



## **‘A lot of talking’ and no significant economic progress**

### *a review of wage policy in Papua New Guinea*

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#### **Abstract**

Since gaining political independence in 1975, Papua New Guinea has always aspired to economic development. Throughout the subsequent years, it identified shaping and implementing an appropriate wage policy as one of the most practical policies to facilitate an economic environment conducive to achieving that dream. The dream seemed more achievable when the nation’s political leaders saw the huge economic growth of its Asian neighbours in the 1980s. This reinforced the firm belief that they could be closer to achieving the same feat, if they too deregulated the labour market, which was seen as a significant obstacle to creation of employment opportunities and development generally.

This paper traces the emergence of minimum wage policy making in Papua New Guinea and discusses the inherent concerns, issues and dilemmas associated with the shaping and performance of various wage policies. Leaders have acknowledged that high minimum wages are an obstacle to economic development. The conclusion reached from the analysis is that unless the leaders also devote more determination and commitment to isolating and dealing with other major issues (i.e. law and order, political instability and appalling infrastructure), the dream of achieving an Asian oriented economic development will prove to be only an illusion.

#### **Keywords**

development; minimum wage; Papua New Guinea; wage policy

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THE UNPRECEDENTED ECONOMIC GROWTH OF SOUTH EAST ASIAN COUNTRIES over the last two decades became the envy of some small Pacific islands countries. Papua New Guinea (PNG) was one such country and its ambition to follow the tiger economies of its northern neighbours was apparent in political overtones and various policy outcomes.<sup>1</sup> Despite the eagerness to follow, the most serious attempts the country has yet undertaken to fast-track economic development have been the attempts in different periods to reform minimum wage policy.

Reviewing various wage policies spanning a little over three decades, the paper argues that although the country had the vision for economic development facilitated through the implementation of some viable minimum wage policies, little has actually been achieved in terms of employment creation and attraction of investors. Perhaps success in reaching the goal required the payment of equal attention to rectifying existing inherent problems such as political instability and law and order problems. Notable minimum wage policies commissioned before and after political independence are discussed, to assess the importance of the country's economic aspirations. The conclusion reached is that unless Papua New Guinea embarks on a concerted effort to address the obstacles, the dream of following the footsteps of the neighbouring tiger economies will continue to be simply an illusion.

### **The concept of a minimum wage**

Most countries have a minimum wage either legislated or tacitly applied in employment arrangements of labour markets. It is a wage for low-skilled workers who are entering the labour market for the first time. The general conception is that the minimum wage in any country should be high enough to accommodate the basic needs of workers (Lustig & McLeod 1997; Saget 2001). At the least, meeting those needs should ensure a reasonable and sufficient income for the workers to subsist and recreate (i.e. to continue to provide labour). At the most, the needs considered will be those that enable them to participate in the society as full citizens: in other words, the wage earned should be sufficient. In developing countries minimum wage laws are popular as they are intended to lift the living standards of the working poor (Kahan 1994). As the minimum wage is legislated for work performed on a time basis, it is usually legally enforceable.



The objectives of minimum wages are basically twofold. First, the minimum wage has a social face, that is, to safeguard low-skilled workers against exploitation and poverty. In other words, the wage earned should be sufficient to allow the workers to maintain a basic standard of living. Secondly, the minimum wage also has an economic face, that is, to share the proceeds of a country's economic growth and in turn, to motivate workers to contribute to the economy by their labour. A minimum wage is justified by, and therefore workers and trade unions are vigilant to changes in, the cost of living, in order to bargain for proportionate increase in the prevailing minimum wage.

#### **Wage policies in the tiger economies**

In the tiger economies of Singapore, South Korea, Malaysia and Taiwan minimum wage legislation was shaped and implemented in line with the broad economic aspirations of each country. This was achieved overwhelmingly through the direct intervention of the state in shaping and regulating minimum wage policies. Indeed, this seems to be the common denominator not only of shaping minimum wage policies but also for regulation of the entire labour market. Additionally, the issues of productivity, efficiency, flexibility and conflict minimisation have also driven minimum wage fixation in the tiger economies (Anonymous 2000). The differences and inconsistencies in wage policies are influenced by features of the political, social and institutional set-up, which influence the general level and structure of wages. Yet one bold endeavour shared by all tiger economies is the imperative to achieve economic success, and this obsession seems to suppress any consideration of equity and other social issues in the shaping and regulation of minimum wage policies. It will become apparent that the overwhelming pragmatic state support for investment and employers has been one of the major ideological differences between the tiger economies and Papua New Guinea.

Further, a centralised wage fixation body tends to play an increasingly dominant role in the determination of wages in the tiger economies, while employers and workers are governed by the outcome. In Singapore, the major institution of economic policy is the National Wages Council (NWC) created in 1972, whose immediate aim was to facilitate the attainment of full employment. After that aim was realised in the early 1980s, its subsequent



aim has been to ensure orderly wage increases and from 1986 the focus was to foster a flexible wage system (Anantaraman 1991:174). The national tripartite council of government, employers and unions meets annually to negotiate national guidelines on wages, bonuses and benefits; its decisions are legally enforceable despite its advisory character. Until 1979, the wage policy was to reward productivity and poor performers were denied increases. This, however, became ineffective in the subsequent years of full employment. The next wage policy, which became popular for instituting the 'second industrial revolution', advocated a development strategy of, amongst other things, allowing firms to comply with a skills development levy on the wages bill for all low-paid workers earning less than \$750 a month. The policy was a disaster, as wages outpaced productivity and employers struggled to put appropriate effort into training of workers (ibid:76–8).

