

## **Papua New Guinea: employment, wages and economic development**

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In this book Levantis aims to explain Papua New Guinea's failure to achieve economic development. His central thesis is that the labour market policy of the 1970s created a situation of urban drift that exacerbated urban unemployment. This in turn created the foundation for the grave law and order problem that has led to the deterioration of the private sector. He further argues that although reform of the labour market in 1992 has created incentives for private sector development, and therefore for the creation of employment, this in itself will not curb the law and order problem. Until the law and order problem is solved, the full benefit of the 1992 reform will not be felt.

The policies of the 1970s discussed by Levantis are the establishment of a Minimum Wages Board in 1972, and the subsequent setting of minimum wages that, by 1975, had resulted in urban minimum wages rates being 2.9 times rural minimum wage rates. (p 3) he states that between 1971 and 1976 the urban population increased by 60,000, whereas employment in the urban private sector, which had been stifled by the increase in the cost of labour, had decreased from 95,100 to 80,200. (p 4) With migrants being attracted to town by the expected wage that was distorted by minimum wage orders, structural unemployment in urban areas occurred. Informal sector activities were limited by regulations preventing the establishment of street stall and strict health regulations governing the selling of food outdoors. With formal sector employment being unavailable and informal sector employment being severely restricted crime emerged as an income earning activity and gradually became institutionalised. Weak policing, resulting in a low probability of detection, helped to enable crime to become a reasonable choice of income earning activity. Migration continued despite formal employment opportunities being limited because informal employment, including employment in illegitimate activities, was available.

Levantis presents some interesting data in support of his argument, in particular survey results indicating the number of people involved in prostitution and crime and the wages they earn, as compared to wages in the formal sector. Unfortunately it is unclear why prostitution and crime have been separated out, as prostitution is a criminal activity. Exactly what sorts of crime are being committed by those whose main income is derived from crime is also not clear. He also presents data on the economic impact of criminal activity in Papua New Guinea. The impact of increased security costs to businesses, the value of the thefts and other indirect costs associated with crime on GDP are examined.

The main weakness in his argument is the assumption that urban migration was significantly fuelling unemployment and crime. The urban population growth rate between 1971 and 1976 was 3.9%. There is

no indication of how this relates to Papua New Guinea's population growth rate as a whole. Nor is there any indication of whether migrants are more involved in crime than others. However, even though Levantis does not clearly establish a link between urban migration, unemployment and crime, his underlying argument remains largely credible.

Having examined the foundations of the law and order problem the book then turns to examine the labour market reforms of 1992. The effect of this reform was to discard the regulated rural-urban wage differential. The new national minimum wage was set at the previous rural minimum wage. A dual market was established as the new minimum wage would only apply to workers employed after the new minimum wage came into effect. Workers already engaged had their conditions maintained. This dual market arrangement was a risky arrangement that could have created considerable conflict. To explain the risk Levantis creates three possible scenarios to model the effects of this dual market arrangement. The first involves firms replacing their unskilled workers with new employees hired at the new minimum wage. The second involves firms firing and then rehiring the same staff at the new minimum wage. The third involves gradual change due to natural attrition. Using empirical evidence Levantis then confirms that the third hypothesis is what is actually occurring.

Levantis also discusses the impact of the 1992 labour market reforms on formal sector employment. Data indicating that there was strong growth in urban employment even though the 1990s have been marred by crises in governance, suggests that the reforms have assisted in stimulating employment growth. However, he makes it clear that this in itself will not curb the law and order problem. Borrowing from Becker's utility maximising analysis of crime, Levantis argues that increasing both the probability of detection and the effectiveness of sanctions is necessary to curb crime.

The book concludes by giving youth unemployment and rural unemployment their own chapters. These chapters largely give a statistical overview of the nature of unemployment or employment amongst youth and in the rural areas. As these are the sectors in which the greatest level of underemployment or lack of opportunity for formal employment is concentrated, focus on them is appropriate.

The argument presented approaches crime in Papua New Guinea in quite a different manner to the more usual criminological writings on the topic. This different perspective is a great strength of the book. Integrating an economic response to crime with the sociological culture based approaches that are the more usual focus of crime management policy is important, as economics cannot be divorced from society. Levantis's book, by clearly demonstrating the economic factors that have contributed to the crime problem, should help to make it harder to overlook the inputs that economics can make to this issue. That said, the most dissatisfying element of this book is that it does not explore other possible factors that contribute to Papua New Guinea's law and order problems. For instance, the relationship of education and decentralisation with urban migration is not discussed. Nor are cultural or ethnic factors fully explored. A greater engagement with the criminological literature would reduce questions about how the economic model relates to actual society. Greater engagement with the criminological literature would also explicitly demonstrate how economics can complement this discipline.

By not engaging with criminological literature Levantis's book raises a number of questions about whether the law and order problem in Papua New Guinea can actually be attributed to labour market policies in the 1970s. However, he presents a largely credible argument for his position. Hopefully the arguments that he raises, and the questions that arise from this book, will lead to broader ways of approaching the crime problem in Papua New Guinea, and elsewhere in Melanesia.