Article

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Minimum wage debates in a developing country setting: Evidence from Papua New Guinea

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Abstract

Contributing to the broader topic of minimum wage determination in developing countries, this article discusses the shaping and implementation of minimum wage policy in Papua New Guinea (PNG). It begins by outlining the institutional arrangements under which minimum wage rates are determined in PNG. It then critically examines the argument that wage levels in the country are unsustainably high – a claim that has perennially characterised Papua New Guinea (PNG) minimum wage fixing. The article argues that, on the contrary, wage levels are indeed low and not adequate to reasonably support a single worker, let alone a family in an urban setting. This counter-argument is discussed in the context of debates over minimum wage levels and their relationship to economic growth, employment creation, international competitiveness, and capacity to pay. Whilst focusing on the PNG wage fixing system, the article thus sheds light on the dilemmas and challenges facing wages policy generally in a developing country setting.

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Keywords

Central wage fixing, developing country, minimum wage, minimum wages board, Papua New Guinea, PNG

Introduction

There is no development policy in Papua New Guinea (PNG) that has been debated as intensively and passionately as the minimum wage. The central tenets of the debate have been that wage levels in the country are high and therefore not sustainable, and that the reason lies

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with the centralised administrative arrangement set up for the specific purpose of determining minimum wages for PNG. This article seeks to establish criteria for resolving the issue of whether the country's minimum wage levels are indeed high. This is done by posing three questions. What is the basis of the Government's view of wage levels? Have PNG minimum wage levels discouraged economic growth, employment creation and international competitiveness? Is a wage system based on employer 'capacity to pay' viable in PNG? An exploration of these questions helps structure discussion of what can arguably be characterised as a public policy obsession with the need to reduce the level of the minimum wages applicable across the PNG economy. The discussion is based on a historical analysis of the origins of the country's wage-fixing system and of three decades of wage policies since independence, including most recently the Minimum Wage Board (MWB) determinations of 1992, 2000, 2008 and 2014. It will be argued that PNG minimum wages are already low, and that going rates, while difficult to ascertain, appear in many cases to fall even below the prescribed minimum rates. Thus, the final aim of the article is to highlight the contradictions and complexities inherent in wage fixation in a developing country setting.

It will be argued that the appearance of a formal centralised system for safeguarding PNG wage levels is belied by the reality. First, the tradition of regular triennial sittings by a tripartite MWB has not occurred since 1992. Moreover, the 1992 Board broke abruptly with tradition, halving the minimum wage and deregulating all other wage levels. The path towards productivity and profitability-based wage-setting arrangements and collective bargaining was firmly laid at this point. The MWB did not convene again until 2000. This break of 8 years was largely influenced by advice of the International Monetary Fund (IMF) and the World Bank (WB; Imbun, 2008). Second, in 2000, a Government ruling vetoed the MWB-proposed minimum wage of K60.94 (*Kina* 60.94) per week and in fact the minimum wage was not reviewed by a tripartite body until 2002, in effect after a 10-year hiatus. The Board met again in 2008 after another break of eight years, and then only after concerted pressure applied by trade unions. By this time, the value of the minimum wage had fallen to half the already-reduced rate set in 1992. The 2008 Board accepted the need for an increase and agreed on a new wage of K100.80 per week, to be introduced in three instalments. Third, the next MWB sitting got underway in 2013, and reached a determination in July 2014. There had been no change to the minimum wage in the preceding 6 years, despite the impressive economic growth experienced by PNG in the last decade, and the 2014 determination installed a rate that, as argued below, had been deemed urgent in 2011 by Prime Minister O'Neill.

The next section provides a background introduction to the country. This is followed by an explanation of PNG's minimum wage system. Subsequent sections discuss the terms of policy debates over minimum wage levels in PNG. The article concludes by outlining the deliberations of the MWB that was convened in 2013, and its July 2014 determination, setting these in the context of the policy issues canvassed.

PNG socio-economic and political environment

After gaining political independence from Australia more than three decades ago, PNG's development path has been blurred by contradictions. Despite being blessed with enormous natural wealth, the country's social indicators are depressing from a comparative point of view. On the United Nations (UN)'s Human Development Index, PNG is ranked among the least developed countries, with 40% of its population living below the international poverty line of USD1 a day (IMF, 2012; United Nations Development Program (UNDP), 2014: iii). An estimated population of 6.73 million reflects a population growth rate of 2.7% annually since 2009. Recent estimates put 40% of the people at under 15 years of age, and PNG's median age at 21.8 years (WB, 2011: 11).

