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The 1985-86 Minimum Wages Board in Papua New Guinea

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The Minimum Wages Board system

Since 1972 minimum wages have been set by a government-constituted but impartial Minimum Wages Board, which makes its decisions on the basis of submissions from the government, employers, unions and community groups.

The seven-member board comprises a permanent chairman and representatives from employer groups (2), employee groups (2), the community (1) and the government (1) who are appointed for a three-year term.

After hearing submissions the board makes a determination for minimum wage adjustments for the following three years in four major wage classifications: Urban Level One, Urban Level Two, Rural and Junior. However, wage setting in these categories has wider application throughout the economy.

For instance, the government has generally used the Minimum Wages Board Determination as the basis for its negotiations with the public service unions; and the board's determination appears to be widely used in the private sector as a method for making annual wage adjustments. Overall, it is estimated that probably three-quarters of the entire formal sector workforce have their wages adjusted by the board's determination.

In 1985, hearings were begun to consider the next round of minimum wage adjustments. The board was required by the government to take into consideration the following terms of reference in its decisions:

1. To review the appropriateness of the current method of setting minimum wages.

2. To review and determine criteria for setting Urban Level One and Urban Level Two centres (Urban Level One centres are the larger towns and workers in these centres receive a higher minimum wage).

3. To examine the prospect of excluding certain classes of labour from the Minimum Wages Board determinations.

4. To consider and make recommendations on the possible extension of productivity-based wages into the urban sector.

5. To determine an appropriate youth wage in the light of the findings of the Board of Inquiry into Youth Employment and Remuneration.

Submissions

The Minimum Wages Board toured Papua New Guinea to hear submissions from interested parties during the second half of 1985 and early 1986. The arguments presented to it by the major groups were, in summary:

Government. The government argued that minimum urban wages should be adjusted in the following manner for changes in the consumer price index:

1. For any consumer price index increase between 0 and 1 per cent, no wage adjustment.

2. For any consumer price index increase between 1 and 6 per cent, full indexation of wages.

3. For any consumer price index increase above 6 per cent, no wage indexation.

4. Rural wages to be fully adjusted by any movement in the consumer price index up to a maximum of 8 per cent per annum with no adjustment thereafter, in order to reduce the disparity between rural and urban wage levels and to increase the attractiveness of rural employment vis-à-vis urban employment.

The government recommended that three Urban Level One centres (Popondetta, Kavieng and Alotau) should be downgraded to Urban Level Two centres, and that three Urban Level Two centres (Wabag, Bwagaoia and Samarai) should be downgraded to Rural centres given their very small size, small numbers of people employed and the ability of employers to pay in these towns.

It was further recommended that youths, security workers, small-scale businesses employing fewer than ten full time employees and community groups should be exempt from the Minimum Wages Board legislation.

The government suggested that productivity-based schemes should be extended beyond the rural sector to urban areas in cases where it was agreed between the employer and the employee.

Finally, the government recommended that youths should be defined as anyone 21 years old or less and that these employees should not have their wages regulated by the Minimum Wages Board determination.

Union groups. Most of the union groups argued for a continuation of the previous Minimum Wages Board determination: that is, wages indexed up to a maximum of 5 per cent. However, most of the groups also argued for an immediate wage increase to compensate for the real wage declines experienced over the past three years. These proposed wage increases ranged between 7 per cent (Papua New Guinea Trade Union Congress) to over 100 per cent by other groups. The Public Employees Association, the biggest public sector union, advocated an immediate 10 per cent increase.

In addition, the union groups argued almost unanimously for six monthly adjustments to wages rather than the current twelve monthly adjustments.

Some groups argued for the upgrading of various Rural centres to Urban Level Two centres and the upgrading of some Urban Level Two to Urban Level One centres. The major arguments on upgrading were in respect of Kiunga and Tabubil (close to the site of the Ok Tedi mine) to Urban Level One status. Most unions also argued against any change to the current Junior wage, contrary to the government's argument for a reduction of youth wages relative to adult wages. Some groups even argued that the Junior wage should be abolished and that youths should be paid on the same basis as adults.