The 1980s saw Singapore experiencing severe recession and a wage freeze was imposed by the implementation of a flexible wage system allowing for employers to pay wages based on productivity and capacity. This flexible wage policy again faced various implementation problems, as a lack of genuine information-sharing between employers and unions, the need to develop suitable profit and productivity measures, and a host of other issues made the policy less viable to implement. In the first half of the 1990s, NWC stressed the need for wage increases to fall behind productivity, except for exceptionally well performing companies. With the onset of the Asian crisis in the late 1990s, the tripartite body recommended wage cuts of 5–8 per cent in the total wages bill, and it seems the cuts were instrumental in helping the economy to recover from the crisis (Cheng & Chang 1998:201).

In South Korea, the obvious lack of natural resources forced a repressive government to play a huge role in the determination of wage policies. The state's extensive labour market intervention became an absolute necessity, particularly in the 1960–1970 period, in an attempt to achieve international competitiveness through abundant and cheap labour. Massive economic growth of an average of 5 per cent was achieved over the decades until the Asian crisis. The interventionist policies in wage fixation and other economic, social and political spheres of South Korean society assisted the country in achieving an industrialised economy. Park and Lee (1995:34) mentioned a



huge reduction in the proportion of workers employed in the low-paid agriculture, forestry and fishing sectors, falling from 50 per cent in 1970 to 16 per cent in 1994. The South Korean government wage policy in the private sector is often referred to as a 'one digit policy' or a 'total wage system', the product of 'dialogue' between the state and the Federation of Korean Trade Unions. Although the state advocated wage restraint, a buoyant economy coupled with union bargaining power led to a threefold increase in wages. Only in the early 1990s did a trade deficit lead to a temporary drop in wage levels and the Asian crisis had little impact on the economy (ibid.:38).

Yet the legislation of a minimum wage has been only recent, partly a result of internal economic constraints and partly a response to social pressure groups. The creation of niche industries played a huge role in creating a minimum wage for the workers in order to reflect the unique working conditions. The minimum wage was legislated for the first time in 1988 as a safeguard to protect the 'very low paid workers' in the manufacturing industries, before it gradually spread across other industries (Park & Legget 1999:26).

Similarly, wage policy making in Malaysia also reflects extensive state intervention as a prerequisite to achieving economic development and growth. Export-oriented industrialisation strategy, after the state embraced it in the 1960s, was prime mover for many decades. This policy was implemented in tandem with the incomes policy of cost-containment in the export industry. Kuruvilla and Arudothy (1995) suggest this policy mix was responsible for the economic transformation of the country. The economic development-oriented strategy opened the floodgate for foreign direct investment in the low-cost export sector, where a significant number of its wage earning population is employed.

The Malaysian government advocated economic development through the implementation of various devices, many of them similar in nature and approach to the other tiger economies, including Taiwan. These included applying tax and labour exemption policies to pioneer industries and export processing zones. In order to strengthen this policy, collective bargaining institutions were deregistered, and terms and conditions of employment were set at minimal levels, to reflect the Employment Ordinance of 1995. A lack



of legislation on minimum wages gave employers liberty to determine their own set of pay rates for workers and these were followed by the exclusionary policy against trade unions in some niche sectors, such as the electronics sector. These and similar pro-capital devices consolidated existing foreign investment and laid the solid foundation for a conducive environment to attract further foreign capital. In fact, the Malaysian state and other of the Asian tiger states saw themselves as the prime movers of economic and industrial development by shaping interventionist labour market policies at the unfortunate expense of labour and trade union rights. However, the tremendous economic growth coupled with rapid industrialisation achieved by the economies gives credibility to their pragmatic economic policies.

### **Wage policy making in Papua New Guinea**

The history of wage policy in Papua New Guinea, over a little more than three decades, was marked by changing priorities, generally in response to mounting internal pressures aimed at maintaining and restoring equity considerations while equally supporting economic growth. The legislative impetus underlying minimum wage fixation is grounded in the 1964 Industrial Relations Act, which stipulated the process of wage fixation. The Act, particularly the wage fixation provision, was strengthened with the establishment of a Minimum Wages Board (MWB). This resulted from two major studies done by Australian academics, one of whom recommended a peak minimum wage determination body (Cochrane 1970) and the other of whom argued for a rural–urban wage differential (Isaac 1970). Both favoured adequate wage increases in rural wages as evidenced by the scarcity of skilled labour. The influence of Australian colonial policies on the country’s wage policies has been profound and wages, though with small refinements over the decades, have remained intact (Dahanayake 1988:3; McGavin 1991:34).

The wage policies were meant to have a double-edged impact on the economy. On one extreme, they were meant to give a broad ‘interventionist’ character to the centralised wage fixation body, in order to maintain equity. On the other extreme, they were expected to advocate for a ‘deregulated’ labour market, with both providing the framework for market forces to operate. However, more often than not, the country’s yearning has been for accelerated

economic development that would be supported by a viable wage policy (Imbun 1994).

Additionally, it would deliver economic efficiency and therefore accommodate the surplus labour on a suppressed general level of wages. This had been the principle but not necessarily the practice in Papua New Guinea: wage decisions have at times reflected the social consideration of workers with little due care to economic growth. In other words, wages paid in the country have not always tended to reflect productivity and also tended to promote wide differentials in skill, often existing in apparent defiance of labour market circumstances.

Wage policies of the Papua New Guinea government ranged through some four broad stages in the 27-year period from pre-independence into the 2000s. This included first, a period aiming for social justice and economic stabilisation, followed by an attempt at partial deregulation and employment, thirdly, allocative efficiency and economic growth and finally, inflation and allocative efficiency. It is apparent that in the early stages of wage policies, the desire for economic development was suppressed in favour of substantial increases in minimum wages to workers. Only towards the mid-1980s and subsequent years did the country realise the urgency of deregulating wages in order to aim seriously for economic development.

