria. Its population of about 2 million includes roughly 35,000 non-native residents, mainly Australian with a sprinkling of Chinese and other Asians. The great majority of the country's population engage in subsistence agriculture. Perhaps a quarter of a million are involved to a greater or lesser extent in the production of cash crops. There are in addition over 90,000 indigenes working for wages. Of these about half are employed in primary production and somewhat more than a quarter are employed by the Administration.

The Territory's Gross National Product in 1963 was of the order of \$300M of which slightly more than half originated in the subsistence sector. Exports amount to just over \$50M per annum and consist principally of tropical plantation products—copra, coffee, cocoa, rubber and timber. In contrast, imports in 1963 were valued at \$70M. Their level is sustained out of the annual budgetary grants made by the Australian Government. These have increased from about \$14M in 1954/55 to more than \$60M in 1965/66 and are supplemented by other Commonwealth expenditures especially for defence purposes.

Of somewhat more than half a million children aged between five and 13, slightly less than one third are receiving primary education, most of them in schools run by Christian Missions; but the proportion of children at Administration schools has been increasing rapidly. Health services are roughly on a par with those in comparable underdeveloped countries. There are five base hospitals and more than 200 smaller ones spread over the Territory. The ratio of medical practitioners and assistant medical practitioners to total population is of the order of 1 to 12,000 which compares with 1 to 90 in Australia and 1 to 19,000 in Tanzania.

Fisk, in reviewing the Territory situation, has put it thus:¹

* The views here expressed are the author's own and not necessarily those of his employers or colleagues.

¹ Fisk, E. K. The Economic Structure. In Fisk, E. K. (ed.), *New Guinea on the Threshold*, Aust. National Univ. Press, Canberra, 1966.

"The overall picture that emerges is that of a low income country in which virtually all of the population have as much food as they want, are housed adequately by their own traditional standards and have ample leisure for feasting, ceremonial and other pastimes. It is an economy that is potentially viable and self-sufficient at a level of primitive affluence, but is almost entirely dependent on external aid and on the importation of foreign skills and capital for any advance beyond that very primitive level This advancement has already made considerable progress and the foundations upon which economic independence may ultimately develop have already been laid"

Into this economic environment the idea of planned economic progress and of a five-year economic programme has only in recent years been introduced. That this is so, is not due to tardiness or inadvertence on the part of the Administration. Before the scene was set for such planned progress for the Territory as a whole, a huge task, carried out over many decades, and only recently completed, confronted the administering authorities. This task was the establishment of law and order in a populous stone-age society composed of some 600 tribes and almost as many language groups engaged in continuous tribal warfare, the scale of which was limited only by the enormous difficulties of the country's topography and the consequent isolation of many regions.

For a long period, therefore, the Territory's Administration was concerned with law and order first and foremost—concerned not merely with the maintenance of law and order but with its establishment in many different regions. The central Highland area which contains more than one third of the country's total population was explored only 30 years ago and its pacification was completed only during the last decade. District by district this great task of social pioneering had to precede economic and social development. In the course of accomplishing this task the Government's administrative machinery steadily strengthened its ability to keep law and order in the Territory and at the same time developed its own capacity for planning and implementing measures of social and economic advancement.

Much was achieved during that period. A system of medical aid stations, of schools and of judicial institutions was established, at first in the more easily accessible areas from where it now extends (albeit sometimes in more diluted form) into the farthest reaches of the Territory.

At a very early stage of a country's emergence from primitive subsistence agriculture, the absence of conscious planning and programming is hardly felt. Priorities are self-evident: the establishment of law and order; basic health services; the beginning of formal education and language training; simple improvements for subsistence agriculture such as the introduction of metal tools.

The gradual evolution in the approach to the Administration's task may be illustrated by three quotations. In 1888 McGregor, the first Administrator of British New Guinea, said:²

"We had first to found our Government stations and we have been using each station as a centre from which our authority is gradually radiating Beyond that there is the old state of things, every tribe fighting its neighbour, so when we go into a new district we almost

² Quoted in Legge, J. D., *Australian Colonial Policy*, Angus and Robertson, Sydney, 1956, p. 70.

invariably have to fight the principal fighting tribe of the district If we do fight I always insist upon fighting it out and never leave it in doubt as to who is master. In that way we very seldom have to do it over again."

