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## COMMENT

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### EMPLOYMENT AND WAGES: THE SITUATION IN PAPUA NEW GUINEA

**Howard Guille**

The Winter 2018 issue of *JAPE* had a commendable series of articles on “Labour’s Declining Income Share” within the theme ‘Economic Inequality in Australia’. The analysis is sharp, the content pertinent and the conclusions persuasive. The editors are to be congratulated on arranging the theme and the authors complimented on its execution.

Almost all the authors provide comparative material – sometimes quite explicit, sometimes more implicit. Comparing Australia with other places (and, likewise, making comparisons over time) is the essence of understanding what has been occurring here. However, the choice of comparators is narrow – typically the US and the UK or the OECD. That is, countries from the global north. To the best of my reading, no comparisons were drawn with the BRIC countries, South-East Asia or Oceania and the Pacific.

Academic and non-academic Anglophone writers in a range of disciplines and subject areas commonly restrict their environs to the global north if not the Anglo world. There is august company on the left. Thus, Perry Anderson recently described Anthony Powell as the ‘longest-lived of all significant novelists of the last century’. Christopher Bertram commented that ‘Naguib Mahfouz, author of the magisterial Cairo trilogy ... lived a few months longer than Powell’ and asked ‘Perhaps Anderson’s focus was limited to novelists from the imperial metropolis?’<sup>1</sup>

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<sup>1</sup> See “Letters”, *London Review of Books* 40 (15), 2 August 2018

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‘Employment and Wages: The Situation in Papua New Guinea’  
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No. 82, pp. 193-200.**

The broadly similar economic and political structures and levels of living are understandable reasons for comparing the Australian economy and society with other advanced economies. It is a help that statistical data are comprehensive and relatively standardised. My concerns are that this has considerable opportunity costs in what is lost from the understanding of Australia and the contribution that could be made to progressive action in Australia and other places.

Put plainly, I think that analysis of labour and inequality is deficient without more deliberate consideration of the global situation especially that outside the rich 'north'. The fundamental reason is that market-driven globalisation brings almost all workers, irrespective of where they work, into direct and/or indirect competition with workers elsewhere. To give examples almost at random: the minimum wage in Indonesia affects the competitive position of steaming coal production; working hours in Thailand affect the competitive situation in tourism and car-making; the prevailing wage rates in the Melanesian countries will affect the 'supply' of labour for Australian horticulture. In other cases, a single labour market operates globally: for example, the crews of cruise and cargo shipping where rates are set according to the prevailing standards in the Philippines and the Indian Sub-Continent. A similar pattern is developing with air crews. Indeed, 'academia' may well be an emerging case of a single global market in which rates and conditions move downwards, though albeit at the moment still higher than seafarers.

The International Labour Organisation has a rich policy archive on minimum wages policy which draws from the relevant Conventions.<sup>2</sup> They are a major topic for the union organisations in globalised industries like garments and seafaring.<sup>3</sup> Minimum wages have been a subject at the ILO since its creation in 1919. As part of the League of Nations, the ILO was a response to the First World War with the motif that "universal and lasting peace can be established only if it is based upon social justice". Hence, the 1919 ILO Constitution called in its Preamble for an urgent improvement of conditions of labour, including

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<sup>2</sup> These include Minimum Wage Fixing Convention, 1970 (No. 131) Minimum Wage Fixing Recommendation, 1970 (No. 135) Domestic Workers Convention, 2011 (No. 189).

<sup>3</sup> What Should My Wages be? 2018 International Transport Workers' Federation; Minimum wages in the global garment industry (2014) ILO Regional Office for Asia and the Pacific, Regional Economic and Social Analysis Unit (RESA), Research Note, November 2014.

“the provision of an adequate living wage”.<sup>4</sup> This was restated in ILO Declaration of Philadelphia as “a minimum living wage to all employed and in need of such protection” and the 2008 ILO Declaration on Social Justice for a Fair Globalization.<sup>5</sup>

The seeming reflex action of taking comparisons from North America and Europe underplays the richness and relative uniqueness of the wage fixation system in Oceania via the establishment of arbitration first in New Zealand and then in the Australian States and finally in the Commonwealth at the turn of the C19-C20 centuries.

