

# **The informal economy in development**



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**EVIDENCE FROM GERMAN, BRITISH  
AND AUSTRALIAN NEW GUINEA**

**John D Conroy**

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The *tambu* (or *tabu* in the orthography of early translators) shell is within the taxonomic family *Nassariidae*. Tolai people of East New Britain gather and process them before stringing the shells in coils whose length determines value.

*To Janet, for her patience and love*

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# Foreword

JOHN CONROY'S *The Informal Economy in Development: Evidence from German, British and Australian New Guinea* makes a major contribution to our understanding of development in the unusual setting of Papua New Guinea. As Papua New Guinea is overwhelmingly the most populous of the countries and regions with mainly Melanesian populations, *The Informal Economy* helps us to understand development in Papua New Guinea's neighbours as well.

*The Informal Economy* presents a thoughtful and reliably researched account of the economic history of and history of thought about development in Papua New Guinea. It covers the period from early in the colonial era, through to the early years of Independence in the 1970s. It fills an important gap in the literature. Contemporary scholars don't take the economy of Papua New Guinea seriously; nor do they value the essential perspective that economic history and the history of thought provide for understanding contemporary reality. This book does both.

A compelling economic history has to look at its story through a particular lens. Conroy's lens is the absence from Papua New Guinea of what the Faber Mission in 1972 referred to as the informal sector of the economy. The Faber Report, commissioned by the Australian Government two years before self-government, had challenged the economic orthodoxy which had guided colonial



policy for the previous decade. One prominent element of that challenge was a critique of the absence of the economic activity outside regulated businesses and structures that is prominent in much of the developing world. Faber, strongly influenced by one of his colleagues, Keith Hart, had included in the report's recommendations a proposal to promote informal employment and economic activity, as a way of building a more self-reliant economy with more equitable income distribution.

Conroy's lens initially focuses on the separate and different economic histories of several Papua New Guinean regions, showing that commercial exchange amongst Papua New Guineans was less thoroughly absent in the Highlands and the district around Rabaul than in the increasingly prominent capital Port Moresby. The Papua New Guinea Government's efforts to promote informal urban activity after Independence were ineffective. Conroy sees the outcomes as owing much to the absence of the technical and other kinds of knowledge of production and exchange that is essential in the informal economy and which correspondingly inhibits creative engagement with the formal economy. He attributes influence as well to the weakness of economic pressure to break down the barriers to entry into alternative forms of economic activity. Knowledge and pressures changed over time. Time increased the number of people on low incomes and increased pressures on rural living standards. Twenty-first century visitors to the vast, heaving metropolis of Port Moresby see a bigger, more diverse informal economy.

The book is much more than a story of the informal economy. As history of thought, it takes us through earlier perceptions of Papua New Guinea's unusual economic setting—those of economists like Fisk, and scholars like Salisbury, Epstein and Rowley whose disciplinary background is mainly in anthropology and sociology. This brings alive neglected or forgotten insights into the origins of long-standing features of contemporary Melanesian society and economy.

As economic history, the book tells the story of conflicting commercial and development objectives in colonial policy—important in Australian as well as Papua New Guinean history. It describes two big changes in direction of policy: the shift to accelerated growth in preparation for independence from the early 1960s; and the first Papua New Guinea Government's reaction to the realisation that tensions generated by the acceleration were inconsistent with the imperatives of democratic government. A concluding chapter observes that many of the great policy preoccupations of the decade of independence were later to be overwhelmed by powerful factors beyond the reach of policy levers available to governments.

For someone who was deeply engaged in seeking to understand Papua New Guinea development in the years straddling Independence, the book invites reflection on the answers to big questions from that time. Conroy places himself ideologically as a social democrat against the neo-Marxist interpretations of policy choice that were prominent and occasionally influential around Independence. The social democrat thought that a democratic government had some autonomy—so that there was purpose in thinking about and seeking to shape policy in the public interest. The alternative paradigm counselled despair—a country embedded in the international system of trade, investment and development assistance flows is bound in shallows and in miseries.