The economy is highly dualistic, with an informal sector responsible for 85% of the country's rural population. Notably, it has an expanding enclave extractive industry responsible for 77% of total exports; the rest is shared between agriculture and forestry. Other sectors such as retail and hospitality enterprises are emerging. Furthermore, PNG receives generous external assistance from donors. The most significant development assistance comes from Australia (its former coloniser). Since political independence in 1975, Australians have provided some 20 billion *Kina* (AUD10 billion) in aid. PNG annually receives AUD360 million, making it the second largest recipient of Australian aid after Indonesia (Australian Government, 2012: 5).

Despite sound income from the extractive sector and external donor support, PNG governments have struggled to deliver social and economic services owing to a multitude of issues. Endemic law and order challenges, lack of credit, weak competition, governance and capacity issues coupled with institutional decay and geographic challenges have adversely affected the economy, particularly the non-extractive sector (WB, 2003–2009). This is despite favourable commodity and mineral prices which have propelled the country's unprecedented economic growth since 2008 and have shielded it from the recent global financial crisis (Filer et al., 2014; WB, 2012). Deregulation of the telecommunications, aviation and power utilities sectors has coincided with the development and operation of the country's massive USD19 billion liquefied natural gas (LNG) project. These developments have occurred against the backdrop of deregulation of key areas of the service sector, seen as paving the way for growth in formal employment and creating shortages of skilled labour (UNDP, 2014).

PNG's minimum wage system

Discussion of the PNG minimum wage system requires recognition of the fact that politically, PNG is one of few countries in the developing world where deliberate official intervention in the free workings of the labour market has become the norm. The PNG minimum wages system, modelled on the Australian wage system, is characterised by centralisation and collectivist principles (Imbun, 2008). The institutional basis of minimum wage fixation is acknowledged in the *Industrial Relations Act 1964* and *Industrial Organisations Act 1964*, two key statues that enable the existence of conciliation and arbitration machinery, and trade unions and employer organisations, respectively. Some eight broad guidelines including the status of the economy, national interest and capacity to pay are intended to steer the MWB in its determination of a minimum wage. These guidelines set the parameters under which the centralised wage fixation system was established and reflect a tradition of wage fixation by a central authority. However, reflecting PNG's enormous diversity and uneven development, MWB determinations set a national minimum wages (NMW) rate, separate wage rates for urban and rural sectors, and one for the youth of the country.

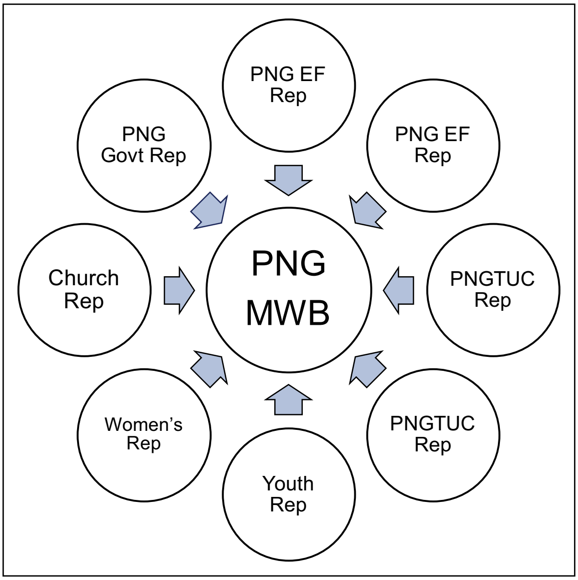

Figure 1. Membership composition of PNG's minimum wage board.
MWB: Minimum Wage Board; EF: Employers Federation; TUC: Trade Union Council.

In terms of structural makeup and participants, the MWB initially had five members, two each from the employers' organisations (PNG Employers Federation) and trade unions (PNGTUC), and one from Government. However, in recent decades, membership has increased to eight to accommodate civil society and broadly includes representation such as from churches, women and youth. This makes what was originally a tripartite arrangement into a truly pluralistic wage setting body for the country (see Figure 1).

In principle, after a MWB has served its 3-year term, its determination lapses and the Government appoints the membership of a new MWB. Following the recommendation of the Minister for Labour and Employment, an eight-member MWB is appointed. Most members are nominees of their respective constituencies. A chairperson is also appointed, usually the Secretary for the Department of Labour and Employment (DLE) or their nominee. The Chairperson provides leadership for the Board but has no voting rights. The government usually publishes a terms of reference (TOR) nationally to guide the Board in its hearing of petitions. There could, for example, be a suggestion to investigate possible strategies more responsive to economic forces, particularly in the rural sector. Another might be for the Board to justify existing rural and urban classifications. A third could be a request to review and determine the appropriateness of current wages applying to youth, employed in the rural sector, particularly in the plantations (Carroll, 1993: 12).

