

Commentary

Minimum wage fixation violates basic laws of economics

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Guest Columnist

The government recently conceded to the demands of workers and employees union SKOP to fix the minimum wage at Tk 950 per month in state-owned enterprises in the face of 48-hour strike. SKOP's demand and strike programme was supported by some political parties including the Awami League. It's earlier demands had been a flop mainly due to the lack of support from the main opposition political parties, and the strong stand taken by the employers association against the move. Awami League while trying to push its cause against what it called a widespread government corruption, to an extent, unwittingly lent its support to the SKOP strike. Government became shaky at the alliance and hurriedly called the union leaders for negotiating a deal. The deal was struck, at the cost of public money. Thus, the SKOP leaders this time were successful in forcing their demands on the government.

What would be the long run consequences of such concession? The demands were realised not only under pressure; it can be termed coercion. Before we assess the long run consequences, let us see what should be the wage level as per economic laws. Theory of wage of pay fixation says that wage or pay should be fixed according to marginal contribution to the production. A worker or an executive should be getting paid as he contributes. If wage or pay is more than the respective contribution, the enterprise will end up in deficit financing or will draw on the share of other inputs of production.

Human resource is not the only factor of production. Capital is also an important input as human beings. If the human factor gets more than its marginal productivity, capital is bound to receive less from the total output they combinedly produce. Basic economic law provides that total product be exhausted when rewarding the among inputs according to their marginal products. It may happen that one input takes the shares of other inputs in the form of wage rent or pay receipt if those are not made according to the respective marginal products of the inputs.

Factors' marginal products are to be weighted in terms of market prices to pay them money wage or salary. Here comes the role of demand and supply for the product made by the inputs. As no product today can be possibly be produced by a single input alone, it is not possible to separate marginal contributions of inputs to the product.

To avoid this complexity, economists suggest that the net value addition be taken into account while considering a pay rise for the inputs. Factors of production may add some value to the final products, or may cause it to lose same value. If there is a net value addition to the product, only then there exists a cause for a wage or pay rise. Otherwise even a deduction of it will be desirable.

But here also the complex part is how to divide the net value addition among the factors of production. Economists suggest this should be done on a competitive basis — the more scarce the factor, the higher reward it should get. Labour in

Bangladesh are abundant, and they cannot expect a competitive wage vis-a-vis rent for capital. One way out of this complex problem is that first payment to capital be fixed as interest — the price of capital borrowed, and rent — price of capital hired, are known to the management. Then the payments to the management and labourers can be fixed up by taking into account their level of education, length of training, and the risk they bear etc.

In Bangladesh the government is trying to fix the pay to only one factor of production ignoring others. Distortions, thus develop in the smooth functioning of the market mechanism. Estimates say that about Tk. 25000 crores were invested in the state enterprises and the government is paying Taka 2000 crores per annum as subsidy to keep them running. It means the state-run enterprises are not covering the variable cost of production. When an enterprise cannot cover even the variable cost, it better be closed down. There are many such state enterprises in Bangladesh which deserve to be closed down but are kept running at the insistence of the workers' unions. It is better for the economy to sell the losing state-owned enterprises to the private bidders, but this is also being slowed down by the opposition of SKOP against privatisation.

The government is actually in a mess regarding financial management in the state-owned enterprises and there is an apprehension that the mess might spill-over to the private sector. A body constituted by the government also prescribed minimum wage for the private sector. Why the minimum wage fixed by the body should be the minimum? What criteria were applied to determine the minimum wage? How the sectors or the sub-sectors were differentiated? No one will receive the right answers for these valid questions.

The Wage Board would say minimum wage was recommended on the basis of need concept. This does not make any sense in a market economy. The needs of workers or employees are undefined, and cannot be measured by applying any common denominator. If the subsistence needs, as the board felt, be the deciding factor in wage fixation and exceed marginal contribution of workers and employees, who will fill up the gap? The gap is now being filled by raising more taxes and cutting the payments of capital and management. The question of subsistence need cannot from any consideration in wage fixation, as state-owned enterprises are over staffed and the whole economy is at the subsistence level. A subsistence economy cannot pay a subsistence wage in the form of minimum wage to a over-staffed sector.

