

The Wage Level for Unskilled workers in Bangladesh What Should It Be?

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Abstract:

The paper discusses various theories of wage determination such as, cost of living theory, inflation indexation, consumption, poverty line, calorie – based urban poverty line, employee's, productivity theory, minimum wage theory etc. and makes an attempt to estimate a wide range of basic money wages for the unskilled workers in Bangladesh for the year 2004-05 applying these theories. The decision makers in Bangladesh (like the National Productivity Commission, the Collective Bargaining Agents, the Minimum Wage Board) can pick up one wage rate from the range for the unskilled workers in the formal sector of Bangladesh.

1.0 Introduction

The labour force employed in Bangladesh was 60.3 millions in 2000. About 62.3 per cent of the employed labour force was in the agriculture, 9.7 per cent in industry and the remaining 28 per cent in the service sector (Bangladesh Economic Review, 2004). Only 25 per cent of them (10 per cent having regular formal jobs and around 15 per cent having casual employment) were in the formal sector while 75 per cent in the informal sector comprising of under employment, self employment and unpaid family workers. Whenever we talk of wage determination for workers it means wage for workers employed in the formal sector, while there exists no machinery to effectively regulate wage for labour working in the informal sector.

Wages in the formal sector in Bangladesh are determined in three ways:

- a) The National Wages and Productivity Commissions constituted by the Government of Bangladesh, recommend wages for workers employed in the state-owned manufacturing enterprises (EOEs);
- b) The Collective Bargaining between the management and the workers' representatives suggested by the existing labour laws determines wage for workers in the private sector enterprises.
- c) The Minimum Wage Board, appointed by the Government of Bangladesh under the Minimum Wage Regulation Order 1961 determines wages for workers employed in the private sector where government thinks, no adequate machinery exists for effective regulation of wages

An attempt has been made in this paper to discuss some determinants of wages that are needed to be considered in fixing the wages for workers in the formal sector.

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2.0 Determinants of Wages

2.1 Cost of Living Theory

Subsistence theory of wage determination says that the wages should be determined at the subsistence level so that workers get enough wages to subsist and survive. This means, wages should cover the cost of living or the “minimum necessity for living” so that workers are physically well enough to work for their employers. To be physically well enough, the worker must have food, health, education as well as housing.

The workers survey of National Wages and Productivity-2005 reveals that the per capita expenditure on food items for a worker is Tk. 1078 per month. For a family of four members (husband, wife, and two children equivalent to one adult) total family expenditure on food items amounts to Tk. 3234 per month.

It is also found in the workers survey that expenditure patterns on food items vary with skill categories of workers. In case of unskilled workers whose expenditure pattern can be accepted to indicate the “minimum necessity for living” the per capita expenditure on food items is found to be Tk. 1010 per month. Thus for a family of four of an unskilled worker total family expenditure on food is estimates to be Tk. 3030 per month (Table 1). It is worthwhile to mention here that with Tk. 3030 per month the family of an unskilled worker can purchase food that provides 48 per cent higher calorie that required to maintain minimum necessity.

When the expenditure on food and non-food items are taken into consideration, the per capita expenditure for a worker is found to be Tk. 1842 and total family expenditure for a family of four members stands at Tk. 5526 per month. Similarly the per capita expenditure on food and non-food items for an unskilled worker is found to be Tk. 1624 and thus for a family of four, the total family expenditure on food and non-food items becomes Tk. 4872 per month (Table 1).

As non-food expenditure forms about 61 per cent of food expenditure of an unskilled worker (Table 1), the basic wage should be Tk. 3026 for the unskilled worker to cover the total family expenditure of Tk. 4872 per month.

Table 1 : Average Monthly Family Expenditure and Per Capita Expenditure on Food and Non-food items for all Workers and Unskilled Workers (Taka/Month)

	Per capita expenditure (Tk/Month)			Total expenditure of a family of four members (Tk/Month)		
	Food	Non food	Total	Food	Non-food	Total
All Workers	1078	764	1842	3234	2292	5526
Unskilled Workers	1010	614	1624	3030	1842	4872

Source : Workers Survey of NWPC-2003

2.2 Inflation Indexation

One very important variable to be considered in determining wage rates is the inflation rate and the existing wage rates be adjusted for inflation rate. In Bangladesh inflation rate is usually measured by consumer price index (CPI). It can also be measured by CPI for industrial workers. The Bangladesh Bureau of Statistics (BBS) compiles CPI and CPI for industrial workers giving less weight (64.47 per cent) on food items for the former index and more weight (69.77 per cent) on food item for the latter index.* While CPI covers 471 items, CPI for industrial workers covers only 102 items of commodities and services. The rates of inflation measured by year to year changes in CPI and CPI for industrial workers are given in Table-2.

