

Introduction

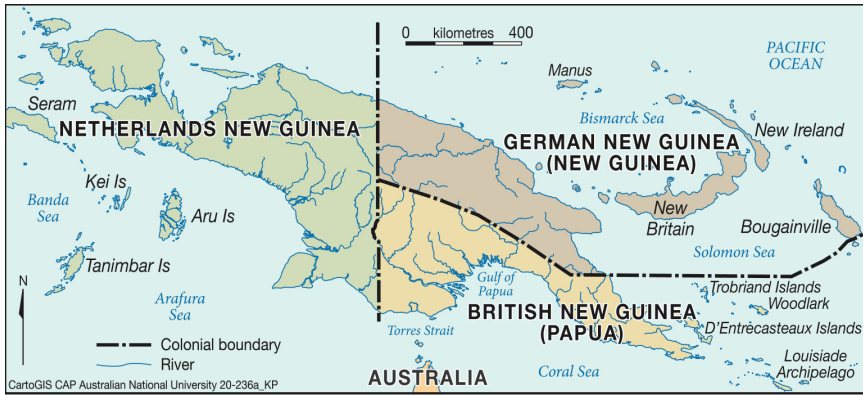
An 'Informal' Economic History



This narrative stands apart from more conventional economic histories because it is framed through a very particular lens provided by the idea of an *informal economy*. So far as possible, it is presented from the perspective of *popular* economic activity rather than the more common colonial vantage point – the commanding heights of an alien economic system. The study is organized around the notion of a *transition* by Melanesians from subsistence economy to market exchange, impelled by their introduction by Western colonialism to the monetized market economy. The island of New Guinea was divided between three European powers in the last quarter of the nineteenth century, with German New Guinea in the north-east quadrant, British New Guinea (later Australian Papua) in the south-east quadrant, and Dutch New Guinea occupying the western half of the ‘big island’ (Map 0.2).

During the colonial period, Melanesians were relatively quick to enter into monetized exchanges similar to traditional utilitarian barter, and later also into formal indentured employment. However, restricted by what W.E.H. (Bill) Stanner called ‘a simple division of labour, little specialisation, and an undeveloped system of trade’ (Stanner 1953), Melanesians proved generally unable either to initiate or to engage in more complex market processes. This incapacity constrained their productive engagement with the market economy, and retarded the transition from subsistence.

Colonial actors in what is now PNG included imperial administrators, together with traders, colonists and missionaries, and foreign minorities



Map 0.2. The German, British and Dutch New Guineas. Permission granted for reproduction of this map by CartoGIS Services, Digital Scholarship, Scholarly Information Services, The Australian National University.

introduced as functionaries and intermediaries. Important as these actors were, their influence is less central to this account than what Keith Hart (speaking of West Africa) called ‘the massive impediments to growth that originate in local material and social conditions’ (Hart 1982). The lens of informal economy derives from Hart’s observations of the livelihoods of African rural–urban migrants in Nima, a suburb of Ghana’s capital Accra, during the latter part of the 1960s. The reification of their activities as occurring in an urban informal sector was a coinage of the International Labour Organization (ILO), applied in a subsequent study of employment issues in Kenya. Events soon gave Hart opportunity to compare his Ghanaian experience with the circumstances of late colonial PNG, as a member of the ‘Faber Mission’ – a consulting team contracted to recommend economic policies for the soon-to-be-independent state. Hart and his colleagues visited PNG in 1972 at a crucial moment in its history and he would later describe the experience as ‘decisive’ in his thinking.

This study considers the introduction of colonial-era Melanesians to a completely unaccustomed experiential environment – *the market*. I employ this construct while accepting the conclusion of a scholar of Melanesian economy, Karl Benediktsson, that ‘no social group has ever taken commoditisation to its logical extreme, fully excluding non-economic aspects from economic relations’. My discussion moves between various historical periods and places to convey an understanding of how the market manifested in the prevailing German, British and Australian colonial systems. This requires some discussion of contemporary economic orthodoxies in each of the three New Guineas, governing the conduct of introduced economic activities and relationships. The reactions of indigenous Melanesians to

colonial bureaucratic pressures flowing from these orthodoxies are represented here by a metaphor of *pushback*. This provides a dynamic element in the study, whose novelty lies in framing the account in terms of formality and informality in economic affairs. Consisting, for the most part, of the examination and reinterpretation of standard texts, the work is presented with little pretension to historical originality beyond that framework.

