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*Dynamics of Wage Fixation in a Developing Economy:
The Case of Papua New Guinea*

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This book is important, informative and engaging. Much of what has been written on industrial relations in Papua New Guinea (PNG) is by expatriates (for example Hess 1989, 2003), but Dr Imbun brings both local and international perspectives to his subject, having completed his undergraduate studies in PNG and worked for over a decade in the University of PNG before moving to academic work in Australia. He participated in a crucial stage of the evolving PNG wage fixing process, having collected evidence during the 1990s on minimum family food costs—data that were considered in the crucial 2000 PNG Minimum Wage Board determination. This determination, like its 1992 predecessor, reflected the prevailing global trend to the ‘deregulation’ (market-based re-regulation or decentralisation) of industrial relations. Dr Imbun’s book examines the impacts of these two critical moments in PNG employment relations, in order to illustrate general theoretical issues of wage fixation in developing economies. The book deftly sketches the complex social context of wage fixation dilemmas, documenting the competing claims of cost of living pressures, disparities among regions (various urban levels, rural) and sectors (public, mining, plantation, agricultural, small business, informal), and youth unemployment in a wage-labour market where supply far outstripped demand. The author thus provides concrete empirical tests of policies designed to address the issues of productivity, equity, social cohesion, investment and growth that are common to many developing economies.

A historical framework is provided for this analysis, highlighting PNG’s dramatic traverse, within a quarter century, from the establishment of a wage-based labour market, through a period of centralised employment relations regulation, to the sort of decentralised industrial relations system that characterises the current era of neoliberal ascendancy. The book’s early chapters succinctly outline the formation of a wage-based labour market in PNG, at the time when an independent nation was being forged out of the legacy of paternalist colonial administration and expatriate exploitation based on plantations and mining. The emergence of a wage-based labour market in the decolonisation period from the mid-1960s to Independence in 1975 was accompanied by the creation of a centralised system for determining wages, based on determinations by Minimum Wage Boards. Particularly important in the lead-up to Independence was the role of the 1972 Board, which was charged with the ambitious tasks of protecting living standards whilst avoiding stagflation; of providing for an orderly and flexible wage adjustment process that would generate sustainable national wage levels over time; and of avoiding the creation of an elitist class by reducing the urban/rural job creation gap and preventing rural/urban migration (pp. 32–33).

The pre-Independence 1972 Minimum Wage Board (MWB) set a foundational wage for unskilled urban labour. This determination was reached on a tripartite basis, following submissions from the Employers' Federation and an emerging union movement. Australian concepts, such as employers' 'capacity to pay' and a needs-based family wage, were translated into the PNG context. In this process, the family wage played a symbolic role, being based on an adult responsible for a family unit, removed from the communal support networks and obligations of the *wontok* system. John Langmore, then at the University of PNG, had in 1970 argued on behalf of the PNG Workers' Association of Port Moresby for a minimum wage based on the needs of a man, wife and two children. The unions in 1972 upped this to three children; the 1972 determination for a man-wife unit nevertheless raised the minimum wage. In 1974, the year before Independence, MWBs met four times. They introduced the principle of wage indexation, first proposed by Bill Kelty representing the Port Moresby Council of Trade Unions, and instituted adjustments (initially six-monthly) based on CPI movements. The number of children covered by the minimum rate was varied on a regional basis to help manage pay differentials between urban centres, smaller towns and rural areas.

Thus Independence was accompanied by a centralised wage fixing system, based on tripartite and collective processes of determination, with the needs-based minimum wage forming the foundation on which skill differentials were built. Independence in 1975 occurred in a global context marked by oil shocks and stagflation fears. Imbun argues (pp. 41–46) that the indexation system sowed the seeds for an inflationary wages blow-out during the 1980s, and exacerbated the growing rural/urban divide. In 1975 and 1976, MWB meetings were already finding it necessary to impose a temporary urban wage freeze and partially index the rural minimum wage. Between 1977 and 1989, MWBs, headed by A.K. Joel, met every three years, and by 1980 had settled on the criteria that were to be followed until 1991 in setting minimum wages. These criteria were an attempt to balance the needs of workers and their families, relative living standards of different groups and regions, and growth-oriented economic management requirements.

In 1983, the MWB rejected a Government submission that called for wage reductions on the basis that extended *wantok* networks might contain several wage earners (p. 52). On the other hand, successive Boards refused to extend the needs principle beyond coverage of a man, wife and one child. In union bids for a minimum wage covering three children per family, redefinitions of the family wage became proxies for attempts to secure wage increases above CPI (pp. 55–56). In an effort to curb inflation and reduce unemployment, the 1986 MWB established a youth wage of 50 per cent of the adult rate in both rural and urban areas. It was claimed at the time that rates of 75 per cent unemployment amongst young people were contributing to civil disorder (p. 54). In the 1986 determination, the MWB seemed to be accepting arguments based on the market-clearing effect of low wages: Imbun eloquently counters these arguments in the theoretical sections of the book. Nevertheless, he sees indexation as a major source of inflationary difficulties, and endorses attempts by 1980s

Boards to introduce a degree of wage flexibility, even while recognising the need for a living minimum.