The private sector employs and produces on the basis of demand and supply in a competitive market framework. Setting a minimum wage by an outside body is violation of the laws of a market economy. While the government can subsidise its state-owned enterprises, the private sector cannot, unless it also receives subsidy from the government.

Kuwait preparing \$ 1b claim against Baghdad

GENEVA, July 27: Kuwait is preparing a one billion dollar claim against Baghdad for cleaning up after the vast oil well fires that swept the country at the end of the 1991 Gulf War, a senior Kuwaiti official said on Monday.

Abdullah Al-Houty, Chairman of the Kuwait government body assessing damage caused by Iraq's seven-month occupation of the emirate, told Reuters the claim would be presented to a special United Nations body in the next few days.

"This will be the first of the big claims against Iraq. It has symbolic importance for us, and we believe it should be given priority attention," Al-Houty added.

He was speaking in an interview before a three-day meeting of the governing council of the UN Compensation Commission set up after the war to coordinate the compilation of claims against Iraq and determine how they should be met.

So far, the commission has few funds for meeting claims or covering its own costs as Iraq has declined to make the 1.6 billion dollar oil sale authorised by the UN Security Council partly to compensate victims of its 1990 seizure of Kuwait.

In a speech to the council on Monday, Al-Houty said ensuring Iraqi compliance with UN resolutions on the limited sale should be a top priority.

"We urge this body, as well as the Security Council whose membership it reflects, to continue to demand full compliance from the Iraqi regime," he said.

Shipping Intelligence

CHITTAGONG PORT

Berth	Name of Vessels	Cargo	L. Port	Local Call	Date of Arrival	Leaving
J/1	Fair Spirit	GI	Xing	Prog	20/7	29/7
J/2	Banglar Maya	GI/GL	Male	BSC	12/7	26/7
J/3	Chi Sam	Cement	Titz	USTC	14/4	2/8
J/4	Vishva Nandini	Salt	Tuti	UMAL	22/7	2/8
J/6	Vishva Parimal	GI/GL	Mong	SSL	26/7	2/8
J/7	Agra	Urea	BSL	R/A	2/8	2/8
J/9	Sound Royal	GI	Cal	BSA	22/7	28/7
J/10	Banglar Sampad	Repair	BSL	R/A	28/7	28/7
J/11	Sam Hac	Urea	Hong	PSAL	27/6	28/7
J/12	Meng Lee	Cont	Sing	AML	23/7	28/7
J/13	Optima	Cont	Sing	RSL	24/7	28/7
MPB/1	A.Goncharov	Cont	Sing	CI	26/7	29/7
MPB/2	Banglar Moni	Cont	Sing	BSC	24/7	28/7
CCJ	Banglar Kiron	Repair	BSL	R/A	30/7	30/7
DD	Banglar Lalol	Repair	BSL	R/A	7/8	7/8
DDJ/1	Barge Kabho-90	GI	BSL	R/A	28/7	28/7
DDJ/2	Banglar Asha	Repair	BSL	R/A	30/7	30/7
CUFJ	Ronlay Shoomer	Urea	Sing	Seacom	2/6	31/7

VESSELS DUE AT OUTER ANCHORAGE

Name of Vessels	Date of Arrival	Last Port	Local Call	Cargo	Loading Port
Kota Buana	27-7-93	Sing	RSL	Cont	Sing
Samudra Rani (E/K28-7-93)	Mong	SSL	E/LKara B Abbas	GL D E Salam	
Pecan	01-8-93	Mong	OWSL		
Al Mubaraq	28-7-93	Aqaba	SSST	R Phos	
Steinkirchow	29-7-93	Vents	ProgP	Equip & Materials	
Lanka Mahapala	29-7-93	Mong	Baridhi	Cont	Col
Eponyma	30-7-93		RSL	Cont	Sing
Robert-e-Lee	30-7-93		Karna	GI (Lash)	
Golden Star	30-7-93	Bang	BML	Sugar (P) & 1211 GI	
Sea Nymph	30-7-93		USTC	Cement	
Boris Lavrenko	30-7-93		USTCGI	(Soda Ash)	
Dancing Sister	01-8-93	Kand	OWSL	Sugar in Bags	
Rafah	30-7-93	Niko	Dynamic	M Seeds	
Lily	30-7-93		Seacom	W/D (Urea)	
Banglar Robi	31-7-93	Mong	BSC	Cont	Sing
I.Yamburenko	01-8-93	Sing	CT	Cont	Sing
Fong Yun	02-8-93	Sing	BDSHIP	Cont	Sing
Banglar Doot	03-8-93	Sfax	SSST	TSP Fert (P)	
Igenuty	04-8-93	CBO	BTSA	Cont	Col
Imke Wehr	04-8-93	Sing	ULA	Cont	USA FE
Meng Kiat	05-8-93		AML	Cont	Sing
M T Tong Ah	05-8-93		AnchorP	Equipment	
(Barge: Smit Flores)					
NGS Express	07-8-93	Sing	BDSHIP	Cont	Sing
Jiang Cheng	08-8-93		BDSHIP	GI	C Ports