The publication of the TOR allows the MWB to schedule hearings based on the interest shown by the public in each of the nominated issues. The MWB travels the country's main urban centres and major minimum wage employment sites (such as plantations and factories) to hear petitions. After the hearings, the MWB deliberates on the themes of the presentations and their own views of what should be the minimum wage determination.

After much intense debate among the members, there is often progress to a unanimous decision. Only the executive of the government has the power to veto a determination, and this has only ever occurred once, when the 2000 MWB wage determination was considered too high and therefore rescinded and supplementary wage rates were put in place as a result of subsequent tripartite negotiations (Imbun, 2008, 2009).

However, to assess the effectiveness of any wage fixation system, it has to be placed in context of the larger industrial relations system. More than anything else, the role of the government is critically important in ensuring that wage regulations are followed and implemented in workplaces. Yet, continuous underfunding of the DLE has adversely impacted on and compromised its key responsibilities, such as labour inspections of workplaces to ensure that prevailing wage rates are paid (International Labour Organisation (ILO), 2010). As a result, going rates of minimum wages have varied markedly across workplaces, and in many cases underpayment of the actual minimum wage rates has occurred (Imbun, 2009). The Department had also been blamed for failing to modernise many of its obsolete labour laws, and for not producing relevant labour market data for the country (ILO, 2010). This makes writing about labour market issues, let alone minimum wages, particularly challenging. Therefore, this article utilises a wide array of relevant development and local trade union literature. In particular, it relies on submissions of the PNG Trade Union Congress (PNGTUC) to MWBs, given their critical but penetrating analyses of issues concerning PNG minimum wages. Since the inception of the MWB in the early 1960s, the Australian Council of Trade Unions (ACTU) has consistently assisted PNG's peak union organisation in personnel and advocacy with every sitting. Consequently, PNGTUC's well-researched and advocated submissions have mostly been received by the MWB as 'authoritative' pieces of work to guide its determination of minimum wages (Imbun, 2005). In spite of the absence of other corroborating analyses, this article therefore can justify its reliance on PNGTUC submissions to recent MWB sittings. The analysis also acknowledges leading local bureaucrats' and politicians' assertions in the PNG media, mostly regarding the low levels of minimum wages.

Main outlines of debates over wage determination in PNG

Since the establishment of the MWB, passionate debates over PNG wage determination have found trade unions, employers and government at loggerheads as to what levels of minimum wages should prevail. However, academics and global institutions, such as the WB and Asian Development Bank (ADB), have also attempted to influence wage fixation according to their respective views on how PNG should develop economically (Gosarevski et al., 2004). For example, because of the highly centralised and regulated nature of the minimum wage determination system, a litany of critics (Duncan and Lawson, 1997; Garnaut and Baxter, 1984; Levantis, 2000) have labelled it as irrelevant for a developing country and portrayed regular wage adjustments as major constraints to the economy. This wave of attacks on the centralised wage fixation system, focusing particularly on its sustained maintenance of a consumer price index (CPI)-indexed wage system, continued into the 2000s. The critics persistently argued the need to allow for a greater degree of flexibility into the wage-fixing system to make wages more responsive to economic circumstances.

Supporters of the centralised system (e.g. Gumoi, 2000) have argued, to the contrary, that wage indexation has not only restored value to the *Kina*'s purchasing power but has also achieved labour peace and some predictability in the future course of real wages. The trade unions and civil community have consistently argued that wages ought to meet the essential costs of living, particularly in urban areas. Imbun (2008) summarises not only the social equity arguments but also economic efficiency arguments of wage fixation in PNG. He acknowledges the huge divide in these debates, preventing the parties from finding common ground for the betterment of the country's social and economic development goals.

Minimum wage levels

Debates over the appropriate levels of minimum wage that should prevail in the PNG have been part and parcel of every MWB sitting. Have the levels of minimum wage been high in PNG? Reflecting the views of liberal economists (Chand and Yala, 2009; Garnaut and Baxter, 1984; McGavin, 2001), the climax of the minimum wage debates was the 1992 MWB determination. This was notable for several reasons. First, the Board radically deregulated the wage system to accommodate capacity to pay (profitability) and productivity of firms. In its own words, the Board 'observed that deregulation of wages effectively means that wage rates are determined by market forces' (MWB, 1992: 68). Wage indexation was abandoned in favour of a productivity-based system that was thought to bring flexibility to the labour market. This was despite the fact that the MWB still set the national wage minima that took the form of a unified urban and rural minimum wage. The MWB believed that any pay increases above the minimum wage for labourers and actual rates for all other classifications were to be negotiated between employers and employees or their representatives, based on productivity and capacity to pay. The Board accepted the argument that the industrial relations system had the capacity to accommodate the needs of workers and employers in regard to settlement of wage issues either at the workplace levels or nationally.