#### *Social justice and economic stabilisation*

Wage fixation in the pre-independence 1960s and early 1970s was done on an ad hoc basis and dictated by the whims of the colonial state and employers. It was focused more on social justice, at the expense of promotion of the growth of wage employment opportunities. Three major factors influenced wage fixation at the time: what happened in Australia; the earnings of colonial expatriate public servants; and non-economic factors in the country (Mannur 1992:21). The introduction of wage adjustments based on changes in retail prices (wage indexation), which happened first in the 1974 MWB determination, coincided with the 1974–75 Australian Wage Case. Because an Australian union advocate representing the Papua New Guinea Trade Union Congress (PNGTUC) emphatically advocated for wages to be tied to the Consumer Price Index (CPI) (MWB: 1974: 1), that policy had an immense impact on



PNG wage fixation. At the same time as it happened in Australia, and despite some opposition from employers, the determination cemented the concept of 'indexation' into the PNG wage fixation system. It remained until 1992 and was thought to be a more rational method of wage fixation—more orderly, more equitable and 'less inflationary'—than irregular decisions under pressure from unions, employers and government (Carrol 1993:32). Therefore, the opportunity to encourage economic growth was lost from the beginning, as the foundation wage policy and the few subsequent ones focused more on social justice.

In the absence of a comprehensive wage policy to guide minimum wage fixation at the time, the colonial government considered social justice and self-reliance as the two policy concerns for wage policy. In line with the Australian wage fixation order of the day, the decisions of the various MWBs were consistent in moving closer to the concept of a 'family wage'<sup>2</sup> and were also steadfast in the use of 'needs' as their principal criterion for determining wages. This was done at a time when the country experienced increased (export) commodity prices and public servants, both nationals and expatriates, were paid generous wages that included a 'family needs allowance' in addition to the actual awarded wages, in both the public and private sectors. Critics, mainly planters and miners, spoke of the adverse impacts on employment and saw the high wages as not the best mechanism for redistribution of profit from the agricultural sector (see table 1).

Table 1 shows changes in wage for the first few years of the operation of MWB. The real wage<sup>3</sup> more than doubled in the urban areas while the real wage in the rural sector remained fairly constant, leading to a gradual widening of the urban–rural wage gap. This increase reached a ratio of 3 to 1 in 1976 and the nominal urban wage increased by 36 per cent per year as the CPI also increased by 12 per cent per year. This amounted to some 24 per cent annual increase in real wages. The increases were a result of the various decisions of the MWBs before independence in 1975; in all, there was a steady increase in the minimum wage.



**Table 1** Minimum wages, March 1972–March 1976

Period	CPI Index (1972=100)	Annual Rate of Inflation (%)	Urban Minimum Wage		Rural Minimum Wage	
			General Labourer		Primary Industry	
			Nominal K/w	Real K/w	Nominal K/w	Real K/w
1972 Mar	104.2	6.0	8.00	7.68	5.90	5.66
1972 June	105.9	7.0	8.00	7.55	5.90	5.57
1972 Dec	107.6	5.1	11.50	10.69	5.90	5.48
1973 June	111.0	4.8	11.50	10.36	5.90	4.94
1973 Dec	123.0	14.3	13.80	11.22	5.90	4.80
1974 June	143.4	29.2	13.80	9.62	5.90	4.11
1974 Dec	147.1	19.6	20.00	13.60	8.00	5.44
1975 June	154.1	7.5	22.50	13.60	8.50	5.52
1975 Dec	163.2	10.9	25.80	15.80	8.90	5.45
1976 Mar	165.3	11.0	27.17	16.44	8.90	5.38

**Source** Various sources cited in Dahanayake 1988:5.

For 1972–1973, 1 kina was equivalent to US\$0.79 and for 1975–1976, the currencies were nearly equivalent.

Further, it seemed the wage rise at that point in time was intended to give credence to the claim that political independence would be beneficial. However, the colonial government was more concerned to stabilise the status quo of wage fixation, rather than disrupt what seemed to be an orderly fashion of wage fixation. One staunch critic of the economic policies of this time argued that the labour market policy of the 1970s and law and order later ‘created the environment of both urban unemployment and rural–urban migration’ (Levantis 2000:xi). The complacency shown by the labour market policies left no avenue for long-term effects of wages on economic development, nor did they cater for other redistributive mechanisms such as taxes and subsidies.

In the post-independence period (1975–1984) the major wage policy objective was economic stabilisation. Wage policy reflected this by consolidating indexation as the status quo, lest changing the wage fixation system create



industrial chaos. The MWBs also did not want to increase wages because this may have caused a loss of investor confidence, which would not help economic stability. Nor did the new indigenous politicians and bureaucrats have the courage to make changes in the functioning of policy, as they could not anticipate its impact. Even though the political and economic management of the country was sound, there was little insight into the role of policy formulation in accommodating the ever-growing rural–urban migration and increasingly youthful population. It is estimated that an increasing number of people left their rural villages for urban areas. The trend continued and some 2000 to 5000 migrants were added to the urban population of the country’s main city, Port Moresby, every year. At least half of these migrants decided to settle as dependants or independently in the mushrooming squatter settlements (Manning 2001).

The impact of the wages policy in this period was reflected in the adequate protection of the living standards of minimum wage earners in urban areas in the early 1970s. In reality, this protection occurred at the expense of the interests of the self-employed majority—subsistence dwellers—in the villages. The establishment of a two-tier wage system as was the practice did not create incentives to stay in the rural areas but in fact encouraged rural–urban migration. Another effect of the annual MWBs in the 1970s was the creation of a labour elite by insulating the wage earners from the effects of inflation (Carrol 1993:15).