Table 2 : Inflation Rates in Bangladesh : 1998-2005

Year	Inflation rate estimated by changes in CPI (%)	Inflation rates estimated by change in CPI for industrial worker (%)
1998-99	8.91	9.69
1999-00	3.43	2.62
2000-01	1.57	1.21
2001-02	2.36	1.30
2002-03	5.14	2.05
2003-04	6.55	3.17
2004-05	6.32	4.52
Total (1998-05)	34.28	24.46

The Table 2 reveals that inflation rate measured by CPI was 34.28 per cent and that estimated by CPI for industrial workers was 24.46 per cent during the last seven years. Which inflation rate be accepted for adjustment of existing wage rates? The inflation rate measured by CPI for industrial workers may be appropriate for upward adjustment of wage rates.

The lowest wage scale of Tk. 1550 may be increased to Tk. 2081 based on CPI and Tk. 1929 based on CPI for industrial workers.

2.3 Consumption Poverty Line

GOB (2003, p.76) using HES data, estimated that an urban person having a monthly expenditure below Tk. 725 in FY 2000-01 was considered as poor while

* CPI gives 64.47 per cent to food items and 35.53 per cent weight to non food items such as clothing and footwear (5.90%), gross rent, fuel and lighting (14.98%), furniture furnishing, household equipment and operations (2.61%), medical care and health expenses (1.39%), transport and communication (3.31%), recreation, entertainment, education and cultural services (3.04%), miscellaneous goods and services (4.29%). CPI for industrial workers gives 69.77 per cent weight to food item and 30.23 per cent weight to non-food items such as apparel, footwear and textiles (10.38), housing and household requisites (9.35%) miscellaneous items (10.50%).

a rural person having a monthly expenditure below Tk. 634 in FY 2000-01 was considered as poor. It is to note that monthly expenditure includes both food and non-food expenditures.

Alleviation of poverty is one of the development objectives of GOB. Some argue that minimum wage for unskilled workers should not be below the consumption poverty line.

To obtain and estimate of consumption poverty line for FY 2004-05, the figures for FY 2000-01 need to be adjusted by an appropriate consumer price index. As most of the SOEs are located in urban and semi-urban areas of Bangladesh, CPI for all urban and that for industrial workers may be appropriate indices for the purpose.

The urban poverty line for FY 2004-05 for a single person per month is estimated to be Tk. 885 based on CPI (all urban) and Tk. 807 based on CPI for industrial workers.

Thus for a family of four as defined earlier, the consumption poverty line for FY 2005-05 is estimated to be Tk. 2655 per household per month based on CPI and Tk. 2421 per household per month based on CPI for industrial workers.

GOB (2003) did not mention what percentage of food expenditure was considered as a reasonable provision for non-food expenditure at the urban poverty line but this percentage was 50 in case of calorie-based urban poverty line (Khandker et. al, Asian Development Review, 1994). The basic wage for an unskilled worker should be Tk. 1896 and Tk. 1729 respectively to cover the monthly household expenditure of Tk. 2655 and of Tk. 2421 at the consumption poverty line.

2.4 Calorie Based Urban Poverty line

An adult person having daily caloric intake below 2122 is considered as absolutely poor and taka estimate of minimum diet providing 2122 caloric daily is termed as poverty line. Many argue that wage for labour must not be below the poverty line.

Khandker et. al (Asian Development Review, 1994, p.8) estimated urban poverty line for an adult person month for FY 1988-89 at Tk. 437.70 using an implied price. The implied prices were derived from the information on consumption of goods in physical quantities and values available from the HES. To arrive at the estimate of urban poverty line, their implied prices were used for costing the minimum diet providing 2122 caloric daily. Some 40 per cent of expenditure on food was considered as a reasonable provision for non-food basic needs at the poverty line expenditures. Thus the urban poverty line estimate includes expenditures on both food and non-food items.

The urban poverty line per adult person per month for FY 2004-05 stands at Tk. 965 based on CPI for all urban and Tk. 806 based on CPI for industrial workers.

For an average household size of four defined earlier the urban poverty line per household per month for FY 2004-05 is estimated to be Tk. 2895 based on CPI and Tk. 2418 based on CPI for industrial workers.

As non-food expenditure form about 40 per cent of food expenditure, the basic monthly wage for unskilled workers should be Tk. 2068 and Tk. 1727 respectively to cover total monthly family expenditure of Tk. 289 and of Tk. 2418 at the caloric-based urban poverty line.

