NATIONAL INCOME POLICY IN A DEREGULATED ECONOMY: THE NIGERIAN PERSPECTIVE

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Abstract

This paper examines the propriety of a national income policy in a deregulated economy. The literature indicates that various interest groups in the country tend to protect their narrow interests when negotiating for higher wages. Consequently, the goals of government to achieve equitable income distribution in the country with a national income policy are often at variance with the private interests. While congenial atmosphere for collective bargaining was deemed desirable for achieving effective income growth, an environment of consistently rising prices was considered an anticlimax to growth and development. Consequently, the paper opined that in a market economy, a national income policy that does not include elements of restraint on prices development was likely to fail. Thus, an income policy must be packaged as a set of comprehensive macroeconomic, monetary and fiscal policies for effective results. As part of the national income policy, an income guidepost with provision for periodic review is advocated.

1.0 Introduction

Wages are an all time major issue of economic policy in all economies, as such, is an integral part of national economic development policy. The major fulcrum of wage policy is the rate of increases, range and structure of wage differentials, the extent of variance between wage groups, degree of desirable or tolerable inequality as well as the adequacy of the wage for the varying differentials of education, skills and length of service.

Given the relevance of income policies to national development, most countries strive to anchor a wage policy that would strike a balance between education, skills and length of service against the demands of minimizing income inequality between the lowest and highest income earning groups in society. However, the composition or range of wages in the public sector is not too central to formulating wage policies in most countries (Tule, 2004). This is because, the methodology for the monetization of the paraphernalia of public office is ill developed, as such; it is often difficult to define what constitutes an appropriate wage when the public service is involved. In addition, a deliberate public policy designed to stagnate a rise in wages in order to minimize the public debt or contain inflationary pressures is adversative to equity. We are then confronted with answering the question whether the premium between public and private sector wages can reasonably be narrowed by public sector wage policy.

Income policies have been adopted by countries because policy makers are not satisfied with the results of the market mechanism in allocating income equitably. Thus, attempts to reduce unemployment by expanding aggregate demand (using fiscal policy) often lead to intensified cost and price pressures at level of unemployment which are uncomfortably high. Attempts to check these rapid wage increases through price and wage controls or some other policy often leads to higher levels of unemployment.

The cause of this state of affairs is the existence of sufficient concentration of private economic power so that various factor and product markets have substantially become insulated from the influences of aggregate monetary and fiscal policies. Cost-push inflationary pressures are the most obvious manifestations of this structural deficiency. The existence of these private agitations of economic power is not new. What is new however, is the awareness of the extent to which such power can be utilized in a modern society. Although people do not think in these terms, perhaps, the motivating force behind the continued agitation for higher income encapsulated in an explicit national income policy is the growing dissatisfaction with the existing machinery for equitable distribution of income.

This dissatisfaction has become more apparent in recent years with the recent shift in income positions. Whereas traditional income inequality, endorsed by custom, may have been more readily acceptable as a normal state of affairs, recent quantum leaps in income have made the situation unacceptable, especially to the larger section of society who may not have been beneficiaries of this state of affairs. Consequently, when organized labour see that by concerted efforts they can increase

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their income levels and when such efforts are bolstered by feelings of inequality, the need for a workable policy becomes imperative.

As Tule (2004) found, an efficient public sector wage policy requires a clear understanding of the behavioral relationships in the domestic labour market. Such a policy needs to address the constraints of the market, relevance of labour supply in wage determination, and the conditions under which employees and employers would prefer a certain wage level to another. These issues coalesce into questioning the validity of government wage fixing or minimum wage policy in a deregulated market. In efficient market hypothesis, supply creates its own demand and establishes its own equilibrium. Thus, in a deregulated labour market, government only intervenes to establish the rules and regulate against fraud. Typically, a deregulated labour market is a free market in which individual property rights are protected (including labour rights). It is the opposite of a controlled market where the government regulates the means of production, the usage of goods and services as well as the pricing and distribution of labour and output.