*Partial deregulation and employment*

The changes in the economy and population of the country greatly influenced wage policy in the period 1985–1992, as the government emphasised growth and employment strategies. The wage policies of this period tried to introduce a degree of flexibility into the wage-fixing system in an attempt to make wages more responsive to economic circumstances. Although still embracing indexation as a major component of wage policy, the 1986 MWB introduced the youth wage and deregulated the wages of youth and community groups. The rural piece rate systems were deregulated and capacity to pay, which could be negotiated at a micro-level, was made the criterion. This allowed employers to invoke incapacity to pay provisions when they could not pay wage adjustments.



It also allowed workers to bargain for wage increases where there was capacity to pay (1986 MWB).

Partial indexation<sup>4</sup> was favoured over full indexation in a period when the world economy was in recession. In turn it had a tremendous impact on the PNG economy, though small declines in real value of the incomes of workers were experienced as the MWBs safeguarded the purchasing power of the workers. However, the wage determinations did little to deter the rate of rural–urban migration, which was increasing year after year. The various Boards did acknowledge the need to reduce this migration by narrowing the gap between rural and urban wages, but they made no progress. There was little attempt at reconciling realities in the rural sector with social realities in the urban sector. Whatever changes were attempted, they were not extensive enough, as in 1992 the MWB embarked on a major structural change policy.

The outcome was the shaping and consolidation of a labour elite that had emerged in the pre-independence period and continued thereafter. According to McGavin (1991) the economy remained insulated from the effects of economic upheavals. For instance, it was evident in the fact that an urban minimum wage earner would have received five times the amount in real terms in the late 1980s. The index based wage system, reinforced through successive MWBs, was maintained despite stiff opposition, particularly from the agricultural employers (Carrol 1993:14). Unlike the minimum wage determination in the 1970s, the wage decisions of the 1980 Boards reflected economic realities of both the local and international economies and their impact on employment levels and social situations. Wage determination changed little until the 1986 MWB, which brought flexibility to setting the minimum wage.

*Allocative efficiency and economic growth*

After nearly two decades of little economic growth, coupled with an overriding political obsession with achieving economic development, the 1992 wage policy represented a major break that suddenly and radically shifted away from the long cherished order of centralised wage fixation. The 1992 MWB—the notable determination—attempted to induce allocative efficiency in the labour market in terms of allowing the labour market to set its own terms and conditions of employment on the basis of demand and supply of labour in a



particular industry. It favoured accelerated economic growth and the creation of employment opportunities in order to bring flexibility into the economy.

The MWB had finally succumbed to the advisers, economists and commentators who over the years had advised the government of the disadvantages of an indexed wage system, pointing to high wages and centralised wages as being major constraints in the economy. They all held that urban wages in particular were much higher than productivity warranted (Colclough & Daniel 1982; Garnaut & Baxter 1984; IMF 1988; World Bank Reports 1988, 1991). Further, these sentiments and some leading politicians' envy of Asian labour policies, coupled with an unprecedented population growth, worsening unemployment and escalating law and order problems, combined to produce bleak prospects of the likelihood of new investment (Imbun 1994). However, the gravest adverse impact on the Papua New Guinea economy was the collapse of the giant Bougainville Copper mine in 1989, as a result of a landowner rebellion against the Australian operator. Throughout much of the 1980s the mine had provided 6–8 per cent of gross domestic product (GDP), 35 per cent of export receipts and 12 per cent of government budget revenue. Tellingly, the closure resulted in the country's loss of 15 per cent of trade in the year. This economic disaster plus the growing numbers of school leavers every year placed a deep strain on the small labour market, as it could create only around 1,000 new jobs in any given year (Imbun 1999:26). In these political and economic circumstances, the imposition of a new wage policy was increasingly necessary.

The Board unified urban and rural minimum wages through a significant reduction in urban minimum wages for new employees, and introduced a national youth rate, set at 75 per cent of the adult minimum. The new minimum weekly wage was K22.96 (US\$22.96) for adults and K16.98 (US\$16.98) for youths, which in each case was a significant reduction. While the policy aimed at allocative efficiency with respect to effective and emerging small businesses and the agricultural sector, it was also expected to increase employment and investment levels and discourage rural–urban migration. The concerns raised by employers and industry bodies in the agricultural sector were largely accommodated by the policy. It was predicted that downward pressure on the wage expectations of unskilled labourers would reduce the price of labour in



the commodity industry and encourage more people to seek employment in industries such as coffee production and marketing. The MWB recognised that the decision was in effect a deregulation of the wage system and 'observed that deregulation of wages effectively means that wage rates are determined by market forces' (1992 MWB:68). 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 on the basis of productivity and capacity to pay.

However, the significant concepts of productivity and capacity to pay, while featuring prominently in the 1992 wage policy, were neither defined nor explained. The Board had the impression that the advocates of productivity-based wages were really calling for the deregulation of the wage system and labour market (Carrol 1993:166). The Board therefore recommended the piece rate system for all employees and advised all employers also to play a role in improving productivity by providing appropriate training and education for workers. Similarly, the Board proceedings included no concrete definition of capacity to pay, despite its recommendation that the principle be extended to individual enterprises and dealt with at micro-level as well as the macro-level. Yet the two concepts were to present challenges for employers and workers because of the absence of several factors, including disclosure of the financial information system and a more unified labour union movement (*ibid.*).

