

# The Minimus Wage in The Bahraini Labour Market



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## Introduction.

The Bahraini society has been pre-occupied lately with the issue of unemployment. While the government inspired by H.M. The king, by projecting the negative aspects of unemployment, Al Shura council took interest on the issue, for discussion. The Committee for the Activation of the Charter (C.A.T) discussed and prepared research on unemployment. The different economic, social and political groups expressed their views and the proper solution.

Within this context, there had been different views on the minimum wage as a political mean to reform the Bahraini labour market, with structural problem. These deliberation were not characterized with depth and comprehensiveness. The objective of this paper is to shed light on this important subject.

## The Minimus wage and the Bahraini economy.

In view of the international economic developments, and taking into consideration the state pursuit to revive the economy, there is urgent a need to restructure the national economy, so as to be able to confront the regional openness and economic globalization. The vital and urgent question within this context is: How we can bolster the structure of the Bahraini econ-

omy, and thus bolster its competitiveness. There are two clear alternatives dominating the economic thinking in this country. The first choice depends on promoting competitiveness by decreasing the wages. This thinking dominated the economic life during the previous era, especially in labour, intensive, low-productivity and low-wages industry. The second choice, tested in a number of developing countries of recent industrial-

ization (east Asia), which has not been considered yet in the national economy or the GCC, economies. This choice is to raise competitiveness of the national economy through raising the productivity.

Through discussing these two alternatives, it is important to resolve the strategy of the economic policy. I think there is urgent need to embark on economic reform. In my opinion, the strategy of economic development should deal first with the priorities of the state towards the aspired society. Do we want a society where the expatriates form dominant majority? or a society with balanced demography? Do we want a society with high productivity and high standard of living with underlying, social, political and economic choices of the citizen, or do we want society of low productivity and low standard of living





with low wages? Do we want to accredit work its value and importance in our life, In other words, do we want the citizen to work full time, but living under poverty line or do we want a citizen who work full time that ensures him decent living?

These important questions should be answered correctly. If the choice is the productive society, with high standard of living ensuring the full time workers not to fall beyond poverty line, there is a need for adopting new policy, with priority of minimum wage.

#### **The minimum wage in the Bahraini economy, historical background.**

The historical events on minimum wage in Bahrain shows that in 1965, government decree, issued by the chief of finance in the Government of Bahrain, stipulating that the minimum wage payed by the employer to the employee should not be less than ruppies. The state council issued a decree In 1970, stipulating

that the minimum wage payed by the employer to the worker or non-technician employee, should not be less than BD 0.9/d with an increase of 12,5% and annual increase of 2.5% compared to minimum wage of 1965. The minimum wage was decided in view of the study undertaken then by the Ministry of Labour and Social Affairs dealing with average wages, daily or monthly and the budget of labour family. The Labour Law in the Private Sector, was issued in 1976, stipulating that the minimum wage should be decided by the council of ministers on proposal by the Ministry of Labour. In 1979, the ministry carried comprehensive survey, on the wage structure in the private sector, and suggested that the daily wage of non-technical worker should be BD, 90/ month including the costs of accommodation, electricity and water health service, as guaranteed by the employer, conditional that the minimum cash should

not be less than BD 50 /m . This is minus that the costs of services provided to the expatriate worker which was estimated as BD 40/month, while the real wage which should be in cash is BD 50/ month. The Chamber of Commerce and Industry agreed that the total monthly wage of non-technical employee should be BD 90/month including the above services, which it estimated to be BD 50/ month. The Chamber suggested that the monthly wage to be paid in cash should not exceed BD 40/-. The Chamber suggested that as compromise solution, the employer who provides such to the worker, is to pay BD 45/month in cash.(\*)

In view of the above, it is clear that the minimum wage is not new in the economic policy that organizes the market in Bahrain. The second issue is whether the government and the private sector are convinced of the importance of legislation on minimum wage. The events of history during the seventies, indicates that the Chamber of Commerce and Industry (C.C.I), representing the private sector, agreed on minimum wage at the Bahraini labour market.

#### **The Minimum wage and the Bahrain labour Market.**

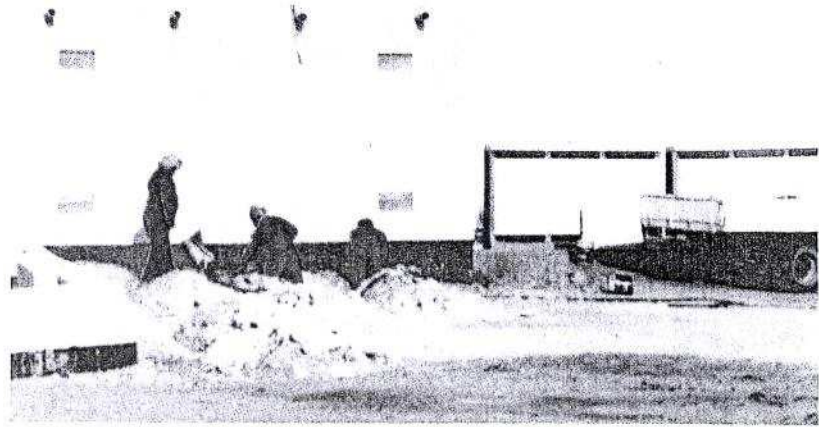
Currently, there is no law on minimum wage in Bahrain, whether in the private or pub-