Certain writers of the late colonial period deserve reconsideration because of their continuing value for our understanding of the era. These include the historians Rowley and Oram, and anthropologists Salisbury, Hughes, Finney, Stanner and the two Epsteins, all of whom informed contemporary debates about PNG's preparedness for independence. Certain economists, also now relatively neglected, helped to frame post-war debate about economic development policy. In PNG these included the Australian economist E.K. Fisk and his school; beyond Melanesia, economic theorists in the classical mould including Peter Bauer, Hla Myint and W. Arthur Lewis were also influential.

Discussion of the interface between economics and anthropology impels us to examine the confrontation between two defining logics, supporting radically different understandings of economic processes. These logics are, first, a Smithian worldview (embodied in colonial ideology) which saw in humanity a universal propensity to 'truck and barter'. Second, there is a Maussian logic of *The Gift*. The allusions here are to *The Wealth of Nations* (Adam Smith 1776) and *The Gift* (Marcel Mauss 1925). Described by Chris Gregory (1982) as the exchange of inalienable things between non-aliens, *The Gift* influences Melanesian behaviour profoundly. Adam Smith's economizing instincts are at odds with such exchange, conducted (as Mauss put it) 'in ways and for reasons other than those with which we are familiar from our own societies'.

Of particular importance to the narrative is a conundrum that suggests a certain singularity in Melanesian economic behaviour. Evidence of this appeared during the Faber Mission's visit to PNG, when Hart observed that informal economic activity such as he had documented in Ghana was very largely absent from PNG's towns. This absence caused the Faber team to recommend measures to encourage the growth of an urban informal economy. But the dearth of informality in PNG was symptomatic of that deeper incapacity described in 1953 by Stanner (above). This constrained popular engagement with the market economy throughout the colonial period, and was still evident at independence. It is argued here that it was significant among what Hart called the 'impediments to growth' originating in 'local material and social conditions'. Melanesians would be slow to overcome this handicap, whether in formal or informal modes of market economic activity.

Hart's construct of informality cannot be applied to traditional (or pre-market) forms of exchange such as occurred in pre-colonial PNG, for it had no salience there. It became salient only with the commencement of market exchange, with the introduction of bureaucratic regulation, and with efforts by traditional subsistence agriculturalists to accommodate themselves to the modalities of markets. In many countries, such attempts at accommodation have thrown up economic informality, as indigenous people grapple with unfamiliar market norms and bureaucratic strictures. It is also common for the experience to induce *hybrid* behaviour among them. Hybridity occurs in situations where introduced market dealings sit uncomfortably alongside traditional norms, with one apt to compromise the other. The anthropological literature provides many instances of such hybridity in colonial-era PNG, some of which are examined in later chapters.

Instances of economic hybridity in Melanesia may be seen as arising from clashes between the Smithian and Maussian logics. An earlier analogue of this was seen in interactions on the western fringe of historical Melanesia, in the present-day territory of Indonesian Papua. There, Asian pre-colonial commercial norms – demonstrated in the behaviour of travelling Malay and Chinese peddlers – rubbed up against the ceremonial exchange of Melanesian 'Papuans'. The Dutch historian J.C. van Leur described a pre-colonial system of mercantile capitalism with its own conventions of bureaucratic regulation and market exchange. In this system, travelling peddlers – cast here as historical forerunners of modern informal 'micro-entrepreneurs' – were a dynamic element. They failed, however, to inspire significant emulation among indigenous Papuans. Van Leur should be seen as one of a number of 'precursors' of the idea of informality, each of whom anticipated Hart's observations and analysis to some degree.

Confrontation between market economy and traditional exchange also occurred later, and more emphatically, in the experience of colonial PNG. Its territory was located in the eastern half of the island of New Guinea, contiguous to modern Indonesian Papua. Encounters between colonial market economy and traditional exchange in the regions that became PNG are recounted here in an analytical framework of formality, informality and hybridity. This is applied to three case studies set in the major colonial centres of Port Moresby, Rabaul and Goroka. These document the transition from subsistence economy to market exchange that occurred in and around the towns. While it is more a sketch than a case study, a complementary account (Ch. 3) of events in former Dutch (now Indonesian) West New Guinea will support these three narratives.