Employers' groups. Employers generally argued for a continuation of the previous determination, in order to maintain predictability in the wage adjustment system, with the aim of greater wage stability and potential employment creation.

Two important exceptions included the Planters Association, which agreed that the existing 5 per cent ceiling should be maintained for urban areas, but argued that rural wages should be fully indexed for inflation. This was proposed in an attempt to reduce the disparity between rural and urban wages.

The other major exception was the Papua New Guinea Chamber of Commerce, which suggested the elimination of the urban classification whilst maintaining the rural minimum as the national minimum. It was argued that such a minimum was most appropriate for a rurally based economy like Papua New Guinea.

Some employer groups advocated exemption from Minimum Wages Board legislation for various groups such as small businesses, and selected industrial and rural industries. The Employers Federation, on the other hand, argued strongly against any deregulation except for Junior wages.

Most employer groups argued for the introduction of a lower youth wage; however, most groups felt that it should be predetermined by the Minimum Wages Board rather than left to the market.

The determination

In June 1986, the Minimum Wages Board in Papua New Guinea handed down its Determination No. 1 of 1986. That determination will now govern adjustments to minimum wages in Papua New Guinea for the next three years (from 1 January 1986 to 31 December 1988). The determination contained the following major elements:

1. The status of present Urban Level One and Urban Level Two centres should remain unaltered. However, future upgradings from Urban Level Two to Urban Level One centres would depend upon submissions satisfying the following criteria:
   - a minimum population of 10,000
   - a minimum labour force of 20 per cent of minimum total population, i.e. 2000 workers
   - an indication of the capacity or ability of employers to pay.

   Future upgradings of Rural centres to Urban Level Two would depend upon submissions satisfying the following criteria:
   - gazettal or declaration of a township
   - a minimum total population of 3000 people
   - a minimum wage-earning labour force of 20 per cent of minimum total population (600)
   - an indication of capacity or ability of employers to pay.

2. That for the next three years, there shall be three annual adjustments to all minimum wages (Urban Level One, Urban Level Two, Rural minimum wages and Junior wages). These adjustments should be according to the official consumer price index. Wages should be fully adjusted by any consumer price index movement up to 5 per cent. No adjustments should be made for any consumer price index increase between 5 and 10 per

cent. If the consumer price index increases above 10 per cent, then for any increase between 10 and 15 per cent, half the increase should be awarded in addition to the first 5 per cent awarded.

3. Wage adjustments shall be made on 1 March 1987, 1988 and 1989 for the previous twelve-month period ending 31 December.

4. The existing Junior wage is to be abolished and a new Youth wage to be introduced to cover all youths entering the labour force between 16 and 21 years of age. The new Youth minimum wage is to be 50 per cent of the general labourer's wage. Youth wages are to be adjusted in the same manner as other wages. Those currently employed under the old Junior wage are to continue to be paid the old wage until they attain 22 years of age.

5. Wages paid to groups of no fewer than ten youths shall be left to negotiation between the group and the employer.

The argument for wage constraint

The need for lower wages has been well documented in many reports on the Papua New Guinea economy (viz. the recent Report by Goodman, Lepani and Morawetz; the Wages Study; the Exchange Rate and Macro Economic Policy Report; statements by the IMF after Article IV Consultations, etc.).

Although the latest Minimum Wages Board Determination is a move in that direction - with officially projected inflation rates of 6 per cent, 7 per cent and 6.5 per cent over the next three years - the reduction in real wages will only be very small.

It cannot be expected that changes to the high wage structure will occur rapidly. Given the existing political system and the history of wage setting in Papua New Guinea, the reductions in the real level of wages being argued for will take many years of constant diligence by the government. The changes that such small annual reductions will bring about will hardly be perceivable in the short run and hence will be criticized for not increasing employment levels.