Is it too early to tell whether the neo-Marxists were wrong at the time of Independence?

**Ross Garnaut**  
**University of Melbourne**

## Acknowledgments

BOOKS HAVE THEIR REASONS. Mine flow from events in late-colonial Papua New Guinea between 1972 and 1975, which I had long wanted to revisit. Ideas have their seasons, but some are durable enough to shape a body of knowledge, changing how we view the world. Economic informality—to which I was introduced by Keith Hart in Port Moresby in 1972—is such an idea. When we resumed our acquaintance in this new century Keith warmly encouraged my efforts to reconsider the processes of ‘development’ in PNG in terms of informal economy. He gave my ideas an early public airing in the Open Anthropology Cooperative Press, even though he had (and retains) reservations about my disciplinary and ideological approach. I am, after all, an economist trained originally in the neoclassical tradition who persists with notions he finds uncongenial—differences canvassed in this book. In part these reflect the separate lenses through which anthropologists and economists view the world. For Keith ‘the ethnographic tradition is a genre of realist writing based on foregrounding people’s activities in the places where they live’, whereas the economist in me practices what he calls ‘a species of thinking, generating ideas about what should be done to solve society’s economic problems’. In failing to reconcile these two modes, ‘the reality of people’s lives [is] often forgotten’. But whatever our differences, for more than a decade

he has been the most helpful and patient of correspondents, during times when he has experienced personal difficulties which would absolve any reasonable person from such effort. I am profoundly grateful for his assistance and tolerance.

I am greatly indebted to Professor Ronald Duncan of the Crawford School of Public Policy, Australian National University, for seeing possibilities in the research proposal I put to him in 2010. Ron supported my application for a Visiting Fellowship in the School. This continued until 2018, and he has been unfailingly patient in waiting for this book. I remain attached to the School as a Visitor and thank Crawford for the access it has afforded me to colleagues and library over the years. Most recently I have been heartened by encouragement from Professor Stephen Howes of the Crawford School's Development Policy Centre. He has helped me bring this project to fruition and made its publication possible. Stephen helped greatly to shape the final product and I am grateful to him for his guidance. I would also like to thank Dr Richard Curtain, who has his own recollections of PNG's late colonial period, for his review of and detailed comments on the manuscript.

I am also indebted to Professor Ross Garnaut for contributing a Foreword to this book, particularly gratifying because of his personal role in events during the self-government and early Independence periods in PNG. Beyond the realms of public policy and macroeconomic management readers may be less aware of his research engagement with PNG from as early as 1966, producing (*inter alia*) studies of rural-urban dynamics in Port Moresby and other towns. Along with co-workers including Richard Curtain, Ross was responsible for empirical work which undergirds my account of the capital's growth during the 1970s.

This project commenced in 2009 when I was invited by Mr Paul Barker, Executive Director of the PNG Institute of National Affairs (INA), to prepare a draft national policy for the informal economy.

I conducted the consultancy for INA and the Consultative Implementation and Monitoring Council (CIMC), whose members included Mr Max Kep of the PNG Office of Urbanisation. By 2010 the resulting document had been shepherded through the National Executive Council by Dame Carol Kidu with her customary patience, tenacity and tact. Subsequently, Busa Wenogo of CIMC took up the task of building awareness of the policy in official circles. He became a tireless advocate for the informal economy, and I was glad to work with him in that task. I owe all these people a debt of gratitude for this experience, and for stimulating me to propose this book to Ron Duncan. I have found other allies at the National Research Institute in Port Moresby, including Dr Elizabeth Koppel and Dr Fiona Hukula, while I continue to benefit from the insights of the sometime street vendor of betel nut, now commentator on national affairs, Mr Martyn Namorong.

