

**The impact of French colonial Institutions on New Caledonian Economic  
Development: a New Institutional Analysis**

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**Extended abstract**

In this paper we use a New Institutional analysis to diagnose the economic impact of French Colonial Institutions on New Caledonia. Motivated by the forthcoming self-determination referendum we are notably interested in the implications of removal of bilateral aid and other French public expenditures on the economic development of New Caledonia. We evaluate these implications by the ability of entrepreneurs to discover new sources of comparative advantage (Haumann and Rodrik 2003). To diagnose the current set of incentives faced by economic agents we focus on the interactions of institutions and entrepreneurs as theorized by Leighton and Lòpez (2013). In our analysis we consider the preponderance of the public sector in the industrial structure of New Caledonia, as well as the institutional character of bilateral aid. Bilateral aid has led to a rent-seeking behaviour by many agents in the economy of New Caledonia, including industrial entrepreneurs, public workers and civilians. The economic importance of the State public sector (financed by France) and the French State public expenditures in the economy of the dependency have generated the same rent-seeking behaviour in political leaders, public workers, civilians and other agents. In the very unique case of New Caledonia, decolonisation is a gradual process framed within the French Republic institutional framework. Hence current institutions in the former colony still bear the consequences of the colonial institutions.

## **Introduction**

For eighteen years now, in the archipelago of New Caledonia a unique process of decolonisation with a major institutional transition has been ongoing. Discovered by James Cook in 1774 and colonised by France in 1841, the colonial history of New Caledonia looks very similar to those of its neighbours Australia and New Zealand. Until a series of riots in 1984 asking France to give the country back to the indigenous people (who call themselves the Kanak) created something new. The Pro-independence, the Loyalists (anti-independence) and the French government signed altogether the Noumea Agreement in 1998 that organises the gradual transfer of all administrative powers to the colony over a time frame of twenty years, with the exception of power over the army and the national identity; and the organisation of a self-determination referendum between 2014 and 2018. Included in the Agreement is the yearly allocation of bilateral aid through development contracts (*contrats de développement*) to help rebalance the development between the South province and the North province inhabited by a majority of Kanak people. The new institutions of New Caledonia are further detailed in a law called *Loi Organique du 19 mars 1999 relative à la Nouvelle-Calédonie* that notably indicate that the Congress and Assemblies members will be financed by France and that the costs generated by institutional transfers will be beared by France.

## **Significance**

The decolonisation process in New Caledonia is unique because it is organised by the colonial powers and framed within its institutions. Moreover, it is a unique opportunity to observe decolonisation as an ongoing gradual process. Consequently not only can we observe the inertia effect of colonisation but of the current transition as well; all being the consequences of French colonial institutions. Despite the uniqueness of the case, no research on the subject has ever been published. To enhance the significance of the study the

economic importance of the archipelago shall be considered. New Caledonia holds 10% to 15% of the nickel reserves in the world, which makes it the fifth holder. With three different mining companies exploiting its soil it is now the third producer in the world. New Caledonia is surrounded by the biggest lagoon in the world and its exclusive economic zone represents 16% of France's. Finally, its strategic position in the South Pacific Ocean has been widely used by the American troops during World War II. The self-determination referendum will be held before the end of 2018 and its outcome may impact not only New Caledonia but its commercial and strategic partners as well.

### **Methodology**

In New Caledonia as in other colonies, current institutions are first the result of an institutional transplant altered to allow the colonial power to extract wealth from the colony. As a result, incentives to fight the colonial institutions are strong and very often riots rise (Watson, 1974, Porta et al., 2007, La Porta et al., 1999, Acemoglu and Robinson, 2012). Second they are the result of the Noumea Agreement that redefines the attribution of powers and allocates to the new institutions financial support to help develop the dependency. The attribution of financial aid helps to reduce incentives in favour of independence. Institutions impact entrepreneurs (López and Leighton, 2012, North, 1993, Baumol, 1996, Murphy et al., 1990) and entrepreneurs develop the economy (Schumpeter, 1934, Hausmann and Rodrik, 2003, Porta and Shleifer, 2014). But aid destroys entrepreneurs' incentives to innovate (Easterly, 2001). As a result and considering the institutional character of aid in this peculiar case, to evaluate the impact of colonisation and decolonisation on the economy of New Caledonia calls for a New Institutional analysis.