The new wage policy was, quite simply, a delight for the government and employers. However, it created a lot of controversy, mainly from the workers and the trade union fraternity, who did not share the vision of maintaining a low minimum wage to trigger more economic activity in the country. Their disagreement with the vision reflected three main factors. The first concern related to the plight of minimum wage earners struggling to survive economically and maintain their position in an already expensive society. A second concern questioned whether the lower wage policy offered any benefits for the thousands of jobless youths and others flooding a small labour market offering few job opportunities. Finally, the long history of indexing wages to CPI increases had conditioned unions and their members to view the method of wage fixation as the most favourable and fair when considering increases in the cost of living (Imbun 1994). This apprehension looked reasonable, as unions

and workers were 'addicted' after a long period under a centralised wage fixation system. The responses of government, employers and unions to the various wage policies since the inception of centralised wage fixation varied. What was considered appropriate was met with strong disapproval from unions and employers, and in some cases government agreed only reluctantly, as it favoured a total deregulation of the wage system (see table 2). In actual fact, for the greater part of the country's existence, the need to progress economically had been sacrificed in the interests of social security, as the Australian-style centralised wage fixation system had persisted as the foundation for both rural and urban wage setting.

**Table 2** Wage policy options and response of stakeholders

Year	Policy option	Preferred position of main parties		
		Government	Employers	Unions
1972	'Needs' basis	Approval	Some approval	Approval
1973	'Needs' basis	Approval	Some approval	Approval
1974	Indexation (annual)	Approval	Some approval	Approval
1975	Indexation (six-monthly)	Approval	Some approval	Approval
1976	Indexation (annual)	Approval	Disapproval	Approval
1977	Indexation (six-monthly)	Approval	Disapproval	Approval
1980	Indexation (six-monthly)	Approval	Disapproval	Approval
1983	Partial indexation (annual)	Approval	Disapproval	Approval
1986	Partial indexation (annual)	Reluctant approval	Disapproval	Disapproval
1989	Indexation (annual)	Reluctant approval	Disapproval	Approval
1992	Deregulation	Approval	Approval	Disapproval
2000	Deregulation	Approval	Approval	Approval

**Sources** Table modified from McGavin (1991:39); Colclough & Daniel (1982:39).

As table 2 demonstrates, the responses to the wage policies, particularly from the major parties (employers and unions) varied according to their position, whilst the government supported most of them (though for some, the approval was reluctant). Government did not eagerly embrace the partial indexation of wage policies in 1983 and 1986, and the indexation in 1989. It would have preferred a complete deregulation of the wage policies, as demanded by the employers, who consistently criticised the method of wage



fixation, seeing it as the continuation of ‘an inflexible wage policy that inhibits economic growth and had been set in place’ (McGavin 1991:38; Levantis 2000). It was only in the 1992 MWB determination that the wage fixation system was deregulated to accommodate for productivity-based wages, thereby achieving the established CPI wage system. The 2002 wage policy reaffirmed and consolidated the deregulated wage system, to which the unions also consented.

Employer and government fears of sustained failure of the economy seemed justified, as the well-entrenched indexed wage policy failed to deliver fast economic growth over the years. After independence, economic growth was reasonable only up till the 1980s. An average of 12 per cent in GDP was recorded in the 1970s to the early 1980s, but this was followed in subsequent years by a gradual drop in private sector employment, which was offset by the growth in public sector employment (Levantis 2000:4). It was felt that the country could do more to provide employment for its bulging youth population and to minimise the rapid migration from rural to urban areas. Despite the backlash from workers and trade unions, the 1992 deregulation of the wage fixation policy became operational soon afterwards.

As anticipated, the deregulation of the labour market brought about immediate changes in employment prospects. Carrol (1993) found that in the first full year of the deregulated labour market, larger firms in Lae (the industrial city of the country) employing more than 200 workers were more willing to pay the minimum wage, whereas there was a marked reluctance among medium-sized and small firms to use the new minimum wage. Their reluctance arose from the need to do something to retain better skilled labourers, for fear of their being ‘poached’ by other employers. (In Papua New Guinea skilled and highly educated labour is in short supply, and unskilled labour is over-supplied.) Findings of a survey conducted by the country’s peak employer organisation were similar. Both studies suggested that the 1992 MWB determination allowed employers flexibility to pay somewhere between the new minimum wage and the old minimum wage, although many employers felt the new minimum wage would not create (additional) employment in their workplaces (PNG Employers Federation 1993; WD Scott 1997; Imbun 2003).



Furthermore, in two labour market surveys (1997 and 1998) Levantis found that formal employment in the urban private sector had grown since 1992, compensating for a decline in employment in the rural areas. Several different studies (Manning 1998; Duncan & Chand 1998; Bank of Hawaii 1998) also concur that the urban private sector recorded strong employment growth, incredibly enough in the turmoil of the years of the notorious Skate government and natural disasters between 1994 and 1997. These studies thus, confirm that deregulation did bring about employment opportunities, particularly for the surging urban population. Most of these employment opportunities actually occurred in the resource extraction industries, where demand for unskilled labour is low.

Several critics (for example Howard & Paska 2000) have contended otherwise, pointing out that there have been few signs that employment has increased since the 1992 deregulation of the wage fixation system. The WD Scott Report prepared for the Asian Development Bank stated that the impact on employment has been muted, though it is probably too early to assess the full impact of the policy. Further, it observed:

Thus, despite quite rapid economic growth during the 1990s notwithstanding the crisis in 1994–95, employment structure has not followed the path of other rapidly growing countries in the Asia–Pacific region. In general, neither manufacturing nor service sectors offered substantial new employment opportunities, either for new job seekers or for those who might be seeking to shift out of low productivity jobs. Nor have successive devaluations in 1990 and 1994 provided the expected stimulus to wage employment. (1997:32)

Despite the mixed concerns, it was obvious employment opportunities were generated in the deregulated labour market.