During the 1970s in Port Moresby I learned much from contact with senior Australian scholars including Anthony Clunies Ross, EK (Fred) Fisk, Nigel Oram and Charles Rowley and I have drawn considerably on their work for this study. Other contemporaries included John Langmore, the late Bill Standish and Christine Inglis, each of whom has informed my understanding of the period—as also did the former UPNG administrator David Sloper. Among Australian-based scholars of that period I should also mention WR (Bill) Stent and Peter Drake, while later I had the good fortune to meet Ian Hughes, whose insights on traditional trade have been enormously helpful. Among contemporary Australian academics concerned with PNG I have had helpful discussions, suggestions and correspondence with (inter alia) Bryant Allen, Chris Ballard, Michael Bourke, Peter Cahill, John Cox, Robert Cribb, Michael Goddard, Scott MacWilliam, Michelle Rooney and Tim Sharp. Andrew Elek has acted as sounding board for me on many occasions, while Professor John Moses commented most helpfully on materials concerning German New Guinea.

Colleagues in a number of institutions have given me opportunity to test my ideas. Most particularly I thank Dr Nicole Haley of the ANU's State, Society and Governance in Melanesia Program for arranging seminars at which I presented work in progress. A meeting in Amsterdam (International Institute for Environment and Development, Dr Bill Vorley) introduced the work to scholars of Latin America and Africa and permitted a side-trip to Leiden. There I introduced my work on ancient trade between Melanesia and the Malay Archipelago to researchers at KITLV (Royal Netherlands Institute of Southeast Asian and Caribbean Studies, Professor Henk Schulte Nordholt). The Alfred Deakin Research Unit at Deakin University (Dr Jonathan Ritchie) provided another opportunity. I benefited by presenting on hybridity to an ANU workshop (Department of Pacific Affairs, Dr Miranda Forsyth) and was privileged to address research staff of the PNG National Research Institute in Port Moresby (Dr Osborne Sanida). Mr Stephen Taylor of The Foundation for Development Cooperation has kindly hosted my work-in-progress papers online. My close neighbour and friend, the 'Forest Lodge philosopher' Mark Avery, has often obliged me to recast my ideas in more accessible and human terms.

Finally, I express my gratitude to Lydia Papandrea for her meticulous editing of my text and for her flair and taste in its design. Thank you also to Karina Pelling for her excellent cartography.

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# Acronyms

ANU	Australian National University
ASOPA	Australian School of Pacific Administration
BNG	British New Guinea
CMB	Coffee Marketing Board
CPC	Constitutional Planning Committee
DC	District Commissioner
DCD	Department of Community Development
DCI	Department of Commerce and Industry
DFCDR	Department for Community Development and Religion
DORCA	Directorate of Research and Civil Affairs
GDP	Gross Domestic Product
GNG	German New Guinea
HCE	Highlands Commodity Exchange
HFSA	Highland Farmers and Settlers Association
IASER	Institute of Applied Social and Economic Research
IBRD	International Bank for Reconstruction and Development (the 'World Bank')
ICA	International Coffee Agreement
ILO	International Labour Organization
LMS	London Missionary Society
MWB	Minimum Wages Board
NHC	National Housing Commission



NSO	National Statistical Office
ODG	Overseas Development Group
OPC	Office of Programming and Coordination
PCB	Production Control Board
PMV	Passenger Motor Vehicle
PNG	Papua New Guinea
SIM	Subscriber Identity Module (mobile phone)
SME	Small and Medium Enterprises
TCP	Tolai Cocoa Project
TPNG	Territory of Papua and New Guinea
UN	United Nations
UNDP	United Nations Development Programme
UPNG	University of Papua New Guinea

# Preface

MY EARLY CURIOSITY about Papua New Guinea<sup>1</sup> was sparked by an interest in ‘human capital’, a field of economic research emerging during the 1960s. Demand for formal education had surged in PNG through the 1950s, and in 1961 a plan to achieve universal primary education was announced. This was the last gasp of Paul Hasluck’s ‘uniform development’ policy—overturned on World Bank advice after his departure and replaced by ‘accelerated development’. I was interested in the behaviour of school leavers, on the hypothesis that surging popular demand for education reflected utilitarian attitudes to schooling held by parents and children. These could be seen (in jargon stemming from the Chicago School of Economics) as motivating ‘private investment’ in education. The personal payoff from schooling would be found in formal employment. Searching for jobs was presumed likely to impel young educated rural people to migrate to urban centres, to find ‘white collar’ work. But so rapid was the growth of school enrolments it seemed likely that school leaver unemployment would soon become a national problem—as indeed it did.