Second, the regulated rural–urban wage differential was completely removed and a NMW rate of K22.96 per week introduced. The 1992 determination also established a youth wage classification, set at 75% of the adult minimum. However, for urban workers, the NMW constituted a K38.64 reduction from a previous level of K61.60 per week for unskilled workers. It applied to all the workers irrespective of their location. The other classification was a National Youth Wage, set at about 75% of the new NMW and applying to all new entrants to employment aged between 16 and 21. Third, the previous system of regulating minimum rates across an array of skill categories was abolished in order for the new NMW to be applied as a safety net for all workers. Above everything else, the main aim of the two classifications (youth and adult) was to 'encourage and induce many more rural sector employers to increase their youth employment level, particularly at this time of acute youth unemployment and unprecedented lower primary commodity prices' (Imbun, 2008: 73).

Did PNG actually have a high level of minimum wage for a developing country in 1992? In fact, the opposite was the case, as actual wage rates were much lower than the government and its advisors assumed. This was because the continued perception of PNG as a 'high wage' country was arguably a 'hangover' of the 'wage explosion' period (1972–1975) of pre-independence PNG, when urban minimum wages rose by 120%, while rural minimum wages rose by 41% in nominal terms (Colclough and Daniel, 1982: 43). However, the changes in minimum wage rates after the 1992 deregulation had pro-

Table 1. Nominal and real minimum wage levels in urban and rural sectors for labourers from 1972 to 2008.

Year	Nominal minimum wages weekly		Real minimum wages weekly	
	Kina per week			
	Urban	Unskilled rural	Urban	Unskilled rural
1972	11.50	5.90	10.20	7.68
1974	20.00	8.00	18.80	5.44
1975	25.80	8.90	22.10	5.52
1976	27.18	9.43	23.70	5.38
1977	28.03	10.23	26.90	10.80
1980	34.84	13.00	26.50	9.90
1983	41.51	15.48	25.80	9.60
1986	47.47	17.70	25.80	9.60
1989	52.30	19.50	26.20	9.80
1992	22.96	17.22	21.00	7.30
2000	72.42	26.30	26.80	12.40
2008	91.60	30.20	44.50	22.30

Source: Imbun (2008: 75).
Constant price series derived by converting to 2008 prices using the linked urban consumer price index.

found effects for workers. The deregulation was implemented when the *Kina* was relatively on par with the US dollar, but it quickly lost its real value.

Table 1 shows urban and rural minimum wage rates from 1972 to 2008 in nominal and real terms. The wage kept its real value within plus or minus 5% across the 1980s, but then fell sharply in real terms after the removal of indexation in 1992. The PNGTUC, in a well-researched submission, advocated in the 2008 MWB hearings that the wage needed to be K85 per week in order to restore the purchasing power provided in the 1980s before the cessation of indexation (PNGTUC, 2008: 22).

The economic hardships faced by minimum wage earners in PNG have in recent years prompted politicians, urban administrators and trade union leaders to step in and tender their support. In 2011, The Prime Minister, Peter O'Neill, directed the DLE to review the 2008 wage determination, stating 'the current rate is still too low and insult to our people' (*Post Courier*, 18 August 2011: 3). The DLE was given 100 days by the National Executive Council (NEC, 2011) to come up with a new policy aimed at increasing the prevailing rate of K2.29 per hour (or K91.60 per week) to K3.50 (p. 12). It seems the undertaking was not heeded as the Lae Mayor in 2013 took the DLE to task for 'being lazy and not doing their job' in ensuring that the 2008 determination was implemented in workplaces, particularly in his city. However, lack of capacity in the DLE meant that workplaces were rarely checked for compliance issues regarding not only NMW policies but also on other areas such as occupational health and safety and training and localisation. The Mayor alleged that the going rates were even lower and in some workplaces such as canneries and retailing, workers were being paid 70% (K1.60) of the minimum wage (*Post Courier*, 22 January, 2013a: 2).

The PNGTUC consistently advocated for a 'living wage' in the MWB sittings; it also maintained the same in the media. In a recent trip to Madang, one of the major towns in PNG with a concentration of many minimum wage workers engaged in the fish canning industry, John Paska, the PNGTUC general secretary, 'sounded a stern warning to companies taking advantage of their workforce to clean up their act' or they were to face the full force of the law (*Post Courier*, 8 May, 2013b: 4). In fact, many companies in the country deliberately underpay their workers. In Madang, for example, the going rates of canners and processers are K1.30 and K1.40 per hour, respectively, less than the prescribed K2.29. The canning companies issue threats of dismissals and offer the excuse of lack of capacity to pay (ibid.). This anecdotal evidence points to the low level of minimum wages, and fact that the going rates for minimum wage jobs are no way near the prevailing prescribed wage rates.