In a free market, labour is freely exchanged at a price arranged solely by the mutual consent of sellers and buyers of the services. Thus, buyers and sellers do not coerce each other in the sense that they obtain each other's consent without threat, intimidation or physical force nor are they coerced by a third party (such as government). Thus, participants engage each other because they both believe that what they are getting from each other is worth more than or as much as what they have to offer. Thus, price or wage is the result of buying and selling labour decisions en masse based on the law of demand and supply.

A deregulated labour market contrasts with the regulated market in which the government is directly or indirectly involved in regulating the price of labour. This intervention by government makes the market to be less efficient. The price of labour in the market place helps communicate consumer demand to producers and thus directs the allocation of resources toward consumer and investor satisfaction. Thus, in a deregulated market, the price of labour is a result of a plethora of voluntary transactions, rather than political policy anchored by state might. Thus, through free competition between owners of labour and users, wages are fixed, and tend to rise or fall appropriately as conditions demand.

In this paper, we explore the place of a national wage policy in a deregulated economy. The thesis as outlined above is that government wage policy in a market economy should be confined to outlining the conditions for avoiding fraud and in achieving equitable income distribution. To further develop this idea, we structure the paper into five sections. Following this introduction, we outline the major income policy issues in Section 2. In Section 3, we undertake a survey of income policy exercises in Nigeria from the pre-independence era to 1986 when the deregulation of the economy started under the Structural Adjustment Programme (SAP). Section 4 develops conditions in efficient deregulated markets and the possibility of a national income policy within that setup. Section 5 concludes the paper.

2.0 Income Policy Issues in a Deregulated Economy

Income policy is designed to amongst other things; redistribute income to achieve specific social goals. The perceived goals to be achieved arise from society's unwillingness to accept the adverse adjustment effects that would emerge from the operation of a free market. Thus, it is the unwillingness to allow the market to make the adjustments that government intervenes; ostensibly with a national wage policy to achieve equitable income redistribution. However, while government hopes to minimize to the barest minimum, the economic inefficiency arising from the exercise, it nevertheless, encourages rent seeking and moonlighting activity from labour, especially in the public sector. This sub-optimal behaviour of labour tends to decrease national productivity, while increasing overheads. And as shown by Tule (2004), although wage fixing exercises in Nigeria were targeted at the public sector, the private sector tended to take a queue from there in fixing their wages.

Income policy involves a number of issues some of which include:

(i) income policy affects all sectors of the economy and regulations such as tax policy affect particularly income distribution amongst the sectors and across income groups
(ii) within sectors such as agriculture, discriminatory policies such as between export and food crops affect the relative income positions of the farmers
(iii) between the freedom of individual decision makers lies the extent of government involvement in production and marketing decisions
(iv) There is the interdependence amongst sectors as a ban on inputs in one sector severely affects income in another sector
(v) between domestic policy and foreign policy objectives, higher domestic support prices tend to reduce the volume of foreign trade
(vi) between sectoral or microeconomic objectives and macroeconomic objectives, higher product prices versus inflation, subsidy/social policies to reduce unemployment versus the budget deficit.

Conditions for Comprehensive Income Policy:

Most regulation policies are formulated to meet narrowly construed objectives, and income policy is no exception to this rule. The attendant programs focus on achieving the stated objectives. For income policy in particular, all sectors of the economy must be effectively integrated with the domestic economy.

In Nigeria, an income policy that fails to appropriately integrate the agricultural sector into the domestic and export economy would be counterproductive. For instance, increased dependence on foreign imports now transmits substantial instability to the domestic economy.

The existing structure of production in the country shows that the food system is disjoint from the domestic economy. Thus, the performance of the domestic economy does not take account of domestic food supply and the agricultural system. The evidence is that:

- Nigerian farmers are still price takers
- The level of industrialization is dwindling instead of growing
- The decreasing proportion of food naira accounted for by non-farm inputs shows the dwindling bases for enhanced income in the country

Income policies may have undesirable or unintended indirect consequences or even direct consequences. The need for equitable income distribution can be a powerful mechanism for motivating greater use of potential influence over wage decisions. For instance, why should a blue collar worker worry that his wage increases are exceeding the growth of his productivity when he believes that the top management is being overpaid, and that white collar workers and stockholders are obtaining too large a share of the proceeds of current income and capital gains, when in fact, they all go to the same market?