TANKER DUE

Aresnyev	30-7-93		TSL	CPO	RM/3
Annala-2	02-8-93	Bomb	ECSL	Lube Oil	RM/6

VESSELS AT KUTUBDIA

Name of Vessels	Gargo	Last Port	Local Call	Date of Arrival
Sandgate	HSD	Sing	MSFL	26/7
Saryang	CPO+RBD	Duman	CT	27/7

VESSELS READY

Ready on				
Marglan	Cement	Sing	OTL	21/7
NGS Ranger	Cont	Sing	BS Ship	27/7

VESSELS AWAITING INSTRUCTION

Marine Three			BML	R/A (5/7)
Trane Asia			Cross	R/A (7/7)
Banglar Shourabh			BSC	R/A (14/7)
Banglar Jyoti			BSC	R/A (25/7)

VESSELS NOT ENTERING

Promitheas	Scraping	Sing	ARL	05/6
Cherry Blossom	Scraping	Slova	LTC	09/7
Apple Blossom	Scraping	Mong	LTL	17/7
Vladislav (Ex. Orsha)	Scraping		USTC	R/A (26/7)
Dolores		Seacom	R/A	(26/7)
Tony Best (Atibad)	Cement	Mong	Asha	27/6

MOVEMENT OF VESSELS FOR 28.7.93

OUTGOING	INCOMING	SHIFTING
J/12 Meg Lee	J/13 NGS Ranger (Cont)	J/6 Vishva Parimal Siding
J/13 Optima	MPB-2 Kota Buana (Cont)	MPB-1 A Goncharov
	RM-6 Sandgate	J/9 Sound Royal
MPB-2 Banglar Moni (Cont)	DOJ Banglar Shourabh	

The above were the Tuesday's Shipping position and performance of vessels of Chittagong Port as per berthing sheet of OPA supplied by HRG Group, Dhaka.

Exchange Rates

The following are the Commercial Banks' BC selling and TT (C), OD transfer buying rates for some selected foreign currencies effective on July 27.

Currency	Selling B. C.	T. T. (C)	Buying OD Transfers
US Dollar	39.8826	39.6587	39.4059
Pound sterling	59.7826	59.4809	59.1224
D.M	23.1405	23.0039	22.8572
E.E	6.7781	6.7378	6.6948
S Riyal	10.6351	10.5745	10.5071
D. Guilders	20.5729	20.4468	20.3185
S. Kroner	4.9637	4.9297	4.8962
Singapore Dollar	24.6676	24.5140	24.3577
UAE Dirham	10.8601	10.7968	10.7279
Kuwait Dinar	132.2806	131.1899	130.3536
Indian Rupee (AMU)	1.2697	1.2640	1.2577
Pak Rupee (AMU)	1.3318	1.3259	1.3193

Authorized dealers will apply T T clean buying rate for purchase of remittances of Bangladeshis working abroad. Note: AMU—Asian Monetary Union.

Dhaka Stock Prices

At the close of trading on July 27, 1993

Good mood continues

Trading on the floor of Dhaka Stock Exchange (DSE) continued to show good mood for third day on Tuesday.

Both the turnovers increased significantly. Volume reached 26,571.75 issues from 13,925, a rise of 90.81 per cent while value made a gain of 235.52 per cent. It advanced to Tk 3765738.50 from Tk 1122351.00.

The DSE All Share Price Index also gained slightly. It increased to 416.9943 from 416.6882 showing a rise of 0.306 point.