Forty years later Sir Hubert Murray said:³

"The first duty of any Government is to maintain law and order Development whether mining or agricultural, depends in the first instance upon natural resources of the country and secondly upon the quantity and quality of the available labour. All that a Government can do is to pass a reasonable Native Labour Ordinance, and to make the conditions of land tenure as easy as possible; and this was done . . ."

In 1959 the report of the United Nations Visiting Mission stated that:⁴

"The Minister for Territories was reported to have stated recently that more emphasis would now be given to the economic advancement of the people of the Territory and that the Government's concern for quicker advancement was more for indigenous persons than for Europeans. The emphasis would be shifted from the present concentration on establishing a sound functioning of the Administration, basic capital works and better services and facilities to a quickening of the economic advancement of the people The Minister stated that this was not a change of policy but a change of emphasis."

Current policy is expressed in a statement by the present Minister for Territories in the House of Representatives in May 1965 when commenting on the report of the Economic Mission sent out by the World Bank:⁵

"The Mission has recommended a five year development programme which places major emphasis on stimulating the productive potential of the Territory and on advancement of the native people through education, vocational training and the acceptance of greater responsibility. The Government endorses these objectives which are vital if the movement of the Territory's two million people towards self-government is to be paralleled by steady progress towards economic self-dependence . . ."

Problems of Planning

Turning now to some of the issues of current economic planning, I think it useful to distinguish for the purpose of such a discussion five levels of economic planning.

The first one naturally is related to the broad assessment of resources available for development.

On the second level of economic planning we deal with the broad strategies through which the basic aims of development are to be realized. This comprises decisions on the division of the gross national product between consumption and investment; the division of resources between the public and private sector; etc.

³ Murray, H., *Australian Policy in Papua*. In Campbell, P. *et al.* (eds.), *Studies in Australian Affairs*, Melbourne Univ. Press, 1928, pp. 242-3.

⁴ *Report of U.N. Visiting Mission to Papua and New Guinea, 1959*. U.N., New York, Twenty-fourth Session, 2 June-6 August, 1959, Supplement No. 5.

⁵ Statement by Hon. C. E. Barnes, Minister for Territories, *Hansard*, May, 1965, p. 1143.

The setting of targets for the various sectors of the economy both in the economic and in the social field would constitute the third level of planning while on the fourth level I should place the formulation of specific projects designed to reach these targets.

Finally on the fifth level we come to grapple with the specific policies on the basis of which Administrators make their decisions. Under this heading come questions of policies in the fields of trade, agriculture, tariffs, wages, banking, population and so forth.

I propose to concentrate in my discussion on only two of these five aspects, namely the broad strategy of planning and some of the more detailed policies in which this strategy is reflected. In doing so it is necessary to reiterate that the diversity of Territory conditions makes generalization and the attempt to delineate *broad* strategies and *broad* policies more tenuous than in the case of most countries. Indeed, it is only through European eyes that the Territory was first seen as a country. Till then its population had no common language, few common customs; nor, so far as we know, any common historical experience. Its people, indeed, had in many cases little knowledge of one another and it is only quite recently that some of them, though perhaps not as yet a majority, have come to look upon themselves as fellow citizens in what will one day be a self-governing country. I say all this by way of partial excuse for the lack of continuity in the remarks that follow. Their sketchiness to some extent reflects the heterogeneous nature of the country's geography, its people and their problems.

Some Basic Strategies

The basic aim of economic planning in the Territory has been defined in the quotation from the recent speech by the Minister for Territories. In brief it calls for promoting the development of the productive potential of the Territory and also the advancement of its people.

Economic strategy cannot be applied in a social vacuum. In the Territory it proceeds in a social environment where the greater part of the population live in a subsistence economy with only tenuous contacts with the money economy and where the concept of economic planning—the very concept of economic rationality as we understand it—is deeply alien to a large section of the community. In the Territory, therefore, more than elsewhere economic plans, if they are to be socially and politically acceptable, may have to deviate from the strict course of economic rationality if the attempt to relate these efforts to the needs and aspirations of the local population is to have any meaning.