Minimum wage and economic growth

The private sector and government often claim in MWB proceedings that the minimum wage rate has the capacity to influence economic growth. This raises the question, has the prevailing level of minimum wages actually hindered economic growth? The argument has been that PNG has experienced low economic growth over the past three decades, and that this is attributable mainly to high wage levels (see, e.g., Chand and Yala, 2009). PNG's economic performance in terms of GDP and per capita for most of 1990s and early 2000s has been negative and there was an urgency on the part of the government to address rising poverty levels in the country (WB, 2004: 13). Commentators and the government have frequently made reference to the disadvantage of an indexed wage system, with minimum urban wages, in particular, seen as much higher than productivity has warranted (Duncan and Lawson, 1997: 25; Imbun, 2008; PNG Government, 2000: 9–15, 2008 and various years).

On the other hand, according to the PNGTUC (2008: 11), PNG recorded very low rates of private fixed investment relative to comparable countries, in a ratio of less than 20% of gross domestic product (GDP). The PNGTUC also claimed that over the period from 1980 to 1992, wage and profit shares diverged. In 1980, each was 40% of GDP. But by 1992, the profit share had risen to 71% of GDP, while the wage share had fallen to 15%. The same line of argument was used in the 2013 MWB sitting, where the PNGTUC argued that employer groups were responsible for reducing GDP. It estimated that K8 billion, which could have been spent on wages, or reinvested onshore, had been 'siphoned out of the country thereby stifling domestic demand not to mention instilling needless suffering on workers and their families' (*Post Courier*, 2014: 1). Given that a prevailing 40% of the PNG population are stated to be living below the poverty level of USD1 per day (UNDP, 2014), the level of profit flight claimed by the PNGTUC is not altogether convincing.

The wages debate in PNG appears to be increasingly one-sided, concentrating on costs, profit and production – the cost aspects of wages. The income aspect of wages, which determines the welfare of the workforce and productivity capacity, has been largely ignored (Imbun, 2008, 2009). Nor have the present wage arrangements fulfilled the obligations of ensuring that labour input is adequately rewarded and that basic needs (food, shelter and health) of the workforce met. At least, that is the perception of the PNG National Research Institute, the Government's think tank. Odhuno (2014), a researcher of the institute, has commented that 'minimum wage earners are missing out on the country's resource boom' of which little has trickled down. He has acknowledged PNG as being one of the fastest growing economies in the Pacific region, but the country has failed miserably to pass on the proceeds of the growth to the wider population. Odhuno has blamed the delay in handing down the 2013 minimum wage determination as excruciating for the suffering workers. One president of a chamber of commerce remarked that 'there were some bad ones (employers) who were paying below the minimum wages', adding that they had 'absolutely no reason to do so' (*Post Courier*, 8 May 2013b: 8).

Minimum wage and employment creation

The notion of the market-clearing wage is a neo-liberal mantra, based on the claim that unemployment is generated by wage levels that are too high. As well as their claimed impact on growth, have minimum wages also constrained employment creation in PNG? In successive MWB sittings, entrenched views have also blamed the dire unemployment problem in PNG upon high wage levels. However, the proponents of this claim have had difficulties in identifying employment trends as well as the extent of unemployment in the country, owing to lack of reliable labour market information. The 2008 MWB relied on a preliminary 2000 census report that identified unemployment nationally to be 4% of the formal labour force. The youth unemployment rate in major urban centres such as Port Moresby and Lae was estimated at 5.3%. Unemployment rates among young men and women are also said to be about three times higher than for the general population (MWB, 2008: 28). Of the estimated 80,000 school leavers each year, fewer than 10,000 enter the formal labour market, leaving the rest to either engage in the surging informal sector or be absorbed into subsistence lives (ILO, 2008: 12). The 'youth bulge' is one of the most profound development challenges, having direct implications for the serious escalation of law and order problems. Politicians and decision makers, including MWBs, have contended that wage cuts were the remedy to increase the absorptive capacity of the labour market.