Yet the labour market deregulation was part of the several International Monetary Fund initiated reforms undertaken by the country. Other reforms instituted in the areas of tax and tariffs, provincial government, civil service and public enterprise commenced in the late 1980s and spanned several years. These reforms had an immediate and profound impact on the small labour market. The public service reform alone targeted the retrenchment of some





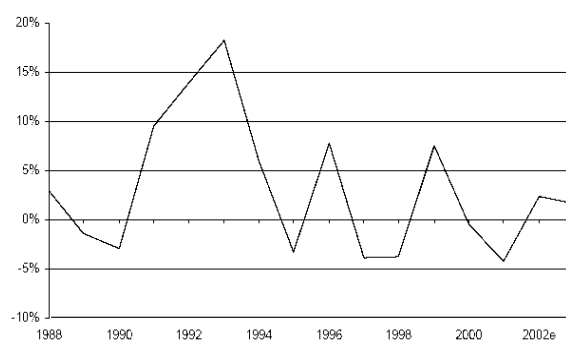
twenty thousand workers from the then existing eighty thousand total workforce (excluding the statutory organisations). Although there was some progress in reducing the size of the public service, so far it has been a snail-pace exercise, in the absence of both financial resources to compensate workers and political will to push it through. Despite this, there were significant achievements in some areas, such as the abolition of the entire structure of provincial government with its five thousand associated employees. As the existing labour market could provide few meaningful opportunities, most of the displaced workers have either crawled back into the public service, making the entire restructuring a futile exercise, or been absorbed into the bulging urban informal sector.

The labour market deregulation and other major reforms occurred in a country plagued with major economic and political woes, many of them self-inflicted. Notwithstanding the perpetuation of the Bougainville crisis, the period 1990–1993 was characterised by strong economic growth resulting from mineral and petroleum developments and spin-off activities in other sectors. Yet the impact was not felt in other sectors in terms of employment creation and broad-based growth resulting from 16 per cent growth in the GDP. The growth led to macro-economic and fiscal mismanagement, which resulted in an unparalleled currency crisis and floating of the kina in 1994. The economic growth managed only 3.1 and 4.8 per cent in the next two years respectively (King 1997:40; AusAID 1996:xv).

Politically, the 1990s were a restless period and the change of government brought in a Chan–Havitea coalition in 1994. They restored the balance of payments position and tightened fiscal policies as real expenditure levels fell. Continuous donor funding and proceeds from favourable commodity prices restored a balance of payments surplus but a 17 per cent reduction in real wages was enforced, which commenced the process of beefing up the budget deficit. The reduction in the growth rate to 3.1 per cent and 4.8 per cent in 1994 and 1995 respectively was a result of the compounding problems (see figure 1). In 1996, the government pursued the reform process and introduced new policies intended to overhaul the revenue system. Some of the measures adopted included imposition of user-pays fees in tertiary education and health services, reform of excise duties, and introduction of a new system of logging

export taxes and royalties. Skate's notorious regime in the next two years saw order-of-the-day political and administrative blunders in decision making place huge strains on the economy. As one commentator correctly observed, 'more generally, by 1999, Papua New Guinea had become a kleptocratic state' (Garnaut 2000:34). This, as noted already, occurred in the middle of several major natural disasters whose adverse impact on the economy and people was on a grander scale than ever before experienced. Overall, except for 1993, which achieved the record high of 17 per cent, the performance of the PNG economy was dismal, averaging a miserable rate of only 2 per cent growth in GDP from 1999 to 2000.

**Figure 1** Annual change in real GDP, 1998–2003



**Note** Data for 2002 and 2003 are official estimates.

**Source** Data is constructed from published series in the 2003 Budget Papers, and the *Quarterly Economic Bulletin* of the Bank of Papua New Guinea.



The period between 1990 and 1993 was a brief period of general economic growth fuelled by the mineral boom and also the deregulation of the wage system. As figure 1 shows, the subsequent years (1994–2003) saw an average real GDP growth of just 1.0 per cent whilst population growth was 3.1 per cent per annum. As Manning (2000) points out, a general deteriorating economic performance has led to a rapid decline in the country's health and education indicators relative to other developing countries, making its Human Development Indicators some of the lowest in the world.

*Inflation control and allocative efficiency*

The 2000 MWB decision came after some 9 years of the existence of a deregulated wage system. The long delay was caused by a myriad of factors ranging from changes of government to the IMF and World Bank imposition of a structural adjustment package on the country in the last few years. As a result of unprecedented workers' complaints and trade unions' outbursts on spiralling inflation, employers and PNGTUC agreed in 1997 to an increase of 7.5 per cent in the prevailing minimum wage. This made it politically expedient to establish a new MWB in order to look into the plight of minimum wage earners and assess the viability of the 1992 minimum wage policy.

The Board maintained the prevailing status quo and attempted to restore some degree of balance and fairness in areas where the conditions of the labour force appeared to have been declining over the previous 9 years. Simultaneously, it recognised the importance of a balance between fairness to the labour force, the need for business survival and profitability, and the need for a strong, stable and growing economy. It was particularly concerned with the above 15 per cent per annum inflation that had become the order of the day for the previous three years. Since most of the basic consumer items were imported, workers in the urban areas were the worst affected by the drop in their purchasing power.