An economic strategy must, to start with, take account of the basic rule of planning: "make use of resources which are in ample supply and be thrifty with those that are scarce". In the Territory land and unskilled labour are ample but not, of course, necessarily in every region; and capital and even more so, skilled labour are scarce. Such simple rules do not yield any immediate or clear-cut conclusions. It may happen sometimes for instance that projects or activities which are sophisticated and capital intensive even by the standards of developed societies need to be given high priority in a primitive economy. Thus it has been suggested that a television network should be set up in some of the more closely settled areas of the Territory. A crash programme of mass education through television would drastically economize the use of teachers who are in even scarcer supply than capital—so the argument runs.

Again one often finds that natives have a strong preference for imported goods and materials in situations where local substitutes should render cheaper and equally efficient service. In a distant valley in the Highlands, for example, houses might be constructed for native staff in newly established medical aid or Administration posts. The local people can construct sizable and commodious huts according to traditional plans with local materials. Some of these might even be constructed side by side with European-type dwellings using imported sawn timber and corrugated iron and asbestos roofing. The construction cost of native houses may be only one tenth of European-type houses. Three reasons might be quoted why European-type houses are needed: traditional native dwellings have a much shorter period of life, perhaps one third of that of the European type; labour although cheap is not always willingly offering and has to be supervised; and finally: native officials, medical assistants, constables, teachers, etc. prefer the European-type dwelling. The first and second of these arguments may be rejected on economic grounds. The high labour component and lack of durability of native materials notwithstanding, native-constructed housing is cheap in monetary terms and cheaper still if the low opportunity cost of local labour and materials is allowed for. But the desire of natives to emulate European housing standards is an important social factor which may make it difficult to apply soundly the simple tenets of resource allocation.

The recent I.B.R.D. Mission Report⁶ placed great emphasis on what it calls the principle of concentration. And this indeed needs to be one of the basic elements in an economic strategy. Concentration means in the simplest terms no more than that expenditure ought to be concentrated where it yields the best results. But the principle has implications which reach beyond the simple marginal principles of allocating resources. It implies that both functionally and regionally resources have to be applied unevenly and in large doses if the possibilities of increasing returns and external economies are to be fully exploited. The question bears on the familiar argument on whether or not economic development should be balanced. I do not propose to enter here upon the finer points of this question, but may perhaps illustrate the type of problem that arises.

It is a familiar proposition that in economic planning the allocation of resources between sectors needs to take careful account of the marginal propensities to consume.⁷ Thus if studies of household expenditure patterns show that out of an increase in income, so much tends to be spent on soap, so much on the acquisition of pigs for ceremonial purposes or on tinned food, etc., then this should be made the basis of the allocation of resources. This approach clearly is applicable only to a minor extent to an economy such as the Territory's.

In the first instance, of course, the basic decision on how to divide public expenditures between investment and non-investment activities is not one that is entirely left to consumers even in developed countries. More importantly, the proposition pre-supposes the existence of a market and of market demands whereas in the Territory environment one of the major aims of developmental expenditure is still the creation of such a

⁶ International Bank for Reconstruction and Development, *The Economic Development of the Territory of Papua and New Guinea*, Johns Hopkins Press, Baltimore, 1965.

⁷ Likely future (as distinct from present) consumption patterns as well as export opportunities are among other factors to be taken into account.

market. Even where clear preferences are expressed by consumers they often tend to reflect the attitudes of a non-market economy. These attitudes are inconsistent with a rapid increase in production and advancement of the indigenous population. All this is clear. No economist or administrator suggests that planning of public sector expenditure needs to be guided by a consumer plebiscite however applicable this consideration may be to investment decisions in the private sector.

But I think it is true in the Territory to a greater degree than elsewhere that decisions on public expenditure have more often and more sharply to offend popular preferences if economic development and the advance of the indigenes are to be promoted. Such decisions require that a careful balance be struck between effects on the welfare of diverse groups such as indigenes as against expatriates; effects on present welfare as against future; and especially, of course, on the extent to which by means of subsidy or taxes, through persuasion or coercion, existing patterns of tastes and preference should be modified. The necessity for making such choices is not always understood and in the end decisions will often be based not on what consumers want at present but on what their representatives think they should have in the future.

