Papua New Guinea government overturns minimum pay rise

Will Marshall
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With his government under mounting pressure from the World Bank and International Monetary Fund, Papua New Guinea Prime Minister Sir Mekere Morauta this month overturned a decision to increase the minimum wage of rural workers to 60.42 kina per week (about $US18). The government's own Minimum Wages Board had recommended a 160 percent increase from the current K24.2 ($7) minimum wage.

The rise would have been the first since 1992, when the Wages Board acceded to a government demand for a two-thirds cut in the minimum wage. Moreover, the increase would only have compensated for the impact of inflation and the collapse of the kina, the PNG currency, which has halved in value since being floated in 1994.

The Wages Board, which consists of representatives from the government, employers, employees, the community and church, had made its ruling despite Mekere's urgings to the contrary. Last August he stated that the minimum wage could not be set above K30 a week because of “the need to maintain economic stability and investor confidence”.

When employer groups, such as the Chamber of Commerce and the Rural Industries Council, warned of up to 20,000 job cuts in rural areas and business closures, Morauta announced that cabinet would not implement the recommended rise.

Instead, he convened the National Tripartite Consultative Council (consisting of union, employer and government representatives) to review the decision and proposed an interim minimum wage of K32.91 per week, with a youth wage of K18.51 a week. After initially denouncing the cabinet's decision and threatening national strike action, the trade union leaders expressed their readiness to participate in the tripartite review.

Several days later, the media revealed that Morauta and his ministers, together with all MPs and senior officials, were receiving salary increases of 60-100 percent under a decision by the Salaries and Remuneration Commission last December.

Those politicians who doubled their pay included Morauta and the Speaker of Parliament, Bernard Narakobi—who headed the commission that ordered the rise. The ruling increased Morauta's pay from K82,000 ($24,000) a year to K165,000 ($48,000). His new weekly salary is K3,173—about 100 times his proposal for the new minimum wage.

This revelation provoked considerable discontent and forced the union leaders to renew their warnings of strikes. “Reports received from unions, women leaders, activists and individuals throughout PNG condemned the government for the action undertaken and described the move as ‘selfish, greedy and very contradictory',” the *Post-Courier* newspaper reported on February 9. “They spoke of frustrations and anger, especially because of the government's refusal to approve the ‘simple' 2000 Minimum Wage Determination and yet affording a pay rise for themselves.”

National Doctors and Health Workers Association leader Dr Bob Danaya said the trade unions had respected the government's initial call for wage moderation in the national interest. The unannounced pay rise for politicians and bureaucrats, however, meant, “all bets are off”. Amalgamated General Workers Union general secretary Andrew Kandakasi said the pay rise for MPs was “inhuman” and would trigger a meeting of the trade union movement to discuss a national strike.

Nevertheless, these threats have not materialised. Rather, Trade Union Congress (TUC) officials attended the National Tripartite Consultative Council talks on February 15 and made two key concessions to the employers and the government. They indicated that certain “social benefits” provided by rural employers could be considered part of the minimum wage and that employers who could not pay the rise would be exempted. These negotiations are continuing.

In the meantime, in an effort to stem the controversy, Morauta announced that the politicians' pay rise would be reviewed when parliament resumed in June. He claimed he was legally powerless to halt the increases before then.

The disparity between the treatment of low-paid workers and the country's political elite mirrors PNG's growing inequality and class divide. According to a World Bank report, PNG's per capita income of about $890 would normally classify it as a middle-income country. But this wealth is unevenly distributed—38 percent of the 4.6 million people are poor. Rural dwellers, who account for 85 percent of the country's total population, live on an average income of $350 a year, or less than $1 a day.

World Bank dispute

The minimum pay recommendation could not have come at a worse time for Morauta. In the first place, his government last December announced plans for seven Free Trade Zones in outlying provinces in the hope of attracting foreign investment by offering low wages. Trade and Industry Minister John Tekwie said 30 to 40 percent of his department's resources had been committed to the project.

Since he came to office in mid-1999, Morauta has been trying without success to reverse the fall in investment in PNG during the 1990s. This is despite the fact that he has implemented the IMF/World Bank Structural Adjustment Program, which requires drastic government cost-cutting, privatisation, public service restructuring and crackdowns on nepotism and corruption.

The kina plunged to 29.5 US cents in early January, the lowest level in the past two years and close to its all-time low. According to "highly placed sources," cited by *The National* newspaper, the fall "has been linked to the World Bank's tough conditions for the release of the next tranche of its structural adjustment loan to PNG".

The second tranche of a $US90 million World Bank loan is now overdue by one month and Morauta's government hopes to meet the World Bank, IMF and donor countries at a Consultative Group meeting next month to secure urgently needed further loans.

The sharpness of the pressure being applied by the World Bank was underlined in the midst of the pay controversy, when Morauta announced the expulsion of the World Bank's representative in PNG, Daniel Weise. While on a week-long break in Australia, Weise received a letter barring him from returning to PNG. Morauta accused him of "interference in Papua New Guinea's internal political and administrative matters".

Morauta said the World Bank official had made public statements critical of the government and questioned him about being a signatory to a government trust fund when it was "none of the consultant's business". According to the government's Chief Secretary Robert Igara, Weise had "seen fit to engage in the domestic political affairs of PNG" and "a campaign to have senior officials removed from office"—including Igara and Treasury Secretary Koiari Tarata.

Weise, a former Treasury official in the Australian state of Queensland, had been in PNG for more than three years as a World Bank consultant. He was a central player in the government's privatisation program and has insisted on seeing through a corruption inquiry into the collapse of National Provident Fund, a civil service superannuation fund. He angered the government last May by stating that the fund was bankrupt, before the completion of an audit.

Having barred Weise, Morauta immediately sought to appease the World Bank. After three-days of talks with the bank's Country Director for PNG, Klaus Rohland, Morauta said the bank would upgrade its presence in the country by appointing a permanent representative to head its mission. He reiterated his government's determination to implement the Structural Adjustment Program and other "fundamental reforms" to the economy.

In a statement issued later in Sydney, however, Rohland denied that any agreement had been reached. Rohland said the Bank continued to support Weise and would "look forward to his continued engagement" on PNG's case in Sydney. Rohland said the bank remained concerned about official corruption. Both the overdue installment and the Consultative Group meeting would be delayed until "the outstanding issues have been resolved".

Morauta came to office in 1999 with the backing of the Australian government and financial markets. A merchant banker and former governor of the PNG Reserve Bank, he re-established relationships with the World Bank and the IMF, after a near economic collapse under previous prime minister, Bill Skate.

Morauta's government has remained fragile, however, and is under sustained criticism from Skate and another former prime minister, Sir Michael Somare, whom Morauta dismissed from the government last December. Morauta has suspended several provincial governments and shut down the national parliament until June to avoid a no-confidence motion. Under these conditions, Weise's call for the removal of Morauta's closest aides appears to have threatened Morauta's efforts to cling to office.

Australian business chiefs and media commentators have backed the World Bank's stand. They have expressed dismay with Morauta's withdrawal of Weise's visa and raised doubts about the wisdom of the Australian government continuing to back Morauta as heavily as it has since 1999.

The *Australian Financial Review* said PNG might face tighter access to credit, as well as a lack of business confidence. "The consequences are hardly less grim for Canberra, which had understandably put all its eggs in the Morauta basket, but which now needs to demonstrate, and urgently, greater powers of analysis than merely 'leaving it to Mek'."