The Board made the decision after critiquing the submissions in terms of shallowness and lack of substance in showing any meaningful employment, economic growth and investment created by the previous determination. It observed that '[t]he information received revealed no positive gains in employment and it has been quite disappointing and insufficient to justify continuation of the current minimum weekly wage of K22.96' (MWB 2000:



29). It made several decisions that seemed to rely heavily on the submissions made by the PNGTUC and other unions. The national minimum wage of K60.42 per week established for all workers irrespective of age or location effectively overrode the previous dual wage set between adult and youth and urban and rural centres. The figure of K60.42 was based on increases in the cost of living since the 1992 minimum wage determination and the non-fulfilment of some of the objectives of the previous determination. So the 2000 MWB simply retained the 1992 minimum wage, restoring its *real* value to the kina. That is, the 1992 minimum wage of K22.96 had been determined at the time when the kina was relatively on par with the US dollar. At the time of the 2000 MWB determination, though, the kina was traded for US\$0.38 and the Board simply divided \$22.96 by \$0.38 and got K60.42 as the minimum wage.<sup>5</sup> In the second year of operation of the minimum wage a further increase of K6.00 was to be awarded, followed by another adjustment upwards by K6.00, setting it at around K72.42 per week in the third year of operation, before the next wage determination. Other increases were made on tool allowance, heavy-duty allowance and camping allowance, as well as recommendations on other areas of work. In all this, most importantly, the Board stayed with the status quo of the 1992 wage deregulation and restored value to the kina only as it saw fit after taking into consideration various submissions and its own assessment of the economy. Therefore, if any economic growth were to happen, the Board felt the status quo was intact and the deregulated wages were here to stay, but that arrangement was not to jeopardise the livelihood of the workers.

### Discussion

There is little doubt that since independence in 1975, Papua New Guinea has clung tenaciously to its desire for economic growth, as has been reflected in the various wage policies the country adopted over the years. From hindsight, it may be seen that economic growth could not be achieved solely by utilising wage policy, simply because of the complex and compounding problems besetting the country. These problems are numerous, but a few notable ones can be identified, and if they are dealt with in tandem with the implementation of wage policies, significant improvements can be achieved in the economy.



First, wage fixation in Papua New Guinea has always been an issue of equity and efficiency in handing down a wage for minimum wage earners. Policy makers in the form of the MWB have been confronted with the inherent dilemma of not upsetting either the workers or the employers in shaping a wage policy. While economic development was acknowledged as the top priority, most of the wage policies reflected a huge bias towards maintaining social equity. An assumption held by wage policy makers was that having a 'social' face to a policy was to find the 'common ground' in paving the way for economic development. This perspective on wages has been adhered to both pre- and post-independence, despite the pressing need for accelerated economic development through deregulation of the economy. The high wages have been criticised consistently, the World Bank, for instance, observing that '[a]t the time of independence, the preceding minimum wage "explosion" had brought wages in Papua New Guinea to a level well above prevailing rates in other developing countries' and concluding that 'the comparatively high level of wages in Papua New Guinea must have inhibited total investment in the country and influenced capital intensity of investment that took place' (World Bank 1982:152).

Further, there are several significant factors that seem to have influenced high wage policies and in turn hindered the achievement of economic development. They continue to do so up to the present. First, not surprisingly, the Australian colonial legacy in the form of institutions, personnel and laws has over the years existed as a forbidding hurdle. The imposition of a centralised wage fixation body, which has persisted ever since, has provided little flexibility to the economy and therefore contributed to poor international competitiveness (see table 3). While a created labour elite in the pre-independence period was used to getting high wages, the policy continued after independence and remained insulated from the effects of economic downturn aided by wage indexation. Similarly, the wages of expatriates (mostly Australians) in both the public and private sectors right after independence were triple those of locals; and it seems that envy drove the latter to emulate the former. Over the years, what was seen as a race to close the 'gap' in the disparity served only to inflate the wages in the country, with little regard for the levels of productivity (Daley 1987:120).

**Table 3** Wages in PNG agricultural sector in comparison to select developing countries

Country	Percentage of PNG average wages		Percentage of PNG minimum wages	
	Agriculture	Non-agriculture	Agriculture	Non-agriculture
Nigeria	..	8.8	..	18.6
India	19.6	14.4	24.7	30.3
Sri Lanka	20.2	8.2	25.4	17.3
Malaysia	58.0	21.9	72.9	46.3
Philippines	28.9	15.3	36.4	32.2
Indonesia	51.9	17.9	65.3	37.8
Korea	207.5	67.4	260.8	142.2
Hong Kong	..	60.0	..	126.6
Singapore	257.9	61.9	324.2	130.7
(W) Samoa	40.2	11.6	50.5	24.5

**Source** Author's compilation, citing Carrol (1993).

**Notes** Data derived from International Labour Office, *Yearbook of Labour Statistics* and relate to 1985 and 1986. Data were made comparable through the US\$–local currency exchange conversion. At 1986, PNG minimum wages were K17.70 (rural) and K47.47 (urban level 1). The ILO yearbook states PNG wages in US\$ as follows: average US\$21.55 (rural) US\$97.20 (urban); minimum US\$17.15 (rural) US\$46.05 (urban).

Table 3 highlights the problem of the centralised wage fixation system, which is claimed to have contributed to Papua New Guinea's poor international competitiveness, internal equity problems and failure to raise the productivity levels (Carrol 1993:52). The figures show that plantation wages in those countries that have plantations tend to be much lower than the ones sustained on plantations in Papua New Guinea. Minimum wages in Papua New Guinea were much higher even when compared to countries like Korea and Singapore, where Papua New Guinea does not compete in agricultural products. This is despite the fact that wages were higher in other industrial sectors, which also reflected their high productivity. However, such countries do not have a rural-based economy, as their commercial and industrial sectors account for most of the export earnings.



With the problem of increasing unemployment in Papua New Guinea, coupled with the dramatic rise in rural–urban migration in the post-independence period, it has not been possible to accommodate the flood of people in the formal sector, because of labour market rigidities. Migrants are accommodated by *wantoks* (relatives) as there is no social security available, similarly to other developing countries. Yet over the years, the entry of migrants into informal activities (i.e. setting up street stalls) was hindered by obsolete colonial laws. One observer candidly confirms: ‘Again regulations and systems inherited from Australia were the problem, including strict laws on “hawking” and strict health regulations for selling food outdoors’ (Levantis 2000:6).