There is nowadays, for example, a strong demand for more health services and more primary education in many regions of the Territory. In some cases such expenditure would be preferred by the local people (and many of them pay taxes) to expenditure on trafficable motor roads, more intensive agricultural extension services or the construction of secondary education institutions in more distant centres. As against this, rapid economic advancement may demand that primary education should be related to the slowly increasing capacity of secondary and technical educational facilities to absorb the primary school leavers. For it can be argued that primary education in the Territory confers few directly useful skills; it does little more than lay the basis needed to absorb such skills at the secondary and technical level of education.

While the functional allocation of resources can thus create considerable problems, this is even more true of regional allocation. There are in the Territory a number of heavily populated areas with few known natural resources capable of development. In contrast, there are other areas only sparsely populated and with considerable potential for development. It is only natural that people in densely populated regions should feel that they have a claim on programmed expenditure roughly proportional to their population. But to allow such claims could result in a frittering away of resources which could increase wealth if applied to more promising areas. It is in such areas that investment needs to be concentrated and to which labour needs to be drawn from poorer overpopulated districts. This need is one of the key economic problems of the Territory. Its dimensions are not readily understood by people of widely separated regions; on the one hand people do not always readily agree to leave their homes while others may not be easily persuaded to sell unused land resources for development for the benefit of strangers from distant regions.

If the logic of the concentration approach were carried to its final conclusion, it might suggest itself that investment expenditure should be mainly concentrated in the established market economy. This situation often occurs in underdeveloped countries where a technologically advanced sector staffed by western-trained or foreign operatives depends for

its supplies of skilled labour, raw materials, investment goods and even food, on imports and serves exclusively an export market. While this enclave of Western technology may be expanding rapidly, it impinges only little on the subsistence economy which continues to stagnate around it. This has happened in many tropical dependencies where plantation crops were grown or natural resources exploited by Europeans. Production was almost entirely for export and the savings of the entrepreneurs were usually invested abroad, the only important link with the indigenous environment being the native labour force.

Such concentration may still yield the best short-run returns. However, such development could well conflict with our basic objectives which call not only for increased economic viability through expanded production but also for the advancement of the indigene. This means that along with measures directed at accelerating growth of the existing commercial sector, development must aim at penetrating the subsistence economy which contains the bulk of the native population.

Fisk has recently analyzed some important features of this process.⁸ To promote it, ways must be found to open up markets outside the subsistence economy for the actual or potential surplus of labour and production. The absorption of surplus labour from the subsistence economy into the money economy is of course a process which in the Territory has gone on for a long time. As regards the marketing of the product—that is mainly food—of the subsistence sector, the geographical fragmentation of the country has often set narrow limits.

But even the existence of an accessible market is not enough. There are also needed natural resources for producing a marketable product and a capacity and willingness to produce such a product and to market it. It may well be that the product, e.g. a highly perishable food, is not suitable for marketing. If suitable, the supply may not be adequate; natural resources and labour may not be sufficient to produce a surplus above the immediate needs of the community. The situation might be remedied in the one case by introducing a marketable cash crop and in the other case by improving productivity (better implements, seed, cultural practices).

But even where these conditions are satisfied it is yet often found that incentive is lacking for producers to undertake the effort of producing and marketing crops for sale in the market economy. One of the reasons for this is that consumption habits tend to change only slowly. This applies to primitive societies even more than to our own. But the effect of this inertia of consumption is different in each case. In Western society, consumption by and large is a function of income. As incomes rise and fall, consumption responds after a time lag and in the interval savings correspondingly tend to increase or decline. In primitive society it seems to be more nearly true that income is a function of consumption plans. Money incomes are earned in order to realize specific consumption plans. When these plans stagnate in the absence of incentives for aiming at a new and higher level of consumption, the supply of cash crops and of labour services tends likewise to stagnate.

New wants must be introduced in order to stimulate new efforts. Fisk⁹

⁸ Fisk, E. K., Planning in a primitive economy: special problems of Papua-New Guinea. *Econ. Record* 38: 462-78, 1962; and Planning in a primitive economy: from pure subsistence to the production of a market surplus. *Econ. Record* 40: 156-74, 1964. For a critical dissent, cf. Whitehead, D., The pursuit of viability and social welfare in New Guinea. *Aust. Econ. Papers* 2: 56-73, 1963.