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<sup>1</sup> More accurately, the ‘Territory of Papua and New Guinea’ from after World War II until 1973, thereafter ‘Papua New Guinea’ (and abbreviated in the text as PNG).

After initial fieldwork in PNG in 1968–69, I joined the Economics department at the University of Papua New Guinea (UPNG). Enrolling in a PhD program under Professor Anthony Clunies Ross I researched processes of education, employment and internal migration, becoming (I think) the only expatriate ever to graduate with a PhD in economics from the university. In the early 1970s most of my colleagues, and virtually all our students, were committed to an ideology of ‘economic development’. This would require a decisive break with the old colonial order based largely on an obsolescent plantation economy. Discontent with race-based inequality had been growing, both in the university and more widely. No coherent dissenting narrative had emerged, however, until a report by the ‘Faber Mission’ in 1972 provided the necessary catalyst. Michael Faber led a team of British consultants commissioned to recommend economic policies for the soon-to-be-independent State. Faber and his colleagues, including the anthropologist Keith Hart, proposed a new program to curtail the World Bank-inspired ‘accelerated development’ program, blamed by many for worsening inter-racial and inter-regional inequality. For reasons of timing, and because of its redistributionist tone, the Faber Report proved very appealing to nationalists and their expatriate sympathisers.

Only a year or two earlier Keith Hart had introduced the concept of economic informality into the international development literature. The Faber Report placed the informal economy at the heart of its strategies for development, urging the facilitation of a host of micro-scale, labour-intensive, *informal* economic activities. These were to be conducted by indigenous people in PNG’s towns, where such economic activity was extremely limited at the time. This proposal appeared to some to offer the prospect of a ‘people’s economy’ challenging the comprehensive domination of the ‘formal’, or regulated, urban economic system by expatriate interests. The Faber/Hart ‘line’ on informality was adopted enthusiastically, if

only briefly, by the new government. Its influence was sustained long enough, however, to inspire the promulgation of a national set of 'Eight Aims' suffused with the idea of informality, and for elements of these Aims to be incorporated into the new State constitution, among its 'National Goals and Directive Principles'.

Meeting Keith Hart in Port Moresby in 1972 I found the idea of urban economic informality compelling, as also was the puzzle of its comparative absence from PNG's few small urban centres. The informal economy, and the innumerable ways in which it manifests in the modern world, has now intrigued me for nearly 50 years. In 1974 I initiated a controversy which sputtered on for a few years in the pages of *Yagl-Ambu*, a small journal of social enquiry published in Port Moresby. Referring to official proposals to create an 'urban informal sector', I wrote critically about the paradox of attempting the *formalisation of the informal*. The subsequent failure of that project was due in part to the misconceptions of its supporters, but also because entrenched business interests and bureaucratic prejudice combined to stigmatise informality as an impediment to 'modernisation'—then still an important strand in development theory and late-colonial opinion.

The Faber Report emboldened the Somare government to bring accelerated development to an abrupt halt and to adopt new approaches to development planning. Coincidentally it fed into an intellectual ferment in Port Moresby, among some academics, politicians and students casting around for alternative paths. This had implications for UPNG, where Marxists or neo-Marxians had secured appointments in some departments, including Law, Politics and Economics, in sufficient numbers to achieve marked changes in their character and orientation. This situation coincided with political activism in the student body and student strikes gave opportunity for radical critiques of university curricula to be aired. In the case of my department, the assault on 'neoclassical' economics as the handmaiden of neo-colonialism was mounted

against ineffectual opposition, with the orthodox economists ill-prepared to meet the intellectual challenge.