lic sector. In the public sector, the minimum wage for Bahraini is BD 120-150, where the public sector is bound by wages scale for all its sectors. The private sector is characterized by wide variety of wages among the different economic sectors. The wages are low in the labour-intensive sectors, such as construction, workshop and small-medium firms, while it is high at the capital-intensive sectors, such as banks, finance electronic commerce and big firms. Figures of the Public Social Insurance Corp indicate that 0.3% (160) Bahraini workers compared to 14% (1424) expatriate workers receive less than BD 50/month. The majority 2.5.6% (12895) of Bahraini worker receive BD 100-149/month compared to 44.5% (44036) expatriate workers who receive BD 50-99/month.

**Reasons for Minimum wage in Bahrain labour Market.**

The Bahraini labour market is similar to the commodities and services market. It is characterized by social dumping which is synonymous of economic dumping in the commodities market. When the expatriate labour who are unskilled and of poor countries flow in big numbers in the labour market in the Gulf, this will eventually lead to the lowering of the wages not



only for expatriates but also the locals, with negative consequences, to the local labour in particular and the national economy in general. Concerning the local labour, especially those with in low-waged sector, their wages will deteriorate further and consequently their standard of living and purchasing power with related deterrent of learning and training. Concerning the national economy, it will be affected by the decline of purchasing power and consequent economic recess, thus weak investment and related lower productivity, especially for the companies that serve the local market. This confirms the concept that market economy requires market. Similarly, we can speak about monopoly in the commodities and services market, it is clear to the decision-makers that there is a need for the liberalization of the local market. The statements of the Crown Prince, is visionary in this context. Concerning the la-

bour market. I think it suffers of monopoly also: (monopsony). Several modern economic studies confirm that the labour market is not ruled by supply and demand, as described in the classical economic textbooks. Monopoly model is closer to labour market, thus raising the minimum wage will lead to increased employment.

**The Consequent Effects of Minimum Wage Application.**

The issue of minimum wage still acquires great attention among the academicians and the politicians. At the political level, the minimum wage is considered as popular mean for income distribution, without imposing direct taxes and benefiting the poor workers and not the unemployed workers.

It is possible to measure the impact of the minimum wage on the macro aspect and the micro aspect of the economy. At the macro level, the minimum wage will influence the





income distribution, as a positive indicator of the level of investment that poor workers tend to spend higher percentage of their income. In addition, to the well-known economic application, that well balanced income distribution will lead to increase of the total spending.

Within this context, the minimum wage is important factor in the strategy of development in the developing countries. We can refer to the experience of East Asian Countries such as Singapore. During the sixties, the dominant industries in Singapore were textiles, and assembly of electric equipments characterized by intensive labour, low productivity and low wages. Productivity increase were not foreseen to rationalize wage increase. During the seventies, the economic growth increased and the flow of expa-

triate workers increased too, but the wages level did not increase satisfactorily. This is normal, as the flow of labour tends to lower the wages: Consequently, the government of Singapore, used the wages policy in the seventies as a mean in the reconstruction of the Singapore economy, through corrective wage policy where the level of wages was heightened, to stimulate the economic firms to invest more capital in comparison to labour, and thus realizes labour productivity increase. It also established the National Wages Council, which includes the representatives of production partners, the government sector, the private sector and the workers, headed by academicians who review the minimum wage annually, and present his recommendation on the proper minimum wage for the coming years.

The minimum wage contribute to more dynamic economy through:

- 1- Liquidating the marginal companies or low-productivity companies.
- 2- To promote the productivity of the companies that survived.

Needless to say that propagated talk in the media and the forums on the importance of reconstructing the national economy, is in need for strategic and specific vision. Thus, I think that the Bahraini economy and the rest of GCC economies faces reconstruction challenge in the labour market with dangers at the medium range and long range.

This structural challenge is due to the fact that the dominant mode of economic growth and its continuity at present in the national economy and GCC economies, depends on intensive employment of expatriate workers. Taking into consideration that such mechanism of growth could not continue, due to the negative economic, social and political consequences, it is necessary to undertake economic reconstruction in these countries. The adoption of minimum wage is strategic suitable beginning.