⁹ *Op. cit.*

has put forward interesting reasons for believing that these incentives do not work continuously and that unless newer and stronger incentives are constantly introduced, production will soon tend to level out or even recede.

Some Policy Problems

I have spoken so far about some aspects of a broad strategy for economic development and some of the difficulties besetting its application. I now turn to a few of the economic policy problems which economic development throws up. Out of a great number of such problems I propose to say something about three of four. In doing so I shall aim at expounding some aspects of the problems rather than attempt to present clear cut solutions.

Land

In the Territory the title to land is vested in the indigenous population—only minor areas have been alienated and more than 99 per cent of the total area is under native ownership. Land cannot be bought or sold by Europeans and can be leased by them only from the Government. The Government can and does buy and lease land from natives for the purpose of leasing it out to expatriate settlers. The bulk of the land under native ownership is not owned individually but is held in various forms of communal tenure whereby the land is owned by clans and sub-clans and allocated to individual households for a year or a number of years before being redistributed. Many exceptions no doubt exist but joint or communal ownership of land is a predominant feature in the native society.¹⁰ This situation raises formidable problems for economic development.

In the first instance communal ownership and the absence in most cases of clear individual claims to the production of a particular parcel of land over any long period are a severe discouragement to economic efforts. This is the more so as most cash crops in the Territory are tree crops with a comparatively long non-bearing period (coconuts, coffee, cocoa, rubber). Thus an enterprising native farmer may plant coconut palms on his land and tend them for years only to find that when they begin to bear fruit most of the product is claimed by relatives and clan members who claim a joint and perhaps a superior title to the land or to the product. There are only two ways in which a native farmer who wishes to establish his own farm can proceed. First he might attempt to secure the agreement of his clan to divide the clan's land—or some of it—into plots with registered individual titles. The Administration has recently established machinery for handling such claims. The law governing these transactions requires that individual titles can only be given when there is unanimous agreement among clan members on dividing up their lands and the way in which it should be done. This is necessarily a drawn out and laborious process. Nevertheless there has been a tremendous quickening of interest in conversion to individual title among indigenous owners. The process could be speeded up considerably if the legislature agreed to having such decisions taken by majority verdict rather than by unanimous consent.

¹⁰ Another important and related characteristic of native society in most regions of the Territories is the absence of class or caste structure and of hereditary chieftainship.

Another possibility is for an indigene to lease land from the Government. To obtain land for this purpose the Government will as a rule have to negotiate with its native owners and this again is a long process requiring in effect, if not in law, the owners' unanimous consent. This can be so even where the land in question is uncultivated and apparently uninhabited. In such cases the Administration undertakes local enquiries to trace the owners, painstakingly establishing genealogies of clans and tribes who have or claim to have hereditary rights in the area. Recently a major timber lease was granted to an Australian company in a sparsely settled forest area where only a handful of New Guineans claimed hunting and food gathering rights. It took the Administration no less than 15 years to negotiate the sale with the owners and consummate the deal.

While the native attitude is difficult for us to understand it is yet an essential feature of the Territory's native society. As Mr. John Guise said recently in the course of a discussion on the subject, "the land is our way of life". If in Australia during a balance of payment crisis it were suggested that we ease the situation by selling some part of say the Northern Territory or Western Australia to the American or Japanese Governments, the most violent objections would rightly be raised. It seems unthinkable that anyone should suggest that a part of the country, the nation's heritage, should be sold like a shipload of wheat. I suppose the natives' attitude to land sales is somewhat similar.¹¹ While this attitude prevails rural investment will be severely discouraged. Even where the disincentive can be overcome, absence of individual titles prevents land from being pledged as a collateral for obtaining credit.

The land tenure system thus reduces the incentive to invest; denies the land holder the right to pledge his land as a collateral for obtaining credit; and prevents much idle land from being put to productive use.

There is a more subtle way, moreover, in which this system may seriously retard development. Where population pressures lead to diminishing returns, communal ownership of land and sharing of output tends to soften the economic pressures which in other societies produce the drift from the land. For in tribal society individual remuneration tends to be related to the average product of the ownership group and not to the marginal product. And average product may decline only gradually even where marginal product approaches zero.