Case studies of the decisions of the 1992 and 2000 MWB determinations form a centrepiece of the book. These chapters set out the dilemmas that needed to be resolved by the Boards, and critically analyse the consequences of Board decisions. In outlining the controversies that erupted around the 1992 determination, the narrative dramatises theoretical arguments over the social and economic dimensions of wage levels, and their impacts on investment, development, employment, the urban/rural divide, and dispersion in standards of wealth and poverty. As in Australia, whilst maintaining a centrally-determined minimum wage floor for unskilled work, the 1992 and 2000 decisions 'deregulated' or decentralised collective bargaining to workplace-level negotiations between employers and employee organisations or individuals.

The 1992 MWB determination was a response to an urban unemployment crisis, exacerbated by population growth and the adverse economic impact of a structural adjustment program, in the context of conflict triggered by the 1989 landowner revolt against the Australian-owned Bougainville Copper Mine. Urban law and order problems were seen as threatening foreign investment. Wage indexation was widely held responsible for the growing urban/rural divide, and the low youth wage established in 1986 was seen as discouraging job search. The 1992 MWB, chaired by Margaret Elias, had three terms of reference: to investigate ways of making wages more responsive to economic forces, especially in rural areas; to address existing rural/urban disparities; and to review the youth wage, particularly in the plantation sector (p. 65). Submissions from manufacturing employers argued that a lower unskilled wage would encourage substitution of labour for capital. Submissions from the thriving informal sector (domestic servants, security guards, self-employed vendors) argued that sub-minimum wages were not deterring the sector's growth, but the MWB decided that this sector should remain outside its jurisdiction. Without good statistical data, the Board accepted estimates that only a quarter of a million of the total population of 3.6 million were in wage employment, and that the Port Moresby unemployment rate was 40 per cent (p. 67).

Imbun argues that the 1992 Board was juggling irreconcilable issues. Comparatively high wages, both rural and urban, were thought to be exacerbating unemployment, yet wage levels were too low to maintain basic living standards. Both the Government and the Employers' Federation argued for a deregulation of youth wages. Imbun dismisses employer bids to make productivity the sole basis for wage increases as a bid for complete labour market deregulation (p. 70). He argues that the view of wages simply as an expense was endangering job creation and social cohesion. When the Board decision was finally handed down among growing unrest, it made a radical break from indexation, establishing a system based on firm capacity to pay and productivity bargaining. The Board resolved the conflict between its social and economic responsibilities by advocating a two-tier system, with a substantial drop in the minimum wage. This was to apply to workers regardless of location, and a National Youth Wage was set at 75 per cent of this rate. Anything above these minima was to be subject to individual

or collective productivity bargaining and employer capacity to pay. (p. 70). In the ensuing heated debate, the Secretary for the Department of Labour and Employment, Joel Aphmeledy, advised against implementation of the determination, providing research evidence that the new minimum was well short of basic living costs. The Prime Minister's Department recommended his sacking and argued for wage deregulation. Prime Minister Julius Chan, returning from an IMF and World Bank meeting, suggested that Aphmeledy had 'misunderstood' the concept of deregulation, and endorsed its application to wage bargaining (p. 76). Imbun suggests that adoption of such radical decentralisation would have required greater utilisation of the then dormant industrial relations machinery.

The impacts of the reduced minimum wage and bargaining 'deregulation' were hard to identify, because the 1990s were turbulent for PNG both politically and economically. A macroeconomic crisis in 1994 was followed by brief stabilisation in 1996, which in turn was undermined by severe drought and the repercussions of the Asian financial crisis. Imbun argues that, despite the fact that employers now had the flexibility to pay somewhere between the old and new minimum, few either reduced wages or indicated willingness to take on new staff (p. 82). He notes that most jobs growth occurred in the resource extraction sector where unskilled labour was in low demand (p. 83) and that labour market 'deregulation' appears to have had 'minimal impact on the surging unemployment problem and informal economic activities' (p. 87). In the rural sector too, he finds only limited evidence of a link between wage cuts and job creation: in reality both wages and employment fell (p. 90). Finally, in terms of investment impacts, Imbun cites the comment by Lodewijks (1988) that in the real world, falling wages do not lead employers to discard capital equipment and switch to large-scale new hiring. Other measures, such as tax and regulatory incentives, would have been needed to encourage manufacturing sector growth, not to mention improved law and order, education and training, land tenure reform, and transport and infrastructure development (p. 91).