Average daily consumption of food items by unskilled/apprentice workers, the lowest in the skill category of workers, obtained from the workers survey of the Commission-2005 is shown in Table 3. Their average daily consumption of food is found to be about 1.26 kg providing 3274 caloric per adult person (Table-3). Thus the food they purchase with a per capita monthly expenditure of Tk. 1010 provides 48 per cent higher caloric daily compared to their need of 2122 caloric daily each.

Thus, to buy food providing daily caloric intake of 2122 per adult person the unskilled worker need only an monthly expenditure of Tk. 655 on food. If per capita expenditure. of Tk. 614 on non-food is added, the caloric based poverty line for an unskilled worker would be Tk 1269 per month. For a family of four defined earlier, caloric poverty line would be estimated to be Tk. 3807 per month.

As in the workers survey of the Commission-2005 non-food expenditure forms about 61 per cent of food expenditure, the basic monthly wage for unskill workers should be Tk. 2365 to cover total family expenditure of Tk. 3807 per month at the caloric based urban poverty line.

Table 3 : Average consumption of food items for unskilled and apprentice workers (Kg / caloric/ per day)

Food item	Average consumption (Kg/day)		Average consumption (Caloric/day)	
	Unskilled	Apprentice	Unskilled	Apprentice
Rice	0.55	0.59	1906	2044
Flour/Atta	0.11	0.13	375	443
Pulses	0.03	0.04	104	138
Vegetables	0.22	0.21	93	89
Fish	0.09	0.07	124	97
Meat	0.04	0.04	51	51
Salt	0.02	0.03	40	61
Vegetable Oil	0.03	0.03	270	270
Butter/Ghee	0.01	0.02	90	90
Milk	0.07	0.11	47	74
Fruits	0.05	0.04	50	40
Others	0.00	0.00	-	-
Total	1.22	1.30	3150	3397

Average consumption: 1.26 kg/day, Average ealoric: 3274 caloric/day,
Source: Workers Survey of NWPC-05

2.5 Wages and Productivity

There appears to be an emerging consensus in Bangladesh that public sector wages should be linked to labour productivity and the measure of labour productivity is to be based on the value added system.

Two practical reasons are usually put forward against linking wages to labour productivity. Firstly it is argued that it would be very difficult to arrive at a formulae linking wages to value added or any other measure of productivity that would be transparent and yield politically acceptable results. Secondly it is also argued that labour productivity is often very low due to reasons beyond workers' control. The main reasons for low labour productivity in SOEs can be identified in three categories. First, past hiring policies have led to excessive increase in the size of the labour force employed and have a decline in output per worker. Second, poor management practices have often resulted in an inefficient use of human resources. Third, ageing capital stock, outdated technology, shortage of raw-materials and spare parts, and frequent power shortage, cause lower labour productivity. In such circumstances, it would be unfair to penalize workers due to their low productivity, through lower wages.

However, it is impossible to continue wage increases over the longer term without considering productivity increases, because SOE's will simply reach such a point where they are unable to meet their wage bills. Bangladesh public sector enterprises provide many examples of such situations; several SOE's wage bills exceeded their value added contribution to GDP; yet wages continued rising for social and political reason. Losses of SOE's which resulted from de-linking wage and productivity, were financed by GOB budgets and the nationalized commercial banks.

How public sector wage can be linked to productivity? It is possible if the system of public sector wage determination is changed to allow for collective bargaining at the enterprise level. Well-functioning labour market all over the world ensures that wages do not increase at faster rates than productivity and that workers benefit from productivity improvements. This result is achieved through negotiations between labour and management, even through productivity may never be mentioned in such negotiations. The enterprises' ability to pay is considered to be an important factor in any collective bargaining situation and is clearly a constraint on fulfilling wage demand. Ability to pay usually measured in terms of profits of the enterprise is a good proxy for factor productivity. As the productivity of the factors of production (mainly labour and capital) increases, the profits for the enterprise will increase and vice versa. Thus, wage discussion can be viewed as a way of allocating the enterprise's value addition between labour and capital and such allocation involves a judgment of relative productivity of labour and capital.

NPO's Estimates of Productivity

National Productivity Organization (NPO) under the Ministry of Industries has some estimates linking productivity of all employees with their wages and salaries in different sector corporation indices to productivity of all employees and those of wages and salaries for five sector corporations are given in Table 4.

Table 4 : Productivity indices of all employees and indices of their wages and salaries in Jute, Textile, Engineering, Chemical and Sugar and Food Corporation in Bangladesh: 1997-04 (1997-98=100).