Given the singling out of high labour unit wage costs as an obstacle to employment creation (Chand and Yala, 2009; New Britain Oil Palm, 2008; PNG Employers Federation, 2008), the role of effective demand in job creation has been neglected in debates in PNG. Yet, if there is one sector of the PNG economy which can play a significant role in assisting in the generation of employment, it is the extractive sector. This is critically important as in recent years the country has experienced unprecedented economic growth, averaging 6%–8%, fuelled by a surging mining and hydrocarbon investment. However, income earned from this sector, or other sectors such as construction, fisheries, forestry, including the resilient agriculture sector, has never made any major impact in the creation and expansion of employment opportunities (Filer et al., 2014). Paradoxically, the failure to take advantage of this largely enclave industry in maximising its impact across the larger economy is explained by the PNG Government's view of it as a 'sunset industry' which is therefore not judged to be able to contribute to sustainable development (Filer and Imbun, 2009: 77). The failure to create domestic demand stimulus as an added source of economic growth and employment creation is an obvious deficiency in the government's labour market policies and general development endeavours. For these reasons, it is very difficult to argue convincingly that minimum wage levels have had a dampening effect on employment rates.

Minimum wage and international competitiveness

High levels of minimum wage have also been blamed by industry and government for adversely affecting international competiveness. Is the argument plausible? In every MWB sitting, one of the major objectives has been to determine a wage that would attract foreign investors. The perception among members, particularly the government and employers, has been that because PNG is an open, export-oriented economy, a drastically reduced minimum wage would make the country extremely competitive for its manufactured goods. The government has particularly envied the unprecedented economic growth and consequential rise in living standards of its neighbouring Asian Tiger economies in recent decades (Imbun, 2008). It apparently believed that achieving such economic feats was within reach on the back of the country's strong natural resources. However, what has been potentially obstructing investment of any kind is not the rate of minimum wages, but the continuous increase of non-wage costs which constitute a large proportion of total costs of business (Baker, 2008; Manning, 1997; PNG Business Advantage, 2013). Some sectors, particularly agriculture and retail, have been particularly susceptible to non-wage costs. The earnings of coffee plantations in the PNG highlands have dropped in the previous two decades as a result of the need to hire security and infrastructure developments that were hardly issues in the 1970s and 1980s (Imbun, 2014).

International comparisons linking wages and economic development rates are very difficult to make, because of the lack of recent reliable comparative data. It is thus difficult to compare PNG with similar developing countries to establish the place of wages in growth and development indicators. Even the going rates for jobs earning minimum wages are hardly public knowledge apart from the prescribed rates from the MWB. But the ILO (2013: 2) has pointed out that poor working conditions and low quality jobs are pervasive throughout the region. In this mix, recent wage trends are a cause for concern. According to this peak international organisation, between 2000 and 2011, average manufacturing (and agriculture) wages in China, India and the Philippines were well under USD2 per hour, compared to USD12.68 in Singapore and USD18.32 in Japan. This suggests that it is hardly a viable strategy for a small country like PNG to seek to compete in the global market place on the basis of low wages, particularly when it is rich in non-labour resources. But the benefits of such resources are not being distributed. For PNG, the LNG boom spurred average economic growth of 9% in 2012, but the impact was only superficially felt among lower wage earners.

The debate over internationally competitive wages continues. Earlier Carroll (1993: 25), in one of the few studies on PNG minimum wages, acknowledged that levels of both urban and rural wages were high in comparison to countries with similar levels of development to PNG. In Carroll's analysis (cited in Imbun, 2008: 99), agricultural wages in PNG were much higher than in those countries that were also plantation economies. Against countries with which PNG did not compete in agricultural products, such as South Korea and Singapore, the minimum wage average for PNG rural wages appeared to be sound. Even though wages in those countries were higher so was their productivity. Carroll (1993) noted that successive MWBs were convinced that in PNG, high urban and rural wages relative to other countries were discouraging plantation and manufacturing production for export. Wages were also seen as reducing possibilities for import substitution industries, prompting a search for techniques to substitute capital for labour. This argument has survived successive MWB determinations, despite the claim that the allegedly high rates set by the centralised system have contributed to poor international competitiveness, internal equity problems and lack of congruence with prevailing productivity levels (Carroll, 1993; Imbun, 2008, 2009). The comparative plantation wage argument strongly influenced the de facto deregulation of the wage system in 1992. Despite lack of empirical evidence in employer submissions to subsequent MWBs, their assertions continue to have currency, that PNG is a high wage country.

Nevertheless, some investment occurred in the areas of the economy involving minimum wages, after the drastic wage reductions and labour market deregulation of 1992. Canning factories in particular opened up in Lae and Madang in the mid-1990s and 2000s, but this development was not attributed to the decision of the MWB. It appears that the high market demand for tinned protein additive in PNG influenced the decision to establish these factories. They may be taking advantage of the new minimum wage during the past years. Most of the workers were females, because this type of work is not considered socially acceptable for men to undertake in PNG, at least traditionally. However, there is no evidence to suggest that firms operating in the country have switched from capital intensive to labour intensive operations to take advantage of the reduced minimum wages (Imbun, 2008, 2009). Without related infrastructural support policies, the goal of having a robust manufacturing sector in the economy cannot be achieved.

