



STRUCTURAL ADJUSTMENT POLICIES AND LABOUR MARKET IN BANGLADESH

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**STRUCTURAL ADJUSTMENT
POLICIES AND LABOUR MARKET
IN
BANGLADESH**

**M. Ismail Hossain
Syed A. Hye
Amin Muhammad Ali**



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Asia and the Pacific**

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**Centre on Integrated Rural Development for
Asia and the Pacific**



Foreword

In Bangladesh, explicit focus on poverty eradication in the development agenda requires formulation and implementation of sustainable anti-poverty strategies. The availability of reliable and timely information on the state and processes of poverty assists the policy makers in understanding poverty in its manifold dimensions and in identifying the causalities. The above requires institutional mechanism to (i) monitor poverty using multidimensional indicators; (ii) analyze micro impact of macroeconomic and structural adjustment policies; (iii) provide feedback to the policy makers in designing effective macro and poverty reduction policies.

CIRDAP, with assistance from the International Development Research Centre (IDRC), Canada and Canadian International Development Agency (CIDA) initiated a project on 'Monitoring Adjustment and Poverty (MAP) in Bangladesh to address the above issues. Under the project, a number of 'focus studies' were conducted on poverty related issues. These studies generate information on the nature and conduits through which macro-policies create impact at the micro level along with providing relevant information on poverty.

The present study on 'Structural Adjustment Policies and Labour Market in Bangladesh' investigates the impact of the structural adjustment policies on the labour market. Among others, the study examines the macroeconomic developments, structure, components and nature of the labour market, wage productivity relationship and bargaining arrangements, and implications of the adjustment process on the labour market and associated institutions. The conclusions of the study highlight the policy concerns and legal and institutional measures needed to generate appropriate response of the labour market to the adjustment programme.

I hope the study will be useful to the policy makers and experts in the area. I would like to thank Professor M. Ismail Hossain, Professor Syed A. Hye and Professor Amin Muhammad Ali of the Department of Economics of Jahangirnagar University, Dhaka, the researchers of the study, for their excellent work. I also thank Dr. Mustafa K. Mujeri, Director Research, CIRDAP who guided and coordinated the project and other staff of CIRDAP Research Division for their efforts in successfully completing the study. I express my gratitude to Dr. Rohinton Medhora, Senior Specialist of IDRC for his active interest in the project and to IDRC and CIDA for providing financial support for the project.

July 1998

A.V.S. Reddy
Director General

Preface

Bangladesh adopted structural adjustment programmes with support from the IMF and the World Bank. Although the policies were pursued hesitantly and intermittently in the beginning, they became the main body of policies since 1987 and their impacts on the macroeconomic performance of the economy have been varied. The present study examines such impacts on the labour market in the country and the response of the labour market to such policies.

The study was conceived and initiated by the Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP), Dhaka, under its Monitoring Adjustment and Poverty in Bangladesh Project. We owe an immense debt of gratitude to the Centre, particularly to Dr. Mustafa K. Mujeri, Director, Research for initiating the study and remaining a constant source of encouragement and intellectual guide all through. Comments on the draft report by CIRDAP proved to be invaluable and led to considerable improvement of the study.

Many persons in Jahangirnagar University and outside helped us in various ways, through discussion, tracing down materials, pointing to sources and sheer encouragement. They include Professor Amirul Islam Chowdhury, Vice-Chancellor, Professor K.M. Rahman, Professor M. Masum, Professor Tajul Islam and other colleagues at the Department of Economics, Professor Q. A. Samad and Dr. M.S. Ahmed at the Department of Statistics, Jahangirnagar University, Dr. Qazi Shahabuddin, Dr. M. Asaduzzaman, Dr. A.H. Mondal of BIDS, Mr. A.T.M. Nurunnabi Khan of ILO, Dhaka. The constraints of space preclude listing of names of others who also helped. We thank them all for making our endeavour as smooth as possible.

A number of students at the Department of Economics helped in the collection of primary data. Nisar Ahmed, Zohiruddin, Mahbub Alam and F.K. Patwary helped us at various stages in collecting research materials and processing of data. Mr. Tobarquallah provided excellent typing service. We thank them all.