	Jute		Textile		Engineering		Chemical		Sugar and Food	
	P	W&S	P	W&S	P	W&S	P	W&S	P	W&S
1998-99	82	91	149	112	76	130	89	108	73	154
1999-00	107	95	239	115	105	135	99	115	65	146
2000-01	119	115	297	128	107	176	129	121	40	142
2001-02	137	118	392	132	67	175	55	123	123	189
2002-03	157	119	318	128	68	173	132	114	49	148
Average	120	108	279	123	85	158	101	116	70	156

P=Indices of productivity by all employees, W and S = Indices of nominal wages and salaries of all employees

$P = (\text{Value added} \div \text{all employees}) \times 100$

Value added = sales \pm changes in stock of finished goods – industrial and non-industrial cost

Source: National Productivity Organization, the Ministry of Industries.

Productivity of all employees during 1998-2003 increased in jute industry by 20 per cent and textile industry by 179 per cent while it was almost constant in chemical industry and declined in engineering industry by 15 per cent and sugar and food industry by 30 per cent (Table 4).

The relationship between wages and salaries and productivity of all employees reveals that wages and salaries increased faster than productivity in engineering, chemical and sugar and food industries while productivity increased faster than wages and salaries in jute and textile industries (Table-4). However, it is to note that wages and salaries of all employees in the public sector corporations showed increasing trends irrespective of whether productivity increased or decreased or remained constant. However, difference in productivity growth among SOEs under different sector corporations suggest that wage structure should be different for different sector corporations.

Do the private sector industries differ from the public sector industries with respect to wage-productivity relationship? In both the sectors, increases in productivity lag behind the increases in wages and salaries; but wage-productivity

gap was found higher in the public sector compared to the private sector (Table-5). For instance, average increases in wages and salaries in public sector was 7.5 per cent higher during 1998-03 than that in productivity but in private sector it was only 2 per cent. However productivity increases in the private sector were about 40 per cent higher than the public sector.

Table 5 : Indices of productivity and wages and salaries of all employees for public and private sector industries in Bangladesh : 1998-03 (1997-98 = 100)

Year	Public Sector		Private Sector	
	Productivity (P)	Wages & salaries (W&S)	Productivity (P)	Wages & salaries (W&S)
1998-99	91	101	136	136
1999-00	110	107	133	136
2000-01	132	120	152	153
2001-02	74	123	153	162
2002-03	123	119	165	170
Average	106	114	148	151

Source : National Productivity Organisation, the Ministry of Industries.

2.6 Minimum Wages

In private sector wages and benefits are determined by collective bargaining of tripartite nature and minimum wage legislation. Under the 1961 Minimum Wages Ordinance, the National Minimum Wage Board (NMWB) has the duty to recommend minimum wages for sectors or groups of workers referred to it by the government. The ordinance states that minimum wages are to be set in sectors "for which no adequate machinery exists for the effective regulation of wages" if the government finds that setting minima will be useful. 'Adequate machinery' is interpreted to mean more than the existence of some form of collective bargaining. The government may consider the coverage of collective bargaining arrangements and their effectiveness and could decide that although some enterprises had established collective bargaining procedures the industry as a whole did not have adequate machinery to efficiently determine wages. Currently 38 sectors are covered by the minimum wage order. They range from jute and cotton textiles to tea gardens and fishing trawlers. It is not clear why those 38 sectors were referred to the Board, because many of them have collective bargaining machinery that provides effective wage regulation. However, there exist no declared government policies regarding reference of sector to the Board.

The Board consists of a chairman, a representative of employers in the sector, a workers' representative and an independent member. It usually recommends three different minima levels for unskilled, semi-skilled and skilled workers and in some cases, fourth minimum one is specified for highly skilled workers. In addition to setting a minimum basic wage, the Board fixes allowances which represent around one-third of total minimum compensation in most sectors.

In a country where under-employment is widespread and administrative capacity is weak, there is a widespread agreement that the government is unable to enforce minimum wage legislation in any sector. In a survey of 166 industrial enterprises reported by World Bank (1994, p. 154), only 47 per cent of the sample enterprises stated that they adhere to minimum wage regulations while the remaining 53 per cent apparently do not concern themselves with this issue and are more likely to enter into contractual arrangements that effectively bypass the minimum wage laws. The existence of minimum wage provisions is expected to have some effects on investment decision even if they are not enforced. Outside investors may expect them most likely to be enforced and base their investment decisions on labour costs based on minimum wage provision.

There is always a trade-off between wages and employment. If minimum wages are set at a higher level, it would discourage existing firms from expanding their employment and is a disincentive to new investors. It would only benefit those who already have regular jobs in the formal sectors whose wages would rise. It would not affect rural, casual and informal sector workers who aspire to get better pay and greater security of formal jobs. The probability of their getting those jobs would decline as formal sector employment would not expand, if not lower, as a result of higher wages.