More damaging to monetary and fiscal stabilization policy is the creation of conditions possible for prices to rise when aggregate demand is dwindling. The issue is why powerful citizen groups should be concerned that their demand for specific public benefits and subsidies exceed the current fiscal capacity of government to pay especially when they believe that other income recipients are not working more than them nor paying their fair share of income taxes. Consequently, the notions of fiscal dividends have evaporated as new expenditure initiatives, coupled with high level corruption, have outpaced even the most optimistic estimates of government revenues. These institutional rigidities aggravate social pressures, leading to incessant demand for higher wages and constituting a demonstration effect on other parts of the economy.

It is these kinds of Pareto sub-optimal conditions that have led to aggravated experiments in income policies in most market economies. However, the realization is that restraint, whether compulsory or voluntary, is needed on demand for unbridled growth in income by segments of society. The usual reasons of high inflation used in the demand for higher wages is the result of either anticipations of greater inflation or the familiar cost-push phenomenon, hardly ever due to excess demand. It is pertinent to note that income policies have been introduced because market imperfections have substantially weakened the ability of monetary and fiscal policies to achieve desired levels of economic growth and price stability. In what follows, we shall examine income policies from two perspectives: short and long term.

Short Term Considerations

Although we are contemplating a deregulated market environment, in the short run, we have to accept the continued departure of income policy from the free market model and to use government intervention as a counterbalancing force. Given the drift towards the market in recent years, formal wage fixing and control may not have a place in modern economic calibrations, and ditto, a formal national wage policy that tends to legislate across the board minimum wage for all classes of labour. As long as wage policy does not limit the ability of labour to negotiate a living wage for its services, nor unduly task the capacity of both government and private sector to pay as well as reward declining productivity, a battle line may not seem eminent. However, where the reveres is the case, then, the desirable wage policy would be one that seeks to promote labour and employment dynamism while removing fraud in wage fixing and payments.

A Galbraiththian approach of limiting wage policies to larger labour unions and business entities, which seem to be subject to governmental influence and public pressure, may be needed. Once central wage negotiations are to be dismantled, government may need to take the initiative to arrive at some type of national consensus (guideposts or objectives) with all stake holders to establish an acceptable and enduring framework for collective bargaining on wages and productivity issues. However, the fear of this model as observed by Tobin (1972) is that an arbitrary imitative component in wage settlements exists, which may be influenced by national standards. Hicks (1955) had argued that wages can be influenced by non-economic forces such as customs, or by what the negotiating parties perceive as right.

From the foregoing, there is no unique or once for all institutional structure for achieving national consensus on these purely economic issues of income policy. Any structure adopted is likely to show substantial strains and weaknesses arising from pressures. However, experience of most countries is that as one structure wears out, another contemporary structure is developed. One thing is certain, as individuals or groups find ways to exploit existing structure for personal rather than the national gain, such a structure would persistently break down and need modification. Modification or new polices must take account of the consensus building requirement to ensure acceptability and implementation.

As a cardinal objective of national income policy, the drive to engender an equitable income distribution must weigh higher than the choice of specific numeric targets to be met. In addition, designing an equitable wage policy as much as possible should be people participatory. The degree of voluntarism could vary over time.

An income policy must not convey the impression of an omnibus Father Christmas where it promises apples on mango trees. The fact that income policies tend to breakdown as the economy approaches full employment or even below it shows that income policies have a limited lifespan. Keynes (1946) provides an eclectic approach to what is needed in the short run. According to him,

No one can be certain of anything in this age of flux and change. Decaying standards of life at a time when our command over the production of material satisfactions is the greatest ever, and a diminishing scope for individual decision and choice at a time when more than before we should be able to afford these satisfactions, are sufficient to indicate an underlying contradiction in every department of our economy. No plan will work for certain in such an epoch. But if they palpably fail, then, of course, we and everyone else will try something different.