The 2000 MWB attempted to address the decline in employment and wage conditions that followed the 1992 'deregulation', while continuing to juggle fairness, business survival, stability and growth (p. 93). The 2000 Board was tasked with reviewing the National Minimum Wage and the Youth Wage; determining a Productivity Based Wage Scheme; inquiring into best practices and an award system; reviewing allowances, modes and conditions of employment; and recommending a permanent institution to monitor implementation of minimum wage determinations (p. 94). Submissions from the Government and unions argued that lower wages had not made PNG more competitive, and that PNG workers were now worse off than workers in other Asia/Pacific countries. Unions and University of PNG submissions highlighted the need for a 'living' wage for a family of four and argued that wages were a small component of total costs, with limited impact on competitiveness and growth: lack of infrastructure was at least as significant as wages in impeding rural industry development (pp. 96–97). Imbun reproduces UN social indicators suggesting that 35 per cent of PNG people were living below the poverty line and that in 2000, PNG, along with

Vanuatu and Malaysia, had the highest income dispersion ratios in the region, while Sri Lanka, Vietnam and Indonesia had the lowest (p. 99).

The 2000 MWB decision established a single national minimum wage, abolishing age and regional differentials. However Imbun argues that it merely retained the 1992 minimum wage level, doing no more than restoring its real value in terms of cost of living and international parity (p. 103). The chapter of the book on the 2000 Minimum Wage Policy appears not to have been updated between when it was written soon after the determination and the time of publication, so the author does not indicate whether his predictions of the limited impact of the 2000 Policy came to pass. His suggested outcomes were some degree of employment creation, limited impact on youth unemployment, and some stimulation of manufacturing, particularly in non-capital intensive areas employing women. He thought that it would be many years before unions reached a level of activity where collective bargaining might threaten social harmony (p. 106).

The two concluding chapters are particularly important for their general discussion of the politics and economics of wage fixation in developing countries. The author emphasises that, inheriting Australia's institutionalised approach to wage fixing, PNG is unusual amongst developing countries. He tackles a number of misconceptions, including the claim that minimum wages are high in PNG, assembling evidence that they have been in decline in real terms since 1972, noting: 'It is virtually impossible to argue on welfare grounds that minimum wage levels in PNG are excessively high' (p. 111). He argues eloquently in favour of government regulation and against the idea that market mechanisms or a driving down of the minimum wage will stimulate growth.

Imbun argues that economic growth is a function of the productive capacity of human capital, not of its curtailment cost, and that reduced wage costs cannot solve the unemployment problem. In response to the question of determining an effective minimum wage rate to stimulate international competitiveness, he notes that the price of labour is largely a function of productivity levels, which cannot be estimated in PNG. The conventional measure of productivity, based on unit output per unit of labour input, assumes a homogeneous labour force, which is very far from the case in this country. Nevertheless, in light of the urgent need to lift productivity, he argues that the following is a 'fact of life' that needs to be recognised in wage determination:

If, on the contrary, we go on reducing wages to bring them in line with labour productivity that is already low, then we will be contributing to further declines in productivity. A poorly paid worker with less food, a lower level of education, and less health care will inevitably be even less productive. (p. 116)

The author concludes by applying to PNG six principles for a wages policy framework in a developing country. The first is the need for government intervention to ensure that wage levels and structures are consistent with sustainable development policies and social objectives. PNG is well served in this regard by a pluralist wage fixing mechanism. The second requirement is that this mechanism should operate in a regular and predictable way, not on an ad hoc basis.

This requires government to endorse, rather than undermine, the decisions of an independent body, and Imbun implies that this has not always been the case in PNG. He argues that there is a role for expert advice, and that centralised structures need to be supplemented by 'working partnerships' between employers and employees at enterprise level. Fifthly, a public advisory and enforcement service is essential, staffed by people trained in conciliation, employment relations and economic and social development. Sixthly, consumption growth should follow investment but be based on a minimum wage sufficient to induct unskilled and first time labour into stable employment, with protections against discrimination and of freedom of association. Finally, minimum wages should be based on objective criteria such as living standards, evidence of retail prices of baskets of essential consumer items, and trend data on earnings, employment and un(der) employment (pp. 127–129).

The book succeeds in providing a test-bed for a number of key labour market policy theories, showing how they were played out over thirty years in one small country. It would be churlish therefore to carp. But in this day and age, when a publisher inserts in the front of a book a statement disclaiming responsibility for all content, errors and omissions, it really does fall back on the author to ensure that someone else provides a better proof-reader than 'spell-check' before a book goes to press: in a number of places 'spell-check' provided strange substitutions that mangled sentences and paragraphs to the point where only reading them aloud several times enabled this reader to identify the words and meanings intended. Additionally, the chapters on the 1992 and 2000 determinations contain authorial comment clearly penned close to the time of the events, and unless the book was in press for many years, did require a small amount of rewriting. Readers should, however, not let these barriers stand in the way: the general message of the book remains very important and this reader for one would be keen to read an update on the past ten years.

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