In a developing economy the supply of labour is one of the limiting factors for the growth of the non-subsistence sectors.¹² These sectors can expand for as long as they can draw from the subsistence economy additional labour at a wage equal to the marginal productivity of that labour when employed in the market economy. And labour commonly will be available as long as marginal productivity in the market economy yields a wage equal to marginal earnings in the subsistence sector plus an incentive margin to induce mobility. But where subsistence earnings are related not to marginal but to *average* productivity, such wages will

¹¹ Viewed somewhat differently, this attitude also reflects the absence as yet of any developed sense of common nationhood among the Territories' scattered tribes. Mr. Fisk points out that I could have drawn an apter analogy with indigenes' attitudes to land by comparing them to a situation where the natives of Wyndham objected to the sale of land on the Ord River to Victorians.

¹² Cf. e.g. Lewis, R. A., Economic development with unlimited supply of labour. *Manchester School of Economic and Social Studies* 22: 139-91, 1956.

need to be correspondingly higher. The scope for non-agricultural employment will be restricted correspondingly.

I have put this problem here in its simplest form with no attempt to spell it out in rigorous theoretical terms. While the picture that emerges is no doubt overdrawn, considerations along these lines are likely to become relevant in the future. An inelastic supply of labour at an early stage of development retards the momentum of growth in the market economy and may prevent it from reaching quickly the size where economies of scale become available and promote cumulative self-sustaining growth. It is of course this growth and the demand for labour and cash crops generated by it which gradually transforms subsistence producers into cash croppers and wage earners.

Labour

These somewhat gloomy speculations have led us from matters of land tenure into one of the key questions in the field of wage policy. There are other questions here which claim attention. As we have seen, in the Territory's dual economy there exists a primitive indigenous sector side by side with an advanced market economy (partly private, partly Government) where almost all the key posts are filled by expatriate Europeans. In order to attract these expatriates to the Territory and keep them there they have to be remunerated at levels comparable to those prevalent in their country of origin plus an incentive margin. These levels of remuneration therefore are related to income levels and productivity in advanced economies and not necessarily to the vastly different economy of the Territory. As qualified indigenes become available to fill these posts the proper level of their remuneration raises certain problems.

In the Territory Public Service this matter was resolved by establishing for every position two wage scales—one to apply if the post is filled by an expatriate, another if filled by an indigenous employee. This arrangement has been criticized, firstly on the grounds that it is unjust and socially reprehensible because in practice it involves wage differentiation largely on the basis of colour. It is also charged that the system fails to give equal pay for equal work. It has been suggested that it would be preferable to apply a uniform scale to all positions and then to pay attraction allowances as required to expatriate employees.

Such a system may well be socially more acceptable but it would not, in any meaningful way, provide equal pay for equal work. The proposition that this maxim should be given effect to is clearly based on loose thinking. It is one of the facts of economic life that people in different economic environments get different pay for equal work. A bricklayer in Los Angeles doing the same job as a bricklayer in Sydney gets a considerably higher wage. If for any reason it is desired to attract him to Sydney it will be necessary to pay him whatever he is earning in Los Angeles plus perhaps an attraction allowance. American companies in Australia who regard it as important that their top managerial positions should be staffed by Americans are in the habit of paying them salaries appropriate to American conditions, while paying their Australian executives salaries appropriate to Australian conditions (though often with a generous attraction allowance added).

It would clearly not make economic sense to attempt to introduce Australian wage scales into the Territory environment where living standards and average earnings are vastly lower. But it is more difficult to

formulate principles on which these wage scales could be based. Moreover, the problem is posed not only for the average level of wages but also for relative wages. Just as average wages or earnings in the Territory cannot be fixed with reference to Australian levels, so there is no justification for assuming that Australia's egalitarian wage structure will be appropriate to the Territory.

It may be instructive to speculate in an academic way on what might be the position of wages in the Territory in the absence of the European administrative apparatus. In that situation the forces of supply and demand would ensure that the local wage structure would reflect, albeit imperfectly, the abundance of unskilled and the acute scarcity of skilled labour. As present minimum wages reflect an element of Australian social philosophy by being related to needs, market forces could well work in the direction of reducing minimum wages. In other words, wages of unskilled labour would more nearly be ruled by the earnings available in the subsistence economy than is the case at present. On the other hand the scarcity of skills would be greatly accentuated by the withdrawal of expatriates and it would be possible to imagine that the rewards for skill would at least be maintained at their present level or might even rise considerably. It is a matter for consideration to what extent wage structures within the Public Service (and outside) should or should not be permitted to reflect these relative scarcities of the market situation.