In the Long Run

Long run considerations of income policy should focus on private economic blocks that have been insulated from the impacts of monetary and fiscal policy. The departures from the effective functioning of the market are often instigated by government involvement/interference. Frequently, government statutes and regulations are constraining and counterproductive to the effective functioning of the markets. Consequently, in the long run, we need to examine in totality, the sum of government legislations, rules, regulations, and guidelines which interfere unduly with the efficiency of the market, raise prices or give the economy an inflationary bias.

Government through the inefficient administration of its social schemes has sheltered numerous groups from market forces, thus creating excessive costs to other sectors of the economy and even on other groups within the sheltered subsidy sector. Consequently, the obstacles to change should not be underestimated. The cost of each option may not be the right criterion to making a choice. What is relevant is: the benefits to some group would certainly outweigh the costs to them and so a powerful group would always exist to oppose the policy once it is at the higher costs end.

Efforts to reduce impediments to free market operation including labour resistance to requirements bothering on productivity increases need to be evenhanded. The effort to identify special protective devices must be broad and comprehensive, covering all stake holders. Such an undertaking would require considerable support from all stakeholders.

Any acceptable national wage policy would require fundamental changes in the administration of government expenditure programs and the use of public funds which often tend to be sub-optimal, due to social welfare and equity considerations. This would entail an ambitious and extended effort, most likely to set in motion strong political and social counter pressures. The most propitious time for such changes is not during times of high unemployment. A stock of the various sub-optimal social schemes may reveal a huge cost which out-weights the benefits even to the groups directly benefiting. With so many sectors of society attempting to insulate themselves against uncertainties and competition, efforts at evolving a national wage policy under a deregulated economy may remain largely pedestrian and self-defeating. The deadweights of the interferences with the mechanism of economic progress and productivity may reduce the absolute size of the benefits available to the larger sector of society.

3.0 A Survey of Wage and Income Policies in Nigeria

The Federal Government has since colonial times retained the prerogative to establish broad based income policies in Nigeria. In pursuit of this prerogative, the government had carried out this exercise through the use of wage commissions (Anyafo, 1996). Broad based wage and income bargain institutions in Nigeria's public sector dates back to the early 1900s when the country was still under colonial regime. However, the formal institutionalization of these wages and income commissions and committees was done in the 1930s by the colonial administration.

The factors which have influenced the growth in income in the 1920s through the 1950s were expansion in public utilities (water, electricity, housing and a relatively integrated transportation system). In addition, exploration and mining activities increased labour overheads. These activities bred a pool of skilled and semi-skilled artisans, through formal and informal training systems influenced public sector compensation policies in the country (FOS, 1998).

Thus, government established a number of Wage Commissions to review and define a national wage policy for the country. These include: Bridges Committee (1941), Tudor Davis Commission (1945), Harragin Commission (1946), Miller Committee (1947), Cowan Commission of Enquiry (1948), Gorsuch Committee (1955), Mbanefo and Morgan Commissions (1959), Morgan Commission (1963), Adebo Commission (1970), Udoji Commission (1973).

Continued resistance to labour demands led to prolonged tensions between organized labour and the colonial government. In the end, the colonial administration not wishing to risk its more expanded objective of maximizing economic gains, caved in to the prolonged demand of labour and established internal machinery for bilateral public sector wage negotiation, the Harragin Commission in 1946. However, its recommendations did not evolve a new minimum wage. This failure led to much civil unrest by organized labour and paved the way for the establishment of the Cowan Commission of Enquiry in 1948 to look into the immediate and remote causes of the crises.