## Analytical framework

According to North (1993), the economic outcome is a result of the interaction of institution and entrepreneurs. Drawing on this theory Leighton and Lòpez developed an analytical framework of institutional change. According to them, common beliefs are both the result of individual beliefs and the ideas of academic scribblers spread in the population intellectuals according to their own beliefs. These ideas put pressure on existing institutions lead by madmen who often have interests in the status quo. But when ideas meet the right circumstances or put enough pressure on institutions, that is when political entrepreneurs find the right opportunity for the right idea, they overcome the vested interests and institutions are altered. Institutions generate incentives that favour productive, unproductive or destructive innovation (Baumol 1996) and new economic and political outcomes. These outcomes will then alter common beliefs, etc.

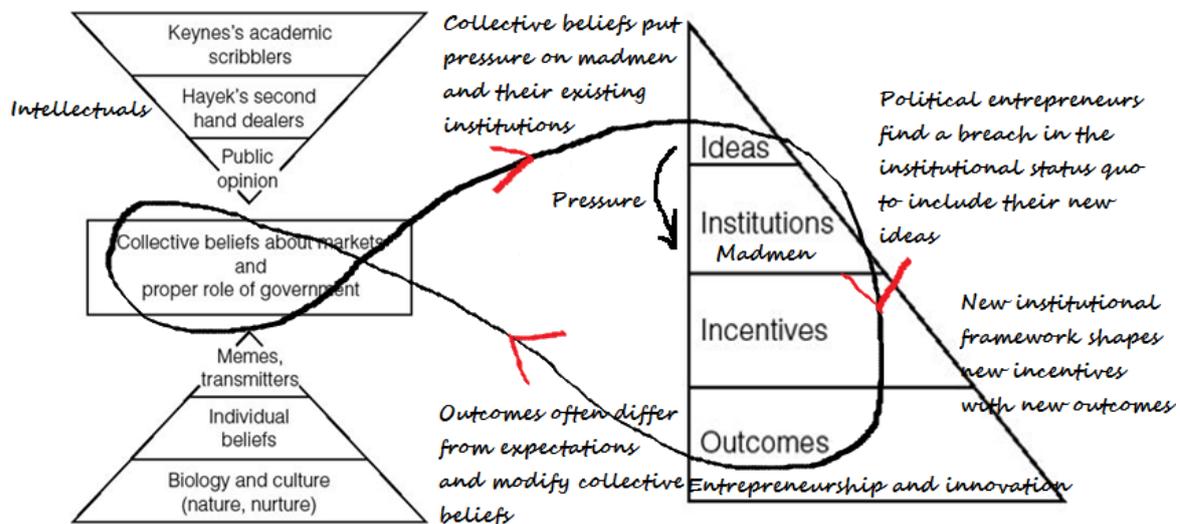


Fig.1 Leighton and Lòpez analytical framework of institutional change

## Past

In New Caledonia, France first set colonial institutions in 1853. When colonised, it was covered by a dense forest of sandal trees, from which the very expensive sandalwood

essential oil is made. In 1855, France self-attributed all lands on the archipelago. At the end of the 19<sup>th</sup> century, Kanak were parked in reserves and their population had dropped at least by a half. At the same times, the first big riot, led by the Kanak chief Atai, is finally stopped thanks to the alliance of the Colonial Administration with rival tribes to Atai's. The death of around one thousand Kanak and two hundreds European people will not cease the fight to go on, each time led by Kanak chiefs and often stopped thanks to tribal rivalry. Nonetheless, Kanak people did not obtain the right to vote before 1957. The second part of the twentieth century saw the rise of new ideas with a strong socialist influence. At that time, a lot of former colonies in the Pacific became independent. A new Kanak leader, Jean-Marie Tjibaou, had started sharing his pro-independence ideas. His lead would generate a civil war that would last for 4 years until 1988. The 1984 to 1988 period is today called The Events and truly started the decolonisation period.