Rabaul and Goroka were 'lucky' places, whereas Port Moresby was located in an economically unpromising zone and struggled to make its own

luck. Rabaul had the additional advantage of an immigrant Chinese population. Recruited as artisans and intermediaries by colonial capital, many Chinese quickly became independently employed and demonstrated the entrepreneurial energy of monsoon Asia to Rabaul's Melanesian population. The case studies offer comparisons between German and 'Anglo' (British/Australian) colonial ideologies, and their consequences. As colonial regulatory and normative frameworks were derived from ideologies imposed by the European powers, there is also some discussion of imperial understandings of 'primitive' economic systems, and of how these influenced colonial economic policy.

In the late colonial period, after the Pacific War, an ideological transformation occurred in the newly unified Australian 'Territory of Papua and New Guinea'. The economic sub-discipline of 'development', whose origins are traceable to the eighteenth century and the classical economist Adam Smith, re-emerged in a decolonizing world after having been eclipsed by a 'neoclassical' economics more concerned with allocative efficiency than economic growth. While before the war the dominant ideology had been one of extractive, *commercial* development, in the post-war era of Bretton Woods and anti-colonialism the Government of Australia adopted an ideology for PNG based on notions of *economic* development. My account examines the implications of Hart's idea of informality for economic development, and considers how the new development orthodoxy both shaped informal economic behaviour and was itself reshaped by a dawning understanding of informality's significance in the development process.

Economic development in PNG was to be implemented under a rubric of *trusteeship* – the 'guardianship' of indigenous peoples by the colonial power. Among the obstacles to development was a lingering colonial legacy of social and economic obsolescence. This was sustained by entrenched attitudes, effectively hostile to the emergence of a committed indigenous urban workforce and the very notion of a Melanesian urbanism. The bureaucratic application of the new, post-war ideology in the regions of Rabaul, Goroka and Port Moresby, and the interactions between official policy initiatives and the *pushback* of indigenous peoples, are recounted here.

As the inevitability of PNG's independence impressed itself on the bureaucratic mind, governmental processes became more self-consciously 'preparatory', and efforts were made to quicken the pace of development. An account is given of this preparatory period, and of economic policy-making during the term of the first (pre-independence) Somare government, influenced by (among others) the Faber Mission and Keith Hart. Political change and redistributive (or economic nationalist) policies cre-

ated opportunity for some indigenous entrepreneurs to flourish in the *formal* economy, although their rise displayed relatively little resemblance to Joseph Schumpeter's model of creative entrepreneurship. The Faber-inspired attempt to encourage economic *informality* failed, in part due to the 'entrenched attitudes' mentioned above. To understand the rise of formal indigenous enterprise this study looks to Baumol's conception of negative forms of entrepreneurship and to North's institutionalist account of 'stumbling blocks' on a path requiring actors to transition from 'personal' (i.e. Maussian) to 'impersonal' (Smithian) modes of exchange. As to *informal* economic activity, understanding the reasons for its failure to flourish is among the purposes of this book.

The experience of this last period, in which the idea of economic informality was briefly at the centre of political rhetoric, offers insights into an economic malaise which subsequently overtook the young independent state. During a late twentieth-century period of stagnation there seemed little reason to expect that the impediment to economic development, represented by the incapacity of Melanesians to engage with processes of specialization and exchange, would be overcome.

A Note on the Structure of This Narrative

The study is organized around three historical periods, seen through the experiences of three towns. The chosen periods are the early colonial (up to the outbreak of the Second World War), the late colonial (1939 to self-government in 1972) and an 'Independence' period (1972 to 1975, but with some necessary treatment of subsequent events). These are the subjects of parts II, III and IV of this book, respectively. For each period, accounts of events in the three regions are presented in parallel. Readers requiring a continuous narrative for any one region will find it by skipping through the chapters, although this will diminish their opportunity to see correspondences and contrasts between the regions in each historical period.