The Cowan Commission of Enquiry introduced two Whitley Councils in its report. The one Council was in charge of Clerical Staff and Office employees (the white collar workers) and the other was for industrial and or manual workers. Although the Whitley Councils were ineffective in engendering an acceptable income policy, nevertheless, they were retained as the income policy document till 1964. The inability of the Whitley Councils to effectively provide compensation for labour, minimize income inequality and provide for differentials of education and experience led to the breakdown of collective bargaining between labour and the colonial government. Consequently, the colonial administration in 1963, established the Morgan Wages and Income Commission to examine what constituted appropriate income policy for the differentials of labour.

The Morgan Wages and Income Commission (1963) recommended the establishment of the National

Wages Board. Consequently, in 1964, the National Wages Board was established to establish broad based criteria for increases in wages and income. The National Wages Board did establish the conditions but these proved ineffectual as salaries and wages lingered far behind national income. Consequently, government, succumbing to pressure from organized labour, in 1973, established the Udoji Commission on salaries and wages.

The end of the civil war presented substantial challenges to government to redistribute income across regions in the country. The oil boom provided impetus for implementing the income redistribution to achieve more balanced growth in the country. Consequently, government established the Jerome Udoji Commission to look into the issue of salaries and wages across board. The recommendations of the Udoji Commission led to a displacement of the Wages Board with the National Negotiating Councils I, II and III. The National Negotiating Councils were inaugurated in 1976. The mandate of the National Negotiating Councils was to negotiate salaries, fringe benefits and general conditions of service for the public service, but excluding partial and fully commercialized parastatals, state owned companies and academic and non-academic institutions (Universities, Research Institutes, Teaching Hospitals, etc).

The military governments established a number of salary review commissions in response to prevailing economic conditions which made existing wages untenable. However, by 1986 when SAP was introduced, government deregulated the economy, including wages-requiring labour to negotiate directly with their employees. Hitherto, public sector wage adjustment exercises provided impetus for the private sector to negotiate new wage increases with their employees. Although much has not changed with respect to this, however, the then existing automatic adjustment mechanism between the public to private sector seem to have lost much of its steam such that public sector wage increases no longer translated to automatically meeting similar demands in the private sector.
What has emerged from the survey of the wages commissions is that their recommendations were short-lived, leading to agitations for higher wages once government policy generated any form of inconvenience on labour.

Another feature of wage policy in Nigeria over the years was the absence of a standard framework for wage and income adjustment. Consequently, wages were adjusted based on the strength of labour and its capacity to pressurize government to make an award. Often, arm twisting existed. To enable government sell a hard economic policy, a wage increase was awarded. Wage increases at the Federal level were accompanied by prolonged strike at the state level before such awards could be implemented at that level of government. Consequently, Federal workers were perpetually at advantage when wage increases were contemplated.

Available evidence indicated that wage increases were done on the spur of the moment not having been provided for in the fiscal appropriation for the year in which they became effective. Thus, the implementation of salary and wage increases led to an overshooting of the boundaries of fiscal discipline leading to higher prices, loss of productivity arising from labour unrest and strikes. In the end, the new wage was overtaken by rising prices setting the stage for a new round of higher income demand.

The Status Quo

There currently exist wide range disparities between income groups in the country. While the poor are indeed very poor, attempts at income redistribution have been lopsided, being targeted at the white collar worker with the hope that proceeds would be redistributed to the very poor. Within the white collar group, huge differences are identifiable between Federal and State Civil servants. Within the civil service itself, wide differentials between grades are noticeable.

While disparities may not be completely eliminated in income structure, obvious yawning gaps are counterproductive. While the need to look up to the next grade is appreciated, punitive structural defects should be eliminated so that officers at the lower grade feel grossly imbalanced mentally when they differential in take home is compared with their next higher level officers. The existence of such disparities at the national level encourages income marginalization across sectors, establishments, different strata of government and the economy generally. The state of affairs does not create room for effective implementation of a national income policy.

While productivity measures may be difficult yardsticks for gauging the need for increased income in the public service, in the private sector, the methodology for measuring such output is advanced. And whereas the public sector may be preoccupied with its social welfare functions, nevertheless, it sets the tone and signposts the directions of economic development in the country including income policy. Thus, a lopsided income structure in the public sector stigmatizes efforts at income redistribution and creates a permanent basis continued labour agitation for equity in income distribution.