Thirdly, the disappointing performance of the agricultural sector from the 1980s provided little impetus for employment opportunities. In the heyday of the 1970s this sector accounted for one-third of the GDP and employed some 60,000 workers and over the subsequent years gradually declined as the prevailing minimum wages reflected little bearing of the sector (ibid:4). The minimum wage was increased in order to combat inflation, mostly in an effort to avoid industrial chaos among threatening workers and trade unions in the urban areas. Despite the introduction of a youth wage by the 1983 MWB and its maintenance thereafter in order to provide employment opportunities in the face of the surging youth unemployment, little was achieved in terms of attracting workers to the new minimum wage.

Fourthly, if there is one apparent major problem adversely affecting the economy and therefore existing as an impediment to the country’s aspirations for development, it is law and order. So far, law and order—or rather, its weakness—has posed, and continues to pose, a huge threat to economic progress and civil society in the country. Notable studies (AusAID 1994–2003; Levantis 2000; INA 1996, 1999; Harris 1998; Dinnen 1998; Duncan & Lawson 1997) have pointed out that the country ought first to tackle the law and order issue seriously, in order to allow economic development to occur freely. A United Nations study of the victimisation rate (Zvekic & Alvazzi 1995) ranked Papua New Guinea’s urban centres amongst those with the highest crime rates in the world, well above crime-infested cities such as Johannesburg and Rio de Janeiro. Levantis (2000:11) points out that in the first five-year period after the first MWB determination in 1972, the crime rate



increased threefold and 'thereafter, the crime rate completely overwhelmed the law enforcement'. While the problem has shown no sign of abating the full brunt of it has been borne by the nation's business community. Levantis (1997, 2000:13) found that security costs incurred in business amounted to 0.8 per cent of GDP, followed by indirect losses due to crime, which accounted for 1.3 per cent of GDP. He put the total value of theft committed by criminals in 1995 at around K63.3 (US\$20) million or 1 per cent of GDP. Since the inception of MWB in 1972 and thereafter, crime has gravely reduced the power of wage policies to have any real impact in the labour market.

Finally, a host of other obstacles also provide little room for the deregulated labour market to have any meaningful impact on the economy. A relatively late introduction to modern development, a restless democratic system, a complicated customary land tenure system, difficult physical terrain and small, fragmented markets, deteriorating and inadequate infrastructure, and increasing policy instability are major problems that have an adverse impact on the country's progress to development (AusAID 1999). The fact that the country achieved political independence without having developed a significant pool of skilled indigenous human resources and a major infrastructural network has only made the task of governing the country tough for its leaders. It has become a challenge for the country to embrace modern development comfortably, as the majority of the country's 5 million people still cling to diverse clan-based social systems, with complicated customary land ownership systems. A lack of firm, visionary and stable leadership provided by current and previous political leaders—a prerequisite to development, as typified in several Asian tiger countries—is another major impediment in modern Papua New Guinea. When such problems beset conflicting policy advice in the bureaucracy and a rampant Aids epidemic threatening its population, the country's prospects for economic development seem distant at best.

### Conclusion

Inherent in the discussion in this review of the history of wage fixation in Papua New Guinea is the country's yearning for economic development like that of its neighbouring Asian tiger economies. It is also apparent that striking a viable





wage policy is the key to economic development of the country. Despite the attempts, Papua New Guinea has been ineffective at doing away with the tradition of paying a high minimum wage to its workers. Various reasons (notably such things as the emergence of a labour elite in pre-colonial days and its maintenance thereafter, and a strong trade union presence in wage determinations) seem, for many years until 1992, to have inhibited any deregulation of the wage system to make it conducive to economic development.

Yet when the country did regulate the wage system, various internal and external forces seem to have obstructed the economy from functioning to its full capacity, despite the abundant natural resources. Amongst those are the country's major problems of law and order, political instability, deteriorating infrastructure and the high unemployment rate of its huge youth population. Unless the country deals with the imposing social and political problems, its vision of achieving accelerated economic development can only be seen as just 'doing a lot of talking'. On paper and in the open, leaders are abstractly obsessed with economic development. As a deregulated wage system is only one of several key political, economic and social policies needed to turn the country around, a rejuvenated attention should be focused on rectifying the other major issues affecting the country. Only then will the deregulated labour market reach its potential of providing opportunities for the country's surging population and in the process follow the path of its neighbouring Asian tigers.

### Notes

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<sup>1</sup> The invitation of outgoing Malaysian PM, Mahathir Mohamad, to Port Moresby in 2003 and numerous 'fact finding' missions comprising PNG politicians, business leaders and bureaucrats to Asian countries (Malaysia, Singapore and Taiwan) over the years have been a result of this firm belief in the possibility of achieving economic development similar to that of the northern neighbours. Open debates in the National Parliament have articulated the same belief among political leaders.

- <sup>2</sup> The 'family wage' was pegged to reflect the needs of the family, defined to include a worker and three dependants.
- <sup>3</sup> The practice of calculating real wages was based on a complex set of factors that included regular cost of living adjustments modified to some extent by consideration of longer term trends in plantation crop prices. The various MWBs recommended a 15 per cent profit level to the employers and any increase in the cost of living was to be automatically met with a relative equal percentage to the sum of the real wage. This became the norm from 1972 to 1976.
- <sup>4</sup> Rather than fully indexing the wage to the CPI, the MWB reduced the CPI indexation from 8 per cent to 5 per cent in 1983. This 5 per cent also became the ceiling. The attempt of the MWB was to reduce the real wage by partially indexing the wage (Carrol 1993:119).
- <sup>5</sup> This wage reflected the 1992 kina value of the US dollar. However, in 2000 the inflation was astronomical at 15 per cent, causing a dramatic fall in the real wage. This point was not considered by the MWB.

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