Minimum wage and capacity to pay

Is a 'capacity to pay' wage system viable in PNG? The MWB, in the course of its history, has endeavoured to introduce a wage system that was based on negotiation between employer and employee. At least, that has been the undercurrent in the private sector submissions to the MWB determinations. But capacity to pay based on productivity arguments has become less successful in the face of strong support for social equity by many Board members. Actually, capacity to pay based on productivity has also implied financial profitability for commercial enterprises (Imbun, 2008). However, the breakthrough for an approach based on productivity and profitability came in the 1992 MWB and subsequent determinations that attempted to introduce capacity to pay-based wage system to PNG workplaces and organisations – an approach that implied a degree of decentralised wage fixing, and provided encouragement for local bargaining.

The 2000 and 2008 MWBs encouraged not only flexibility but allowed for greater utilisation of the country's dormant industrial relations machinery in order to establish, and provide justice to, cases arising out of the new wage policy. Those who welcome this development argue that workers have too long become so used to receiving CPI-enhanced minimum wage levels determined by the Board that they have not really put any serious thoughts into negotiating with their employers at the workplace level (Imbun, 2009). Now that the Board has allowed for more collective bargaining, many employers have seen that path as the right way to proceed in determining wages for workers. None had more bearing than calls from various employers, especially in the plantation sector (PNG Growers Association, 1992, 2008). The employers in this sector, many at a time, have argued that out of policy compliance they have been paying higher wages to the bulk of the country's minimum wage earners than productivity and financial profitability warranted. Therefore, the shifting of some wage deliberating powers to workplaces is seen as promising a mutual outcome for the parties.

But such efforts have occurred in theory only. In practice, a number of fundamental issues have hindered the implementation of workplace-level bargaining. First, although there has never been a problem in terms of putting a figure on the appropriate wage, the difficulty has been availability of reliable financial and productivity information in the workplaces on which workers and trade unions can base their negotiations. Imbun and Ngangan (2000) found that in award negotiations, companies were reluctant to disclose productivity and wage data to trade unions. Labour market deregulation in the Pacific Island Countries in the last decade has generally led to a loss of workers' rights. Particularly in PNG, many workplaces have experienced enhancement and consolidation of management rights through the implementation of stringent rules to discourage worker organisations (Kanaparo and Imbun, 2010).

Second, despite passionate support at a policy level for a deregulated wage system based on capacity to pay and profitability, ironically employers have been reluctant to embrace the concept in their workplaces. This has been the case particularly in sectors of the economy which provide employment to most minimum wage earners. For example, in 2010 the DLIR (Department of Labour and Industrial Relations, the re-named DLE) was forced to step in to regulate the conduct of the Philippine-owned tuna fishing and canning company RD Tuna in Madang. The government's intervention resulted in the reinstatement of some 500 factory workers, and the backdated payment of new 2008 minimum wages that the company had been withholding. After failing in its bid for reclassification as an agricultural company, the company was seeking to avoid back-payment of owed wage increases by hiring a new workforce, albeit on the new minimum rate (Pacific Islands Report, 2010: 3). In another case, the International Transport Federation reported that one of its affiliates, the PNG Maritime and Transport Workers' Union (MTWU), reported that 357 employees of Frabelle (another Philippine fishing company) were allegedly harassed and some were dismissed when PNGMTWU membership authority forms were submitted to the company (International Transport Workers Federation Global (itfglobal), 2010). In the country's massive logging sector, the United States Department of State (2011: 19) reported that 'antiunion activities were widespread [in a sector] which was known for extremely low wages and poor working conditions, including debt bondage and cramped and unhygienic accommodation of workers'. This attitude by management was typical of many workplaces where profit margins are often high and workers' wages are just a fraction of operational costs (PNGTUC, 2000 and 2008). Unfortunately, in this case and other similar antiunion cases, employers often get away with such corrupt practices. This is because the DLIR enforces labour laws selectively, often blaming lack of resources and personnel for failure to investigate issues thoroughly.

Finally, even if a wage system based on capacity to pay was embraced at workplace level, there is no reliable evidence available to demonstrate that productivity is the main determining influence on profit levels that would be easily understood by management and workers. This is despite the very strong need for urgent efforts to be made to improve the levels of labour productivity and performance in PNG. Commentators (see, for example, ADB, 2010) who have argued for improvement of labour productivity in PNG have also stated that 'the need for a downward adjustment of real wages would be correspondingly less' (WB, 204: 39). But the question is, how could minimum wage workers be aware of an increase in the productivity or profitability of their workplaces, if information is strictly guarded by management? Another issue is the measurement of productivity itself. Productivity levels are unknown in PNG. This is a symptom of a wider problem of acute absence of authoritative labour market and other statistical information in the country. Further, declaration of profits is rarely done in industries (such as fishing and agriculture) where the bulk of the workforce are minimum wage earners. There is no way of knowing the financial status of these companies, despite public knowledge of world market prices for crops such as coffee, cocoa and oil palm, which are often publicised in the media (Imbun, 2014).