Nonetheless, to argue that no attempt should therefore be made to reduce the level of real wages is to ignore the fact that wage levels are seen to represent a major impediment to further investment and economic growth. It is readily agreed that wage levels are not the only constraint to increased foreign investment, growth and development, and that government measures to improve infrastructure, to change its own regulatory policies, to lower electricity costs, and so on, are also required.

Two other major points are also prominent in the wages debate and are of particular concern to union groups. First, the potential real reduction in wages over the next three years will merely lead to higher profits for expatriate companies to repatriate from Papua New Guinea; and second, the determination will only lead to further 'exploitation' and 'impoverishment' of the nation's workers.

Contrary to the first point, there is evidence to show that much of the new investment in Papua New Guinea comes from retained earnings of existing businesses. If this is the case, then higher profits will actually mean higher investment and growth. With regard to the second point, however, the exponents seem totally to disregard the impoverishment of a large majority of Papua New Guineans who do not have a job at all. The growing size of squatter settlements in major towns, as well as the increasing law and order problems in urban areas, point to an increasing impoverishment of a growing number of town dwellers who are unemployed.

The government's position on wage constraint during the hearings was uncertain. Prior to the hearings it had granted large salary increases to parliamentarians, and this was quickly followed by increased salaries to doctors and lawyers in the public service as well as to heads of departments and other senior ranking public servants.

Although a strong case could certainly be made for the need to restructure wages in the public service - with higher wages being paid for the more senior positions and substantially lower wages at the bottom end of the scale - such an action certainly places the government in an awkward position to argue for lower real wages for minimum wage earners.

The change of government in November also created some uncertainty. Previously the Somare government had announced its intention (in the rejected November 1985 budget) of proposing non-indexation of minimum wages for the first 3 per cent of any increase in the consumer price index and up to a maximum of 5 per cent thereafter. This had been widely criticized by Sir Julius Chan who subsequently became Minister for Finance and Planning and the major force behind the government case that was ultimately put before the board. It was inevitable that more would have to be 'given away' to the workers by the Wingti/Chan government.

In general, on both sides of the political spectrum, there has been hesitation in making a strong commitment to the real wage reductions that had been argued for in economic reports.

Conclusion

The Minimum Wages Board system is recognized as an imperfect method for determining appropriate wage levels. Consideration has been given to completely abandoning the system in favour of free collective wage bargaining. However, as in other countries, the labour market in Papua New Guinea is highly diverse. Without a Minimum Wages Board Determination for the government and employers to use as a basic standard, it is highly likely that the more powerful unions would be able to pressure for and be granted substantial wage increases. Free wage bargaining could therefore create wide disparities in wage levels between similar types of work, as well as inducing a higher overall wage level than would occur under the present centrally managed system. For these reasons, a continuation of the Minimum Wages Board system is probably likely in order to maintain the current structural distribution of wage incomes in the country.

While the Minimum Wages Board acts to control wage increases, the rate of increases granted under the 1986 Determination was probably higher than that required to generate further investment and economic growth. However, several important developments have been achieved.

First, the lowering of youth wages is expected to have some impact upon youth employment. Second, the new criteria for classifying Urban Level One and Urban Level Two centres will effectively stop any further 'creep' into these categories and may have laid the ground work for the future downgrading of certain towns.

Last, the 5 per cent limit on nominal wage increases (given the expectation that the consumer price index will not go beyond 10 per cent in any of the next three years) will mean that real wage levels will be reduced by 4.5 per cent over the next four years (based on official predictions of movements in the consumer price index). Although this is only a decline in the level of real wages of around one and a half per cent per annum, it is probably all that can be achieved without undue industrial unrest.

Only with appropriate macro-economic management, a firmer government commitment to lower real wages and a broad public consensus of the economic and social benefits of lower wages could the reduction have been much greater.