Ataï and Jean-Marie Tjibaou were intellectuals and political entrepreneurs. Their rivals and the French colonial administration were the Madmen who have interests in the status quo. Pro-independence convictions were not collective beliefs and these ideas did not pressure the existing institutions enough to alter them. Thus the status quo remained until 1988. Or, according to the Public Choice theory, the pro-independence groups who succeeded one another in different riots lacked of organisation compared to the homogeneity and age of French colonial administration – until they united following the lead of Tjibaou.

## **Present**

Today, the institutions of New Caledonia are still framed by the 'shared-sovereignty' status and hierarchically organised as follows: a government, a congress and three provincial assemblies. Every year, the country receives about two billion AUD of bilateral aid from

France which represents 15% to 20% of its GDP. The economy of New Caledonia can be qualified as a dependent one.

Part of the massive financial support is attributed by public holdings that buy shares in some start-ups and may provide financial support until the new firm is profitable and autonomous. As a consequence, there is a whole set of incentives for entrepreneurs to create start-ups and to maintain them in the public holding's book. There are three of these holdings, one for each province of New Caledonia. Their employees have work if there are entrepreneurs to help and aid to allocate. As a consequence there is a full set of incentives to keep on attributing financial support, even to non-profitable start-ups. Instead of promoting development, bilateral aid has generated a rent-seeking behaviour in industrial entrepreneurs.

The rent-seeking behaviour is not restricted to industrial entrepreneurs. 17% of the GDP comes from the public sector. Political leaders and public workers are paid, partly, by France. Their high salaries follow the inflation rate in France and drive the inflation rate in New Caledonia; as well as their purchasing power helps business to thrive. The rent-seeking behaviour may be extended to public workers who receive in New Caledonia a higher salary than in France, to political leaders and especially Assemblies members whose work is financed by France and to economic agents who benefit from the high purchasing powers of the two formers.

Political and economic outcomes have altered the common beliefs in New Caledonia – and the resulting idea is “we can't do without French State public expenditures”. The fear of losing French bilateral aid has been until very recently the Loyalists' first argument against independence – and anti-independence parties have always been the government majority. A popular New Caledonian song even states “and who's the one who pays? The French government pays”. Hence, we conclude that the majority of New Caledonians civilians show

the same rent-seeking behaviour towards French bilateral aid. This behaviour reveals the inertia effect of the consequences of colonial institutions.

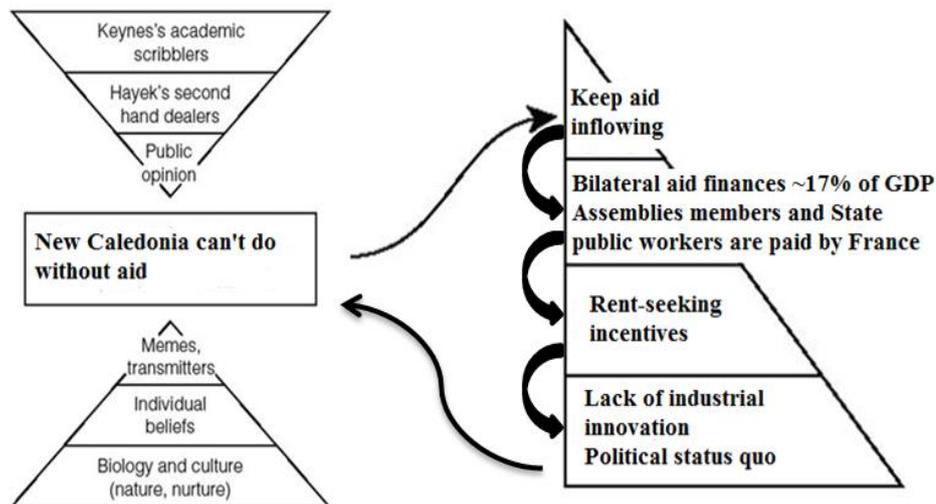


Fig 2. Analysis of the impact of institutional transition using Leighton and López framework

As part of a larger project, these preliminary results will serve as hypotheses in a PhD thesis that will seek to demonstrate in New Caledonia the existence of a rent-seeking behaviour using a field experiment and to show evidence of the lack of industrial innovation using a customs data based methodology developed by Hausmann and Hidalgo (2011).

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