Clunies Ross had departed (after several years during which he had voluntarily accepted a 'local' salary—a gesture which inspired no emulation in either the 'radical' or 'orthodox' factions of his department). The orthodox economists lacked intellectual leadership and by 1976, my last year at UPNG, their numbers were finely balanced against those of the radicals. Curriculum innovation had proliferated, with many of the standard tools of analysis for public policy work neglected. Some students were rendered indifferent, even hostile, by Marxian denunciations of neoclassical economics while others were confused by dissonance and the denigration of opposing viewpoints in the teaching they received. Ross Garnaut observed later that the assault on orthodox economics at UPNG had 'not produced political radicals; rather, it has encouraged students to be cynical about Papua New Guinea politics, diverting some of the best young people away from concern for egalitarian and rationalist political objectives and denying present leaders who have followed these objectives the political support they might otherwise have received' (Garnaut 1980, 447).

Because they will recur in the course of this study, I should mention some of the currents of thought swirling in ideological debate, in and beyond UPNG, as self-government and Independence approached. Some voices came from a loose group styled (by one radical) as 'colonial apologists'—though less pejorative terms, including 'modernisers' or 'gradualists', might fairly be applied to many of its members. They included appointed members of the colonial legislature, colonial officials, representatives of business and planter groups, and academics whom the Australian administration was accustomed to call upon for advice. Broadly, these tended to support the World Bank's 'accelerated' policy framework, and its elaboration in the colonial administration's first comprehensive *Development Programme* (TPNG 1968).

Criticism of official policies came from several sources. Members of the nationalist and pro-Independence Pangu party were disturbed by the distributional consequences of accelerated development and resented the highly managed character of policymaking (conducted by the Australian Department of Territories and described below as the ‘preparatory project’). Impatient with the rate of ‘indigenisation’ of the bureaucratic and private sectors, Pangu was critical of forms of social and economic discrimination experienced by its (largely) indigenous membership. Aside from expatriate control of the ‘commanding heights’ of the private sector (and much else besides), a more immediately sensitive issue was wage differentials applying to expatriate and indigenous public servants from 1964. These distortions were dramatised during the preparatory period, when rapid promotion of ‘locals’ to higher ranks of the service commenced. Many of these concerns had been aired by critics such as Ron Crocombe (1968, 1969), Pike Curtin (1965, 1968) and the young Tolai nationalist John Kaputin (1969) in the pages of *New Guinea* magazine (edited by Peter Hastings). There they were challenged by academics close to the planning processes, including ANU economists Heinz Arndt (1969), Fred Fisk (1969) and Ric Shand (1969).

Another identifiable group of critics was composed of UPNG students and academics attracted by the ideology of Julius Nyerere’s ‘Tanzanian Socialism’ (Nyerere 1968). Subsequently it became clear that even members of the Faber team were not wholly exempt from this enthusiasm. John Momis and Bernard Narakobi, associated with the Constitutional Planning Committee (Ch. 26), provided self-consciously ‘Melanesian’ perspectives. The latter’s newspaper columns were influential (collected in Narakobi 1983), as was the student leader Utula Samana (1988). Other radical critiques came from scholars influenced by 1970s Marxian thought—‘dependency’ theory and/or a contemporary French strand of Marxism. These influences should not to be dismissed as ivory tower theorisation

because the universe of PNG politics was quite small enough to permit the ready circulation of ideas, and of academics (as political advisers and technical consultants) between the governmental and academic cultures. Meanwhile, some of their graduating students were being advanced rapidly into senior government and other statutory posts.

Fred Fisk's ideas were seen in radical quarters as the embodiment of neoclassical economic dogma. His concept of *subsistence affluence* was influential in Australian policy and planning for PNG during the 1960s and early 1970s, and had become incorporated (in vulgarised form) into the late-colonial bureaucratic consciousness and vocabulary. It was in this context that members of the Faber team were introduced to the 'Fiskian' orthodoxy. Critics influenced by contemporary French 'structuralist' Marxism and its anthropological correlates saw Fiskian economics as colonial apologetics, serving to justify the preservation of a 'traditional mode of production' and thereby to sustain the exploitation of rural labour by international capital. Another, related Fiskian notion—that of rural development as involving a *transition* from subsistence agriculture to market exchange—was seen in a similar light. The 1970s debate on the urban 'informal sector' in *Yagl-Ambu* had turned on whether Fiskian affluence could be adduced to explain the absence of any significant urban informal economic activity in late-colonial PNG. That matter will be revisited in later chapters.