Similar wage fixation arrangements were established in Papua New Guinea by the Australian colonial authority and continued after PNG’s independence. These arrangements are well documented – see for example Ben Imbun’s quite frequent contributions,<sup>6</sup> but, as with PNG more generally, they seem out of sight to Australian commentators and scholars (not just of the labour market). This is regrettable; PNG is the closest neighbour; it is a substantial economy and society of some 10 million people, the leader of the Melanesian Spearhead and a member of APEC. In both PNG and Australia countries, mining operates in an economic enclave in both places with limited links to the bulk of the economy – other than through periodic impacts on the exchange rate and as a carrier of “Dutch disease”.

Imbun stresses that:

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.<sup>7</sup>

Bringing PNG into the conversation about wage fixation, especially minimum wages, can do two things. First, it would be an opportunity to contribute to progressive policies about labour force development and

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<sup>4</sup>[https://www.ilo.org/dyn/normlex/en/f?p=1000:62:0::NO:62:P62\\_LIST\\_ENTRIE\\_ID:2453907:NOex/en/f?](https://www.ilo.org/dyn/normlex/en/f?p=1000:62:0::NO:62:P62_LIST_ENTRIE_ID:2453907:NOex/en/f?)

<sup>5</sup> [https://www.ilo.org/global/about-the-ilo/mission-and-objectives/WCMS\\_099766/lang-en/index.htm](https://www.ilo.org/global/about-the-ilo/mission-and-objectives/WCMS_099766/lang-en/index.htm)

<sup>6</sup> See for example Imbun B.Y. *Dynamics of Wage Fixation in a Developing Economy: The Case of Papua New Guinea*. New York: Nova Science Publishers, 2008

<sup>7</sup> Imbun B.Y. *Dynamics of Wage Fixation in a Developing Economy: The Case of Papua New Guinea*. New York: Nova Science Publishers, 2008.

regulation outside the countries of the global North. Second, the experience in PNG over the last four decades serves as a substantial cautionary lesson about the impact of neo-liberalism and deregulation on any economy, including Australia. Indeed, it is especially salutary for Australia given the commonalities of the wage fixation systems. Some pertinent background and outcome are recounted in the next paragraphs.

I worked with the Papua New Guinea Trade Union Congress in preparing cases for the last three National Minimum Wage cases of 2000, 2008 and 2013.<sup>8</sup> The PNG TUC submissions to the Minimum Wage Board for each case covered labour market and wage changes, cost of living (including original household cost surveys) the history and logic of wage fixation; and they made recommendations for wage increases and enforcement.<sup>9</sup> The submissions also examined the interaction between the formal and informal labour market activity and subsistence production. The latter was especially important, as it is clear that PNG people are not the slaves of orthodox economics or 'development theory'. In particular, they make frequent and informed choices about whether to do formal (that is waged) employment, produce food (including fishing) for their own subsistence, share with Wontoks or sell at informal markets.<sup>10</sup>

In 2013, the TUC estimated that total formal employment was 425,000 (around 12% of total labour force) with 155,000 in the public sector (public service plus agencies and corporations) and 270,000 in the private sector. 40% of the private sector workers are in rural areas; 25%

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8 The various reports and submissions were made under the authority and authorship of the PNG TUC. The ACTU, National Tertiary Education Union and the PNG TUC contributed to travel and accommodation costs. However, all responsibility for this article rests with me and with none of the above organisations.