Investment

Economic development requires that national product¹³ be raised to the level where it yields an investible surplus above current consumption. The programmes of developing countries aim at reaching the so-called take-off point where the economy generates sufficient savings to sustain (together with such foreign loans and grants as are available) a level of investment which ensures continuous self-sustaining growth. The most crucial decision in planning of under-developed countries is consequently how to divide the gross national product between consumption and investment.

In the Territory this question has not to date been as sharply posed. This is so because the Territory has been unusually fortunately placed in having at its disposal a very large amount of external aid. During the current financial year, for example, such aid amounts to about \$40 per head which compares with something like \$2 per head in the case of India or \$4 per head for Pakistan. The Government's acceptance of the I.B.R.D. Report as a basis for planning in the Territory will involve an Australian contribution of the order of \$400M-500M over the next five years which will finance roughly two thirds of public sector expenditure.

As regards investment outside the public sector we have no data to gauge the rate of accumulation in the subsistence economy. In the native sector of the market economy substantial investment is no doubt proceeding but here too we still lack useful statistical information. Data available for the expatriate sector show that roughly two thirds of its investment is financed from current profits and the remainder from new capital inflow. While the total amount of investment in the expatriate private sector is not at present large, it amounts to a substantial proportion of the income of that sector—perhaps of the order of 30 per cent.

¹³ More correctly, national product plus foreign grants and borrowings.

In the Territory as elsewhere potential borrowers are heard to complain that credit is scarce while lending institutions deplore the absence of attractive investment opportunities. A recent decision by the Reserve Bank to exempt bank advances in the Territory for the purposes of the statutory reserve deposits should allow credit to expand in the private sector even during periods when credit restrictions are in force in Australia. Banking statistics indicate that as yet only part of the savings mobilized through the banking system in the Territory are invested there—with the remainder being transferred for investment in Australia.

While trading banks in the Territory are filling an important role in mobilizing savings and providing essential banking services, the Territory economy is not yet sufficiently advanced to give full scope to these institutions which have been developed in a very different economic setting. Trading banks look primarily to providing working capital to borrowers in good standing. The apparent high risk of enterprise in the Territory as a result of political factors and the unstable world market for its major cash crop deters trading banks from entering into venturesome fields or from dealing with small or new borrowers and with those who have no conventionally attractive collateral to offer.

The new Development Bank of Papua and New Guinea established last year should do much to fill gaps in the present credit structure. The new bank will provide credit to indigenous producers whose loan requirements are too small to attract commercial lending institutions and who because of the absence of individual titles to land have no security to offer. The new institution will also have the opportunity of filling an important role by taking up in selected instances equity in new private ventures. At present any sizable project in the private sector depends almost entirely on the availability of capital contributed either by local expatriates or by investors abroad. This raises the problem of ownership and control of the Territory's industry—a problem which foreign investment has posed in many other countries and not least in Australia.

The situation produces the dilemma where because of the shortage of indigenous savings, most investment in the market economy must be financed by foreign capital unless the Government can step in and provide some of the capital requirements. In Papua and New Guinea the Government has in the past been reluctant to enter into economic activities which are usually the preserve of the private sector both for doctrinal reasons and because of the immense drain on Government resources resulting from its commitment to supply the country's economic infrastructure.

In this situation the new Development Bank may occasionally be able to dilute the high concentration of foreign capital in the private sector by some local equity. But the creation of such an equity does not in itself prevent the growth of foreign ownership and control. To tackle this situation many newly developing countries have found it necessary to establish special machinery for ensuring substantial local "presence" in key enterprises in the private sector. In some cases foreign participation has been made subject to an agreement to dispose of a controlling share in the investment to local interests (private or public) after a period of years. In other cases foreign skill, know-how and managerial capacity are acquired by means of management contract; while in other cases still the government through an appropriate institution (e.g. an agricultural or industrial development corporation) has itself taken the lead in setting up

industries either as permanent additions to the public sector or with a view to disposing of them to local investors at a later stage. As the expansion of the private sector in the Territory accelerates, some of these techniques will be worthy of careful examination.¹⁴

Administrative Machinery

Nothing focuses one's attention more sharply on the basic priorities for successful economic development than a look at what is happening today in underdeveloped countries who have undertaken a political commitment to accelerate development. In many such countries local experts with the assistance of learned foreign advisers have prepared five-year development programmes far more detailed and far more sophisticated than anything that the Territory of Papua and New Guinea is likely to have for many years to come.