Another theme of the ideological debate inspired by 1970s French structural Marxism concerned whether an indigenous class structure could be discerned within traditional PNG 'social formations'. Presumed forms of traditional, hereditary leadership were asserted as providing the base for an incipient capitalist class. This emphasis on *ascribed* status was at odds with the earlier position of many Melanesianists—amounting to something like consensus by the beginning of the decade—who had accepted

the importance of personal *achievement* in determining leadership status. The appearance of a new, 'capitalist' class whose status rested on principles of ascription, rather than achievement, would have implications for new forms of social stratification and wealth distribution as growth occurred in monetised economic activity. Countering such elitist tendencies would require mass mobilisation and political education. Radicals had some cause for optimism since student strikes had shown a potential for mobilisation, as had the emergence of widespread and spontaneous organisation for local-level 'development' during the 1970s. Such popular manifestations, often driven by young people returning to their rural homes after experience of tertiary education, appeared to flow from a mix of idealism and the personal ambition of some local leaders.

I left UPNG at the end of 1976 and (after a brief teaching stint at the University of Chicago) spent the next four years as Director of IASER (the PNG Institute of Applied Social and Economic Research, lineal ancestor of the current National Research Institute) before taking up an ANU appointment in Indonesia. After eleven years in Port Moresby the Indonesian experience enabled me to view PNG from a new, comparative perspective. It helped me to understand striking differences between two stylised entities which, in subsequent writing, I have called 'Monsoon Asia' and 'Melanesia'. Most relevant for the purposes of this Preface was the opportunity Indonesia gave me to observe the operations of a sprawling bureaucracy and a huge and complex informal economy, as well as gaining some sense of the myriad rural-urban interactions occurring within that informal economy. This experience is still the benchmark against which many of my judgements about informality in PNG are made.

In Australia in 1991 I was appointed to lead a small, privately funded development research institution operating in the relatively new fields of microcredit, microfinance and *financial inclusion*. This gave me opportunity to observe livelihoods of the poor in most of



the countries of South, East and Southeast Asia, as well as in many of the small island states of the Pacific. In retrospect I realise my attraction to financial inclusion stemmed from an abiding interest in economic informality. Among many things, poor people need access to an appropriate suite of financial services to support their economic activities—which are invariably informal—and to ‘smooth’ their consumption in the face of fluctuating incomes. But after 2009 I walked away from microfinance, disillusioned by the trend towards its ‘financialisation’ as simply another asset class for Wall Street investors (Conroy 2010b). This was both a consequence and a symptom of larger systemic forces underlying the global financial crisis of the period.

The puzzle of PNG’s missing ‘urban informal sector’ had continued to intrigue me and I realised that this phenomenon was not confined to PNG but was perhaps more generally applicable in small island states of the Pacific. More broadly, I wanted to write an account of *the idea of informality* in relation to the ideology of ‘development’ which had taken hold after World War II, and to set this in the context of colonial economic history. I started to reacquaint myself with PNG, thanks to the opportunity in 2009 to prepare its national policy for the informal economy (Conroy 2010a). This was adopted by the PNG Government due to the tireless efforts of Dame Carol Kidu. I hadn’t visited an urban marketplace in PNG between 1980 and 2009 but this assignment revealed an astounding increase in the quantity, range and quality of fresh food produced and distributed within the informal economy, putting food on almost every dinner table in Port Moresby and other towns. I also discovered the evidence of emerging national markets for some crops produced informally by smallholders, and signs that the ‘producer-sellers’ who used to dominate PNG marketplaces were giving way to specialised traders and distributors. This study is my attempt to view the economic history of the colonies which came together to form the modern state—German, British and

Australian—and to interpret their history through an informal economy lens. In an Epilogue I have taken the opportunity to consider changes in the economic environment of Papua New Guinea since its Independence in 1975, and the implications of these for economic informality in the early twenty-first century.



**Figure 1:** Modern PNG with major urban centres