9 The PNG TUC Submissions to the 2013 National Minimum Wage Cases are available from the following sources: <https://mega.nz/#!SEZHskTj>, <https://mega.nz/#!7MJFwKbT>, and <https://mega.nz/#!PUZ3WY7Z>

10 I acknowledge the use in the 2008 and 2013 TUC submissions of ideas (now published under the notion of hybrid livelihoods) from the research of Tim Anderson; see for example Land and livelihood economics in Papua New Guinea – Shifting the paradigm (2014) <https://tim-anderson.info/land-and-livelihood-economics-in-papua-new-guinea-shifting-the-paradigm-2014/>

are women and almost 20% less than full-time. 86,000 private sector workers (33%) were estimated to be on the minimum wage.<sup>11</sup>

As this is a note of comment rather than a research article, it is appropriate to concentrate on the effects of a very dramatic change in institutional arrangements. From 1974 to 1989, the process for the minimum wage was that there were three-yearly reviews and separate urban and rural rates. The wage rate was explicitly based on sustenance costs with, by 1983, eight persons per household the benchmark. There was full or partial indexation for inflation between the actual determinations. The increases in the minimum applied to semi-skilled and trade classifications above the minimum, with the minimum as the base for the wage structure.

In 1992, the Minimum Wage Board 'deregulated' wages and cut the urban minimum wage in half by equating it with the rural rate. Wages above the minimum (now half the previous rate) were left to the market. The Board also abolished regular (annual) indexation with cost of living changes. It was acting on the explicit advice of the World Bank and IMF and of Australian economists: in 1989 and 1992, the eight members of the Minimum Wages Board were presented with some 500 pages of market economic theory. The 1992 Board accepted advice from the Government that:

The studies by Hughes (The Government of Papua New Guinea's Submission to the 1989 Minimum Wages Board, Port Moresby, March 1989, p.36988), World Bank Reports (1988 and 1991) and the Asian Development Bank (1988) made reference to high wages and the centralised wage system in Papua New Guinea being major factors constraining private investment, production and employment growth.<sup>12</sup>

The 2000 Minimum Wages Board accepted arguments from the TUC and made a determination to increase minimum wage but the Government, on advice and pressure from the IMF, rejected the determination. A small administrative increase was made in 2003. The 2008 and 2013 Boards determined to increase the wage.

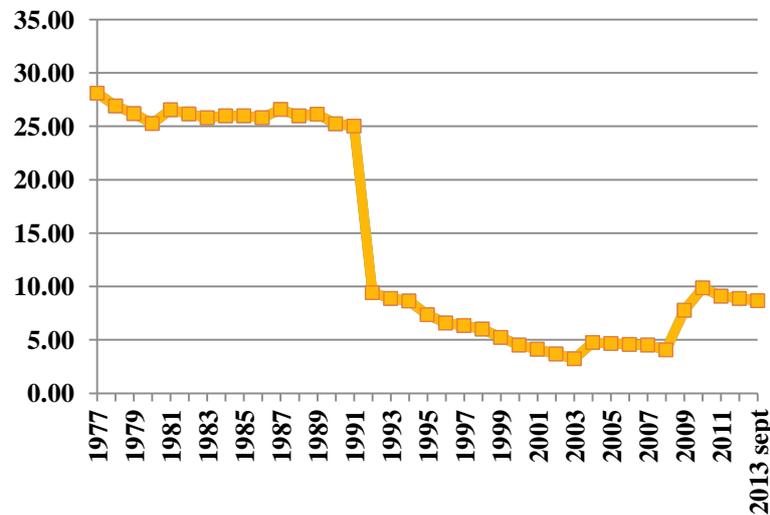
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<sup>11</sup> [https://www.ilo.org/global/about-the-ilo/mission-and-objectives/WCMS\\_099766/lang-en/index.htm](https://www.ilo.org/global/about-the-ilo/mission-and-objectives/WCMS_099766/lang-en/index.htm) There is considerable anecdotal evidence of payment below the minimum wage especially in retail trade and plantations; there is very ineffective enforcement.

<sup>12</sup> *The Government of Papua New Guinea's Submission to the 1989 Minimum Wages Board*, Port Moresby, March 1989 p36

The impact of deregulation is shown in two graphs taken from the 2013 TUC submission; the first shows the real urban minimum wage over time.