The failure of these plans, and many of them fail, is not due as a rule to the lack of competence of planners or to hidden fallacies in the design of plans. Even the shortage of savings, dislocations caused by crop failures and the chronic lack of foreign exchange are responsible for far less of the short-falls or complete failure of plans than is the absence of an administrative apparatus which converts plans into administrative decisions and decisions into action.

In this sense the Territory is better served at present than most independent, under-developed countries. The arduous process of establishing and extending the rule of law throughout this fragmented region has been a proving ground for an administrative machine which is increasingly concerned not only with the maintenance of law and order and the administration of justice but with the formulation and implementation of projects of political, economic and social advancement.

Towards this end the Territory's administration is gradually evolving. As might be expected it still reflects today the long-standing emphasis on law and order functions, on pioneer efforts in the field of health and other services, and the opening up of basic communications. As the development effort assumes momentum and larger and still larger resources are committed to it, the clarification of broad strategies, the formulation or re-formulation of policies in many fields and the design of major projects will increasingly claim the attention of administrators and make for greater specialization in their ranks.

To date the higher echelons of this administrative apparatus have been almost entirely staffed by expatriates. It is a principal aim of the development efforts to train native administrators to perform these functions. If independence were to come before enough local people are available to man key positions in the Administration, the result might be similar to that today observed in many underdeveloped countries in Asia and Africa. Such countries present the phenomenon of what has been called "Broken-backed States". As Tinker has put it:¹⁵

"The State will enjoy full international recognition and membership of the United Nations. Its Ambassadors will give cocktail parties on its National Day and both the Free World and the Communist Block will provide economic aid and advice albeit without much enthusiasm and

¹⁴ For a lucid review of problems of foreign investment, see: C. of A., *Report of the Committee of Economic Enquiry*, [Govt. Printer], Canberra, May 1965, paras. 3.63, 8.59-61, 11.19-27.

¹⁵ See Tinker, H., Broken-backed States. *New Society*, January 30, 1964, p. 7.

with total absence of effect. The government may be elected or self-appointed. The Ministers will promote enlightened legislation which will never be implemented. There will be a Five Year Plan which will be studied by Western post-graduate students working on development economics and by no one else. Communications between the major towns will be maintained and about half the letters posted will be delivered."

"Representatives of the Central Government will be stationed in the district. They will sit upon the verandahs of the imposing bungalows of the old European District Officers and they will be called District Officers but their writ will not run as far as the compound wall The centralized State will cease to be . . ."

This, fanciful as it sounds, describes the state of affairs as it exists today over extensive regions of Asia and Africa. In these countries the lack of an administrative framework precludes any attempt at a national development effort. Life goes on, cast in the traditional mould but its narrowness and insecurity deprive most of the population of positive prospects of self-advancement and self-development which a progressive and dynamic society can offer.

In Papua and New Guinea the existence of such positive prospects is even today sensed by a large section of the indigenous population. The opportunities themselves are being actively realized by a small but rapidly expanding group who have to varying degrees accomplished the move away from tribal subsistence society.

The Territory's national income statistics show that no sector of the economy has grown as fast in recent years as the indigenous cash cropping sector. Cargo cults in certain areas notwithstanding, indigenes have a shrewd grasp of what it is that has helped generate the economic advance of recent years and what assistance will be needed for it to continue. When one member of the recent United Nations Visiting Mission asked "When will you demand that Australia gives you self-government?" a native spokesman replied "When we want it".

The path of the body economic to the point of take-off into self-sustaining economic development is determined by one set of factors. The path of the body politic towards popular demand for self-government depends upon another. But the sound sense of the Territory's shrewd and pragmatic indigenous leaders should ensure that the two paths will not in the end diverge too far.