

## **Can we reform without reaching a crisis**

There's a saying that the world can meet its population's needs but not its greed. Recently we've been observing the financial crisis spreading from the US and triggering a global economic meltdown, necessitating massive Government bail-outs of financial institutions. Surely this isn't meant to happen in a market economy, and where were the regulators?

In the real world few markets come close to being “perfect”, and with many distortions, and businesses seeking market advantage, even monopoly when given a chance, there some level of regulation is necessary, in the interest of consumers, other businesses and wider community.

In a recent, INA co-hosted address, by US financial expert, Dr Jerry Jordan, he highlighted that the Financial Crisis was triggered initially by US government interference in their housing market, pressuring financial institutions to lend to borrowers lacking capacity to repay. This evolved into financial institutions concocting ways to print money for every consumable item imaginable, and in the process rewarding themselves astronomic salaries and bonuses for their financial creativity, or deception, all based upon a largely worthless initial portfolio. The whole process comprised professional and intellectual dishonesty, with financial institutions and rating agencies conspiring to convince everyone that long established banking principles or gravity no longer applied. Academics foretelling the bursting of this bubble, were ignored or ridiculed. Dr Jordan suggested that this was not a failure of capitalism, but comprised crony capitalism, based upon dishonesty and a lack of understanding or will-power by regulators, and many managers, to restrain the market. It's difficult to halt a party when everyone's having a good time, and regulators didn't want to be seen interfering in the market, even if its all based upon a myth, even when it's based upon a myth.

Dr Jordon compared the crisis with dropping over a waterfall; the market's still alive but we'll never be able to swim back to the top, with all its cheap credit, booming sales and rocketing property prices.

Humans are good at responding to some signals, but we tend to run like herds failing to read underlying signals, not wanting to be left out of Dotcom booms, and repeatedly making the same mistakes. Humans are poor custodians of the planet, placing individual gain ahead of wider community interests, ignoring signals and risking destroying or depleting the very resources, like fish stocks, upon which we depend. We tend to continue what we're doing until crisis forces us to change our ways, whether a health shock making us to change lifestyle, or an economic crisis pressuring us to alter the way we do business, reforming international institutions and encouraging greater cooperation (or worse - protection). But don't expect too much, as when immediate crises are over we have short memories and have a habit of slipping into our old bad ways! And there are always enough sceptics, or addicts to their current lifestyle, eager to undermine major reforms, whether addressing climate change or economic, social, political or religious tensions. It often takes a complete change of leadership, like Obama, bringing in energetic and untarnished leaders with a wide popular mandate, to make the big reforms a country or wider community

needs. They can also make big mistakes, unless they have the ear of the people, listen to expertise and capacity to talk internationally.

PNG's post-Independence economic history started with the pursuit of stability, if at the cost of growth. It then entered a period of economic and political instability, lurching from crisis to crisis, with successive economic rescues from more serious disruption (or perhaps underlying reform) provided fortuitously by new mines, price recoveries or 3 structural adjustment packages whenever we struck reefs, usually of our making (e.g. blowing our budget or foreign exchange reserves, or the Bougainville conflict)...not forgetting big brother Australia, invariably coming to the country's assistance when things got tough.

Latterly the county's been more fortunate, thanks to some reforms and fiscal restraint, but largely owing to booming commodity prices, but we've failed to provide the substantial reforms needed for sustained and broad-based economic development, with Government capacity (and governance) continue to decline and enabling conditions not provided for the private sector to extend from narrow enclaves.

PNG has considerable (but not unlimited) natural resources, from gas reserves, gold and other minerals, fertile land and marine resources, including potentially the carbon stored in its forests. Utilising them, particularly in a way which minimises social and environmental impact, entails considerable cost and risk. Minimising actual and perceived risks, including excessive demands from landowner factions over LNG, increases the chance of projects proceeding (as in current uncertain market conditions) and enables more equitable benefits through the wider community. Ensuring widespread access to economic and social opportunities requires considerable investment and maintenance of roads and services, including distribution of school books, medicines and retaining teachers and other service workers in rural areas, requiring Government (usually) to secure adequate steady revenue, prioritising and managing it effectively, and not squandering it on irrelevant grandiose projects, excessive public service or political overheads and corrupt practices.