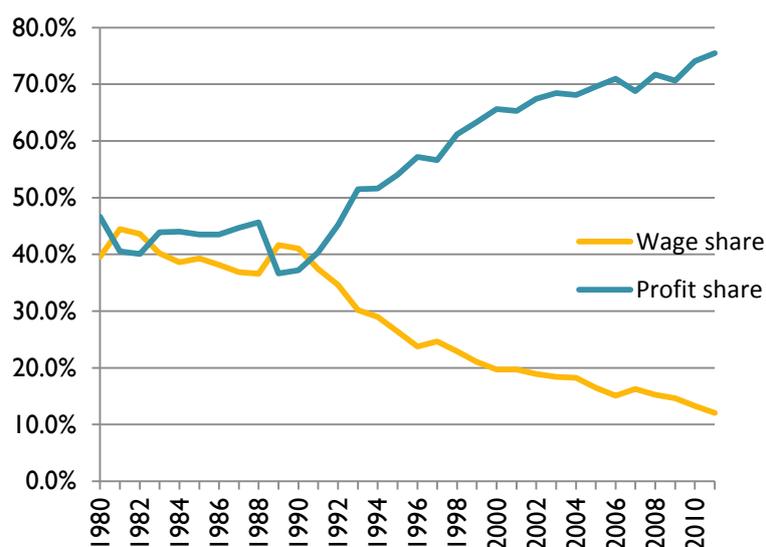
**Figure 1: Real urban minimum wage (1977 Kina per week)**



The graph above shows that indexation and regular determinations kept the real value of the wage more or less constant in PNG from independence to 1992. The urban wage was cut in half in 1992, indexation was abandoned and, apart from a small increase in 2003, there was no change in the rate until 2008 which, while it doubled the real rate, only returned the value to the rural rate of 1977. The cumulative effect is that an urban minimum wage worker in 1977 had 3.3 times the purchasing power of an urban minimum wage worker in 2013.

The second graph (Figure 2, shown overleaf) shows the impact on the wages and profits share of national income.

**Figure 2: Long-run shares in Gross Domestic Product 1980-2011**



In the 1980s, with regular wage reviews and indexation, the wage and profit shares of national income were both around 40%. In 1993, the wage share fell by ten percentage points and the profit share increased by a little more than ten percentage points. The wage share continued to fall and profit share continued to increase after 1993 (though there is some small increase in the wage share after the 2008 determination).

By 2011, 75.5% of national income was going to gross profits and only 12.1% to employee compensation. If the wage share and profit share had remained constant at around 40%, as they did in the 1980s, the total payment to wages in 2011 would have been Kina 11.3 billion not Kina 3.1 billion.

The level of wage share of national income in Papua New Guinea seems to be among the lowest in the world. In 2000-2007, it was lower than PNG only in Cameroon, Lesotho and Niger.<sup>13</sup> The labour share for 2010-2012 varied from 66% in Switzerland and Bermuda down to 19.2%

<sup>13</sup> Statistical appendix Table A1 of the ILO Global Wage Report 2008/9.

in Qatar, 16 % in Niger and 14.9% in Guinea. The bulk of countries, including China, Argentina, South Africa and Brazil, have a labour share around 40 per cent. The figure calculated for Papua New Guinea, based on the national accounts, was a mere 12.3 per cent.<sup>14</sup>

As noted above, wage earners in Papua New Guinea would have been Kina 8 billion (\$A 3.4 billion) per year better off if the wage share had not fallen. This represents large scale wage theft. The cause was *both* aspects of deregulation – slashing the minimum wage and no effective wage determination system above the minimum. The authors were the usual suspects. It sounds an awful lot like Australia!

*Howard Guille is former Secretary of the Queensland branch of the National Tertiary Education Union and currently a coordinating editor ofof Australian Options. He submitted this short article to JAPE as a 'letter to the editor', responding to the journal's special theme issue on the falling share of wage incomes in Australia.*

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<sup>14</sup> ILO [ilosta tiny.cc/xe4b1y](https://tiny.cc/xe4b1y)