

## **Lent is over, but now is not the time for Opulent Spending by Government**

Recently bosses of beleaguered US car-makers dashed to the White House seeking financial support. They travelled in luxury company jets, demonstrating opulence and perhaps all that was wrong with the high cost, uncompetitive US car industry, that had failed to adjust tighter household budgets and need for energy efficiency and low emissions. They were sent packing empty handed and told to return showing greater humility and adaptation to prevailing conditions. It's hard to adjust lifestyles overnight to new realities, as demonstrated by the financiers still expecting huge bonuses despite huge State bail-outs.

The US public, as in other countries, feels understandably that, whilst they're squeezed and trying to survive, those causing the problems and seeking public support, particularly the super-rich, should share the burden, and public funds channelled towards the community's real priorities. The new US administration and other governments largely share that view, whilst recognising the need to get the banking system working again, removing 'toxic debt', recommencing lending and kick starting the degraded economy.

So what's message is being given in PNG, by Government buying a new gas-guzzling, three-engined luxury jet, largely for overseas travel, as it cannot land in most domestic main, let alone rural, airstrips? Maybe it shows that the country's leadership thinks PNG is wealthy and immune to downturns, and, like those US car-makers, is out of touch with the mood of the country.

One would expect lessons to have been learnt from the politicised purchases of the 1980s, with Sir Julius's Grumman Gulfstream, resold shortly thereafter, albeit in a botched up sale, apparently well below market price (refer: Bredmeyer Inquiry), and late Iambakey Okuk's purchase of 4 Dash 8s (without prior NEC approval) which virtually sent Air Niugini bust. But now the country's leadership considers that jetting around the region in luxury is acceptable, at a time when the global economic crisis is impinging increasingly upon our economy, with a half billion deficit for 2008 and expected collapse of corporate tax revenue for 2009.

It's now time for firmer control of expenditure to ensure adequate funds remain for priority requirements in late 2009 and 2010, when reduced revenue has impacted and greater fiscal stimulus needed, with the ongoing business boom tailing off. This aircraft purchase sends all the wrong signals to the wider community, private sector and development partners over how government perceives development priorities and tightening economic conditions. Why might an executive aircraft be available more cheaply now? Well, of course because others are offloading them! If fiscal stimulus is required, an aircraft like this is the least productive expenditure imaginable, with funds going directly offshore and the investment making no contribution to implementing core State functions, namely addressing crime, decaying public infrastructure and basic services. Indeed, the aircraft will take leaders directly to overseas health services (and visiting overseas bankers?), circumventing using or sighting our own impoverished hospitals, let alone (widely non-existent) rural health services.

If Cabinet really wanted an aircraft, then supporting rural air-services (notably restoring now defunct government charters), and enhancing capacity for private sector (including mission) operators to provide extensive rural services viably would be markedly more valuable for the people of PNG.

Of course this extravagance goes back to a misconception. Some leaders consider this a wealthy country and also misconstrue the role of political leaders, overlooking their function as servants of the people. Of course, PNG does have extensive natural resources, but those only have value if accessible and utilised, notably for the wider benefit of the community, rather than a narrow elite of rent seekers, and minimising negative external impacts.

Many of the world's wealthiest economies, like Japan, have few natural resources, developing through focus upon their human capital. PNG has long given inadequate focus on human resource development (education and health provision). Its major accessible natural resources are its land and marine habitat, which provide subsistence livelihood for the majority, supplemented by income from agricultural or marine product sales, where producers have market access. Poverty is generally greatest for households with least market access for selling food and other cash crops, and where other publicly and privately provided services don't exist (schools, health centres, banking and trade stores), owing to poor roads, airstrips and law and order problems.

Sadly, over many years, government has failed badly in providing these essential rural infrastructure and services, as different tiers of government squabbled over power and resources, with most provinces and districts marginalised. This has undermined basic living standards in rural areas, and pushing many into migrating to towns, where limited education undermines employment and income-earning opportunities, but where services are generally somewhat better, even though forced to live in often difficult settlements. Our rural airstrips are largely closed, government charters no longer operate and lifesaving emergency flights to hospital no longer occur. What this country needs is sturdy twin otters (and crew) able to land in rugged airstrips, not falcon luxury jets, yet third-level airlines, like MAF, are forced to cut back services to rural areas.

Recently the NEFC-driven reforms have enhanced revenue for poorer provinces, although still inadequately for basic recurrent public goods/services, whilst the DSIP has recently increased project support through Trust Funds for Districts, and we're told, by the Provincial Affairs Department, that some Districts (e.g. in Morobe) are developing capacity to utilise these funds effectively, although the majority still use it as a shopping-list for politically-driven once-off projects, rather than implementing community-driven Ward/LLG/District plans. We're also told that once the District Planning Committees (JDP&BPC) have approved the project budgets the local MP can still alter it arbitrarily before it goes to the Rural Development Office!

The development of other natural resources requires learning from past lessons, ensuring wide and disciplined participation in consultations and mitigating negative social and environmental impacts from mining extraction (on land or submarine) and other extractive industries. Shortcut deals impose long term costs, generally against the developer's interests, as well as the local community, and the development options

must be clearly evaluated and widely understood, including, with forestry and agriculture, retaining forests for their carbon and wider biodiversity value.

PNG's sustainable development requires diversifying competitive industries, not simply rent-seeking from a few extractive activities. A well-managed oil palm industry has a sound future, but would be undermined by new entrants failing to subscribe to high social and environmental standards (notably under RSPO). The continued pressure (including from some politicians) for clearly bogus or substandard oil palm development, notably as a guise for logging, without complying with requirements for sustainable forestry, brings a continued bad name for the logging industry whilst undermining the country's reputation and commitment to good practice in land use and oil palm.

So, if the new aircraft acquisition was assessed:

1. in terms of investment to improve government performance and service delivery, it would get virtually nil marks, and
2. as a reward for Ministers for good performance; the improved recent economic growth was largely a windfall from high commodity prices, rather than resulting from government interventions. Growth for 2009 is likely to slip back significantly (to below 4%), with the distribution of benefits increasingly skewed towards a small range of businesses, centres and rent-seekers (landowners/urban property owners etc), especially in future if the LNG project proceeds. Whilst PNG is better sanitised from the downturn than many countries its narrow-based economy imposes strong risks, with the impact of the current recession merely delayed. This country requires prudent and coordinated fiscal and monetary management and improved targeting of expenditure on productive priorities to discourage immediate localised bubbles and longer term pain. Buying expensive new toys, when the opportunity cost is so high, gets zero marks as an appropriate strategy or demonstration of commitment.

The Government should remain in Lent, applying self-restraint and cancelling this aircraft deal, reselling it or at least leasing it out, rather than joyride at public expense!