4.0 Deregulating the Market

The absence of competition may allow an excessive number of institutions to survive, including inefficient ones that would ordinarily not survive under market conditions, and hence breed low productivity due to the rent seeking behaviour of the employees enjoying subsidy wages (with low productivity) and a moral hazard problem. Although economists may have us believe that the market remains the best stimulus to productivity growth, the theoretical and empirical basis for this has only recently been established.

A wide range of literature exists on the effects of competition on wages and productivity (Nickell, 1996; Vainiomaki and Heden, 2003). Although Symeonidis (2002) has shown that profitability may fall in the short run, it may recover in the longer term following increased competition if there is free entry and free exit and market structures are allowed to adjust, no such simple relationship has been established in the literature between market structure or profitability and the intensity of competition.

The standard view is that during recession, workers lose jobs from established employment relationships. The prevalent thinking here is that workers lose their jobs because wages are sticky downwards and employers no longer find the relationships profitable after the recession shock. The high level of unemployment persists until the workers can find new jobs. Hall (2005) finds that available evidence supports the contrary. An adverse shock does not affect established employment, especially in deregulated economies where collective bargaining affects few workers outside the public sector. Job relationships end when it is convenient for employer and employee to terminate the relationship. A shock raises the level of unemployment by lowering the profitability of hiring new workers.

On the other hand, unemployment does not rise because of a bulge of layoffs but because workers entering the job market from previous jobs/school/home activities, experience unusual difficulty in finding job placements.

Inflation today has been traced to fairly stable structural aspects of labor and products markets. The effects of this, however, depend on the extent of national resource utilization.

Another important element is the dynamic mechanism through which current perceptions of price and income changes are generated from past events. In addition to these purely economic factors, a plethora of social and political considerations are identifiable. From a structuralist point of view, the inflationary process is essentially the by-product of a struggle over income distribution, occurring in a society where most owners of labour have little bargaining power over the product due to large scale unemployment and fear of losing existing jobs. However, given perfect market conditions, the negotiating power of labour is encapsulated in the trade union, whose power is affected by structural and market factors, the manner in which the trade union exercises that power is affected by perceptions of what is happening and by political and social attitudes and norms. The trade union therefore, uses market power to negotiate for increased real income and defensively, to protect real income from past and expected increases in production or general price levels. Once the inflation process is initiated, increases in wages and prices become basically defensive-made in an effort not to lag behind. However, every defensive wage secured by labour threatens the real income of other sectors of the economy and spurs an endless chain of new defensive wage increase moves.

This view of inflation-induced wage struggle to protect the erosion of real income substantially provides a more meaningful explanation of wage-price behaviour in a modern deregulated economy. More significantly however, is the fact that the problem it attempts to address has become aggravated in recent times as the social norms regulating group behaviour have for various reasons become more tolerant of an increasingly aggressive use of market power.

Indeed, society is becoming more sensitive to the existence of income inequalities or injustices and is therefore, becoming more readily supportive or tolerant of efforts by underprivileged groups to improve relative income, through political, economic or social action or both. However, when the market price of labour or other products become weapons in the struggle over income shares, the underprivileged that possess little market power is the likely casualty, losing out to the already privileged groups. This is the space for national income policy administration to minimize the frustrations of the underprivileged group in the market and remove the fraud of the privileged groups.

If a national income policy is not designed to address these concerns, then, the economy would remain subject to substantial inflationary pressures. With time, as both the labor and product markets garner considerable market power to outdo each other, the economy would be worse off. Thus, we submit that inflationary consequences of a struggle over the share of income can only be controlled through the institution of a national income policy.

The national income policy is here conceived as a system of restraints (i.e. more explicit and forceful social norms) which controls unbridled expansion in income with slight rise in prices without commensurate growth in productivity. The pattern of these restraints should be systematically integrated with other measures so as to guide the evolution of income shares in a manner which society judges to be fair and equitable. The implication is that a successful national income policy cannot be pursued independent of price restraint policy.