A total of 36 stocks were traded. Of these, 12 gained, 11 last while 13 others traded at previous rates.

DAY'S TRADING AT A GLANCE

DSE Share Price Index	416.9943				
Market Capitalisation (Tk)	15755239105.34				
Turnover in Volume	26571.75				
Turnover in Value (Tk)	3765738.50				
Company's name	Previous price	Closing price	Change (absolute)	Change (Share of share price)	Number sold

Gains (12)

Eagle Box	20.00	21.50	1.50	7.510	100
Eastern Cables	77.64	79.00	1.36	1.751	150
Dhaka Vegetables	73.00	74.25	1.25	1.712	20
NTC	207.00	210	3.00	1.449	25
Apex Footwear	172.37	174.75	2.38	1.380	17660
Bata Shoe	37.62	38.06	0.44	1.169	3060
Pharmaco	50.00	50.50	0.50	1.000	50
G Q Ball Pen	78.29	79.00	0.71	0.906	105
Beximco Infusion	234.39	236.68	2.29	0.977	280
Beximco	20.10	20.16	0.04	0.199	700
Dulamia Cotton	75.73	75.75	0.02	0.026	50

Losses (11)

Gemini Sea Food	70.00	60.00	10.00	14.285	05
Paper Processing	19.50	18.50	1.00	5.128	100
Rahim Textile	97.50	96.10	1.40	1.435	25
Tallu Spinning	97.46	96.25	1.21	1.241	30
Quasem Drycells	9.50	9.40	0.10	1.052	500
Kohinoor Chemical	66.00	65.36	0.64	0.969	45
Green Delta	210.00	209.00	1.00	0.475	200
United Insurance	210.00	209.00	1.00	0.475	140
6th ICB M Fund	54.22	59.00	0.22	0.371	10
Cig Cement	203.00	202.50	0.50	0.246	210
BGIC	205.75	205.50	0.25	0.121	540

Traded at previous rates (13)

Shares: National Bank (60), Ariz Pipes (10), B Autocars (10), Singer Bangladesh (5), Bengal Food (483), Rupan Oil (800), Tulip Dairy (10), B Oxygen (600), Ashraf Textile (100), Safham Textile (10), Rahman Chemicals (20), Apex Tannery (35), Padma Textile (420).

DSE SHARES AND DEBENTURES

Company	FV/ML (Taka)	Closing Rate (Taka)	Northern Jute <th>Shamser Jute <th>Specialised Jute <th>Shine Pukur Jute <th>Sonali Anarsh </th></th></th></th>	Shamser Jute <th>Specialised Jute <th>Shine Pukur Jute <th>Sonali Anarsh </th></th></th>	Specialised Jute <th>Shine Pukur Jute <th>Sonali Anarsh </th></th>	Shine Pukur Jute <th>Sonali Anarsh </th>	Sonali Anarsh
			10/50	100/5	10/50	100/5	115/00

BANKS (2)

Al Baraka Bank	1000/1	825.00
A.B. Bank	100/5	200.00
City Bank	100/5	330.00
Eastern Bank	100/20	110.00
IDLIC Ltd	100/20	220.13
LFIC	100/5	180.00
Islamic Bank	1000/1	1550.00
National Bank	100/5	100.00
Pubali Bank	100/5	100.00
Rupali Bank	100/10	65.00
U.C.B.L	100/5	88.00
Utara Bank	100/5	93.00

INVESTMENT (8)

LCB	100/5	100.00
1st ICB M. Fund	100/5	370.00
2nd ICB Fund	100/5	177.00
3rd ICB M. Fund	100/5	153.00
4th ICB M. Fund	100/10	153.00
5th ICB M. Fund	100/10	96.00
6th ICB M. Fund	100/10	59.00

PHARMACEUTICALS & CHEMICALS (18)

Amber Pharma	10/50	12.23
Bangla Process	100/5	61.00
BCIL	100/10	286.67
Beximco Infusion	100/5	236.68
Beximco Pharma	100/5	425.00
Gloco	10/50	125.00
I.C.I	10/50	10.00
N. Polymer	100/5	65.36
Kohinoor Chemical	100/5	65.36
Petro Synthetic	10/50	10.00
Pflser	100/5	450.00