The trend of further reducing the minimum wage which had already reduced its relative purchasing power creates the risk of further productivity declines. Manifestations include absenteeism and theft that are rampant in workplaces, particularly in the retailing and plantation sectors (Imbun, 2009; Manning, 1997). Such outcomes appear not to have been entertained in wage deliberations in favour of reducing the minimum wage.

The June 2014 determination

Against this policy background, the most recent MWB determination, finally handed down in July 2014, can be assessed. Again, it is worth noting the 6-year gap from the 2008 determination.

In March 2013, the MWB opened hearings on a new minimum wage and commenced hearing claims and submissions from main stakeholders and civil society groups in the country. International media reports (Australian Broadcasting Commission (ABC) Radio Australia, 2014a, 2014b; Pacific Islands News Association (PINA), 2013; Radio NZ International, 2014) were suggesting by early 2014 that there was a consensus among the Board members that an increase was needed. But the issue was, by how much?

The PNGTUC in its submission to the Board made its customary passionate advocacy for a significant increase. In a detailed research study of nearly 100 pages, it argued:

> Despite the biggest boom since Independence, the living standards of minimum wage workers have gone backwards for most of the last two decades while profits have taken an ever-increasing share of national income. (PNGTUC, 2013)

TUC Secretary General Paska said the most shocking figure was that the share of national income going to wages was now at 12.1%. In the 1980s and early 1990s, it had been at 40%, equal to the share going to profits. But by 2013, Paksa claimed, 75.5% was going to profits (quoted in PINA, 2013). The PNGTUC applied for a gradual increase in the minimum wage by nearly two *Kina* an hour, or 70 Australian cents, over 3 years.

The PNG Chamber of Commerce and Industry agreed to support an increase of 6% in the minimum wages, but argued that anything higher would hurt the economy and lead to job losses in a period of decline after the completion of the LNG project (ABC Radio Australia, 2014a). The PNG Government indicated that it was likely to endorse an increase in the country's minimum wage to USD1.10, estimated to be a rise of almost 30% on the current rate (cited in Radio NZ International, 2014). Paska is reported as commenting on the Government's submission: 'It is fair and balanced as it will benefit workers, employers and the national economy. There are no cost implications to the national budget as the state does not employ minimum wage earners' (*Post Courier*, 2014).

Finally, on 25 June 2014, the long-awaited MWB decision, endorsed by Cabinet, was announced. It increased the hourly rate by almost 40%, to K3.20 (USD1.28), with further annual increases, to K3.36 (USD1.34) in 2015 and K3.50 (USD1.40) in 2016. The determination was expected to apply to 80,000 workers, although it continued the tradition of authorising half the minimum rate for agricultural workers in receipt of specified benefits, and 75% of the minimum where employers were deemed 'financially incapable of paying' (Mera, 2014).

Conclusion

Politically, PNG is one of few countries in the developing world where deliberate official intervention in the free workings of the labour market has become the norm. While the triennial MWB sittings have been disrupted in the past two decades, the Body has played a decisive role in determining minimum wages for bulk of the working population. The article has argued that the level of minimum wages has not been high but in fact low. Apart from the prescribed rates being public knowledge, minimum going rates in the labour market are unknown, although many employers allegedly pay workers less. The abandonment of CPI-indexed minimum wage commencing with the 1992 MWB determination allowed for wage negotiations between management and workers, based on capacity to pay and industry profitability. Failure to take up this option has made the relationship between management and unions/workers less transparent at the workplaces.

The 'high wage' thesis has been contested by stressing that despite the nominal increases, actually real value has been declining since 1972. Similarly, the article has argued that wages are not responsible for unemployment in the country. Nor have declining real wages led to increased foreign investment, international competitiveness or economic growth. Any wage cuts in an already-reduced real wage have the potential for accelerating poverty levels that are already acute by global standards, and exacerbated by labour market deregulation. It is apparent that the PNG Government needs a broad-based approach in shaping and implementing appropriate supplementary policies to consolidate the current wage policy framework in order to promote development. Unless it shoulders committed responsibility in upholding its role as custodian of economy and civility, single dimensional views of minimum wages will merely exist as a politicisation of a far more complex development issue.

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