The Government finally has funds for priority development and recurrent expenditure, but risks exhausting them with limited benefit to the wider population by failing to address the breakdown of administrative systems, squandering funds through inoperative systems, casually increasing administrative costs (with new Provincial Governments and expanding Cabinet membership when it should be reduced, as with public sector right-sizing), purchasing costly new consumer toys for the elite (like Government aircraft), dramatically increasing MPs' allowances, all whilst the global economic downturn (and the new Minimum Wage phase 3) potentially jeopardise jobs and economic opportunities, particularly in some industries.

There's a severe lack of understanding of economic reality and its constraints and roles and responsibilities of government, within the community and Government. Whilst most of the population concentrates upon trying to survive, from subsistence agriculture or the urban informal sector, or as lowly employees, seeking to educate children or afford clothes, medicines or pay astronomic rents or maintain houses in villages or squatter settlements, there's another crowd, who, like the Investment Bankers in the US, know no bounds to their greed and expectations, because they either fail to recognise the limitations or are determined to extract disproportionate

benefits for themselves at everyone else's expense. Sadly, too much of the population is too readily tricked into believing that impossible wealth can be gained from modest investments in scams like U-Vistract or Moni-Rain (better named Moni-Drain), just like the sophisticated stars investing with Madoff in the US (or as Dr Jordan observed, who'd invest with someone with the name of Made-off?)! Our own Prime Minister apparently made commitments to a US citizen both to secure finance from Bonds and for various exclusive trade arrangements. How can leaders be so naïve? Millions under the NADP have apparently been squandered shipping cattle around the country many of which subsequently died for the benefit of a small elite; does anyone have a conscience over this? Some MPs and the public in Enga seem to seriously believe that handouts through MPs are a gift of the PM, regardless of the capacity of those MPs to administer funds properly.

Have we really come to this point, where even leaders have forgotten sight of the concept of Public Funds, that they must be properly budgeted and accounted for, and are sourced from taxpayer contributions – individuals and companies - from their own earnings. Too much of the population has forgotten how public infrastructure and services used to function around the country. Competent management in the public service (and Statutory bodies and SOEs) is now scarce, as professional managers are invariably dismissed for blocking some Minister or influential staff member's unreasonable demands. Where we have competent institutions performing their functions effectively, like the ICCC, it seems they're to be sidelined over ICT regulation in favour of a more compliant organisation, Pangtel. Once again this sends all the wrong signals.

An international economist recently shocked this writer with a comparison with Africa. There has long been a smug perception here that PNG is the lucky country, democratic and egalitarian, and incomparable to Africa's woes. PNG and most of its population certainly have many excellent attributes, not least the community's capacity for self-help, despite government non-performance, but that economist remarked that he'd seen nothing like the level of financial abuse, corruption and administrative failure in Africa that he now sees in PNG. This seems somewhat unfair when one considers some of Africa's self-tortured countries – often notably those with the greatest resource wealth- but it certainly comes as a wake up call for PNG's leaders and community to promptly tackle its problems before it's too late.

Renowned economist, Nicholas Stern, highlighted with respect to climate change, that it is cheaper to take action to address the problem early than leave it till the impact is increasingly upon us and harder to reverse. It is human nature, however, to leave things till the last moment, partly as our skills or prediction are poor, or if it still seems to be working or we're making money, then why take action. Sometimes that's practical, but other times catastrophic. Failing to brake in time results in a potentially fatal crash. But, as Dr Jordan pointed out, there is nothing like a crisis to provide the stimulus for reform. At the forthcoming G20 meeting world leaders may reform international financial rules and institutions, whilst the US is currently rationalising its multiple financial regulators into one.

PNG is fortunate that it has a slight reprieve from the impact of the global economic crisis, but it is looming; even assuming LNG project(s) proceed, there will almost invariably be a significant revenue gap and shortfall in export earnings. Could we

launch needed reforms and think strategically now, rather than awaiting a crisis to hit? Could PNG political leaders and some landowners and businesses tone down extortionate demands, such as absurd (and free) equity levels, and start recognising wider public interest, and can authorities hasten the removal of current constraints on competition (as proceeding with ICT) so that other markets also operate more effectively in meeting demand for housing, air-services, power and other essential goods and services. Functions of the State include enabling the private sector to drive growth and employment, through essential infrastructure and services, whilst ensuring markets are fair and preventing undue market abuse by businesses or groups with undue control over market supply (or demand) and safeguarding marginalised individuals or communities. Whilst not yet unduly hit by the economic crisis, but we already have a social crisis with our unacceptably low social indicators and increasing wealth disparity. It's time to act now.