While compulsory wage controls is not being contemplated here, an examination of wage-price guidepost is advocated. The guideposts are a set of definitions of patterns of wages behaviour which, if generally followed would be consistent with efficient resource allocation, reasonable equity and approximate stability of the overall price level. The strength of this approach is anchored on the fact that in collective bargaining, wage rates are not set by impersonal market forces but human beings using collective decisions. Consequently, the decision makers have room for judgment (or no real decision would exist). Over the relevant time horizon, the decision makers do not usually know what approximate wage or price would maximize net income. Consequently, questions are settled by rule of the thumb, comparison, considerations of equity, policy or public appearance.

Thus, if government's arguments for restraint make sense to any of the participants in the decision process, to the extent that any of them prefer to avoid or minimize public criticism, and to the extent that they believed government's appeals and their decisions were tailored to affect other wage and price decisions, then the guideposts would have been successful. The guideposts therefore, are designed to influence employer's collective bargaining rather than directly affect union attitudes or aggressiveness. An efficient national wage policy must therefore, encapsulate the element of collectivity and consent. For this to be forthcoming, employees must see the system as being fair and equitable to all. Thus, a system which embodies sacrifices on the one side must be seen to be commensurate with the costs to be incurred by the other. Members must also believe that the restrictions its members accept on their freedom to do as they please will achieve something important.

A national income policy anchored on purely voluntary participation may have limited results. It might therefore, be otherwise unwise to take a chance at a purely voluntary wage policy compliance system. Also, courting adherence through widespread publicity to violations of a voluntary policy may prove as a self destructive policy. We believe that the envisaged system, which has provision for periodic renegotiation would offer enough flexibility to permit the relative wage changes that are essential for efficient resource allocation.

5.0 Conclusion and Policy Considerations

The paper surveys the literature on income policy and found that in both controlled and deregulated markets, an income policy is needed to guide the direction of income growth. In addition, such a policy was necessary to avoid exploitation and fraud as well as to the advancement of the narrow interests of members of society. Consequently, the paper advocated the development of guideposts with wide ranging consultations, which would be used for future income growth in the country. It was observed that such guideposts would need to be periodically reviewed. In addition, a national income policy must be pursued in conjunction with a price restraint policy to avoid unbridled growth in prices.

The income policies reviewed were born out of exigencies of the moment. Consequently, the policy consisted essentially in establishing ad-hoc committees/commissions to produce a wage document. After long deliberations with organized labour, government implemented parts of the recommendations, setting the stage for another round of labour agitations for higher wages. It was observed that such a policy was counterproductive and needed a review.

The paper also examined existing income structure and the wide ranging disparities across board in the country. The paper observed that such inequalities and divergences between Federal and State wages as well as between grades and across sectors was sufficient to create industrial disharmony within the labour force and encourage corruption, rent seeking and moonlighting activities. Consequently, the paper advocates for a review of the status quo with a view to achieving a more balanced national income distribution.

As part of the policy issues, we observe that if the underlying structural rigidities of the economy which hamper the effective transmission of market mechanism impulses were not addressed, inflationary pressures may exacerbate another need for new wage demands with attendant social pressures. Unless strong actions were taken to reduce the inherent market imperfections, the country may be increasingly resorting to greater direct controls over wages. The choice may actually be between fostering a greater degree of competition in private markets and relying more heavily on government control over private decision making.

A more fundamental policy of price control or restraining surges in aggregate demand would involve vigorous and timely coordination of monetary and fiscal policies. Inflation would not abate through a mere application of demand management policies.

Another national income policy would involve structural changes to the national manpower policy, designed to make labor supply more easily mobile between employers, industries, occupations and regions. There is also the need to eliminate a host of private practices and government policies, adopted in effort to protect one or another private interest at the expense of the national interest. These polices today create strong structural downward rigidities of particular wages and unnecessary bottlenecks and immobility's at high employment. Some of these provide artificial support for the market power of particular groups, while others directly and unnecessarily raise costs.

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