The minimum wages for unskilled workers set for different sectors are given in Table 6. These figures relate to the first half of the 1990's. The minimum wage rates have been adjusted for inflation rates to obtain minimum wages for FY 2004-2005. Such adjustments have been done by CPI and CPI for industrial workers. As the minimum wages reflect the actual situation in the sector, a wage increase beyond this minimum may affect private sector's profitability and competitiveness. It may discourage private investment, because it lowers the return to capital. Moreover, by increasing domestic cost, it would hamper the expansion of manufactured exports.

Table 6 : Minimum Wages Set for unskilled Workers in different sectors of Bangladesh

Sector	Minimum wages set for unskilled workers by NMWB		Minimum wages for the year 2004-05 (Tk/month)	
	Tk/month	Year	Adjusted by CPI	Adjusted by CPI for industrial workers
Bidi industry	1050	1996	1600	1400
Cinema hall	1100	1995	1800	1550
Naujan shilpa	1000	1993	1850	1550
Printing press	900	1993	1650	1400
Tannery industry	900	1994	1600	1350

Soap and cosmetic industry	950	1994	1700	1400
Re-rolling mills	900	1994	600	1350
Hosiery industry	900	1994	500	1350
Aluminum	900	1994	1600	1350
Bakery, biscuit and confectionary	700	1990	1500	1200
Jute baling	751	1992	1400	1150
Match factory	751	1992	1400	1150
Garments	627	1992	1200	1000
Shoe factory	751	1992	1400	1150
Glass factory	630	1992	1200	1000

* Adjusted figures are rounded up to a multiple of 50

Source : National Minimum Wage Board, the Government of Bangladesh

4.7 Globalization and Competitiveness of SOEs' products.

The SOEs now in operation were established more than 35 years back in the highly protected market. They used to produce import-substitutes mainly for the domestic market and some products, particularly jute products were exported under various export incentives. The tariff regime has now been simplified by equalizing operative tariff rates and statutory rates and also by reducing tariff barriers and slabs as well as eliminating non-tariff barriers. Under the circumstances expanding global market and various agreements under World Trade Organization (WTO) have opened up a wide range of opportunities for exports on the one hand and have posed a great challenge for goods of Bangladesh origin with backward technology and low capital base, on the other. Due to liberalization of trade, domestic import-substituting industries (like textile, chemicals, engineering, sugar and food) have been facing stiff competition with imports. Exports products like jute good have been facing keen competition with those of other countries in the world market.

It is reported earlier that increases in public sector wages and salaries were 7.5 per cent higher than increases in productivity of all employees while it was only 2 per cent in the private sector during the period 1998-2003. This suggests that wages in the public sector are not justified by labour productivity. The commission-2005 feels that SOEs products have already started to lose competitiveness in both domestic and foreign markets and the SOEs under different sector corporations have been incurring losses. Any wage increase in such a situation may reduce the competitive edge of SOEs products further.

Moreover, wage increases for the public sector SOEs may have a significant impact on the economy as they tend to lead private sector wages. Public sector workers represent around 25 per cent of formal employment in Bangladesh. Whenever they receive wage increases, pressures for similar wage increase in the private sector mount, particularly in the sectors with a strong public sector presence. Thus an excessive increase in public sector wages could result in a generalized loss of competitiveness including the manufactured exports in the private sector through an increase in domestic cost and a decline in private sector employment.

3.0 Summary

The table 7 summarizes the basic wage for unskilled workers implied by different determinants of wages discussed in the preceding section.

Table 7 : Basic Monthly Wage for Unskilled Workers Suggested by Different Determinants of Wages.

Determinants of wages	Monthly basic wage for unskilled workers Taka/month/ (2004-05)		
1. Cost of living theory	3026	-	-
2. Inflation indexation	-	2081	1929
3. Consumption poverty line	-	1896	1729
4. Caloric based urban poverty line	2365	2068	1727
5. Employees productivity	NPO survey		
* Jute : 20% up	4860	-	-
* Textile: 179% up	4325	-	-
* Engineering: 15% lower	1318	-	-
* Chemical : 01% up	1566	-	-
* Sugar & food: 30% lower	1085	-	-
6. Minimum Wages			
* Jute bailening	-	1400	1150
* Hosiery industry	-	1600	1350
* Re-rolling mills	-	1600	1350
* Soap & cosmetic industry	-	1700	1400
* Bakery, biscuits & confectionary	-	1500	1200
7. Globalization & competitiveness	Any increase in wage rate would reduce competitive edge		

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