M. Ismail Hossain
Syed A. Hye
Amin Muhammad Ali

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Abbreviations and Acronyms

| | |
|--------|---|
| ASA | Association for Social Advancement |
| BADC | Bangladesh Agricultural Development Corporation |
| BBS | Bangladesh Bureau of Statistics |
| BIMT | Bangladesh Institute of Marine Technology |
| BJMC | Bangladesh Jute Mills Corporation |
| BMET | Bureau of Manpower Employment and Training |
| BPC | Bangladesh Petroleum Corporation |
| BRAC | Bangladesh Rural Advancement Committee |
| BRTC | Bangladesh Road Transport Authority |
| BSC | Bangladesh Shipping Corporation |
| BSCIC | Bangladesh Small and Cottage Industries Corporation |
| BSEC | Bangladesh Steel and Engineering Corporation |
| BSI | Bangladesh Survey Institute |
| BTMC | Bangladesh Textile Mills Corporation |
| BTTB | Bangladesh Telegraph and Telephone Board |
| CBA | Collective Bargaining Agents |
| CBN | Cost of Basic Needs |
| CIRDAP | Centre on Integrated Rural Development for Asia and the Pacific |
| CMI | Census of Manufacturing Industries |
| DSL | Debt Service Liability |
| EFF | Extended Fund Facility |
| FAO | Food and Agriculture Organization |
| FSRP | Fiscal Sector Reform Programme |
| GB | Grameen Bank |
| GDP | Gross Domestic Product |
| GOB | Government of Bangladesh |
| IDA | International Development Agency |

| | |
|------|--|
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IRO | Industrial Relation Ordinance |
| JSAC | Jute Sector Adjustment Credit |
| LFPR | Labour Force Participation Rate |
| LFS | Labour Force Survey |
| MSS | Mohila Samabaya Samity |
| MWB | Minimum Wage Board |
| NCBs | Nationalised Commercial Banks |
| NGO | Non-Government Organization |
| NIP | New Industrial Policy |
| NTCC | National Tripartite Consultative Committee |
| NWPC | National Wage and Productivity Commission |
| PDB | Power Development Board |
| PFP | Policy Framework Paper |
| RMG | Ready Made Garments |
| SAF | Structural Adjustment Facility |
| SDR | Special Drawing Rights |
| SKOP | Sramik Karmacharee Oikkya Parishad |
| SOE | State Owned Enterprises |
| TCB | Trading Corporation of Bangladesh |
| TR | Test Relief |
| TSP | Triple Super Phosphate |
| VAT | Value Added Tax |
| VGD | Vulnerable Group Development |
| WHO | World Health Organization |

Executive Summary

Slow economic growth, high and variable inflation rate, expanding fiscal deficit, unsustainable balance of payments and other structural weaknesses of the economy motivated Bangladesh to revise its policy regime within the framework of IMF and World Bank stabilization and structural adjustment programmes. The programmes implemented since 1987 mark a clear departure from the previous policy regime and involve wide ranging changes in policies covering every major sphere of the economy. The broad areas of reform include trade liberalization, privatization of state owned enterprises, reduction in public consumption, increased domestic resource mobilization, withdrawal of subsidies on food grains and agricultural inputs, financial sector reforms and pro-private investment policy. Such changes in policy was to be ensured by financial support from the Fund and the Bank.

The policies envisage a market oriented export led growth strategy involving reallocation of resources to the tradable goods and services sector to ensure greater efficiency in resource use. The success of structural adjustment policies in achieving desirable macroeconomic equilibrium characterized by higher growth, stable prices and sustainable balance of payments depends to a significant extent on the behaviour of the labour market. The impact of these policies is transmitted to different groups of people through the labour market.

The impact of structural adjustment (SA) policies on macroeconomic performance in Bangladesh varied over time and across sectors. Several macroeconomic indicators stagnated or worsened in the initial years of the adjustment period which raised serious concerns about the SA policies. Growth rate declined, domestic savings rate fell, revenue/GDP ratio stumbled, trade and

current account deficit expanded and investment rate stagnated. The only area where some success was registered in the early years related to inflation control - inflation rate declined with SA policies. It is not clear, however, how much of this lack lustre performance owed to the policy shock and how much to the random shock caused by devastating floods in 1988 and 1989. The poor economic performance in 1991 was largely a result of the political upheaval in the country.

The macroeconomic performance of the economy started to improve in 1992 and gradually gained momentum as the decade proceeded. Growth rate improved, both domestic savings and investment rate increased, revenue/GDP ratio increased, rate of growth of exports escalated and trade and current account deficit declined. Judged by the trend growth rates, some of the macro-indicators, however, do not reveal any discernible trend.

The labour market is characterized by high rate of labour force growth (8 percent per annum), low employment growth rate (about 3 percent) and reduced labour absorption in manufacturing sector (-7 percent per annum over 1989-96). Agriculture is still the major sector providing employment (63 percent in 1996) followed by services sector (27 percent in 1996). The labour market also shows high underemployment rate (39.2 percent in 1996), dominant rural share (82 percent) and smaller share of women employment (33.02 in rural and 5.04 percent in urban areas).

The movement of real wages exhibits a slight upward trend (general as well as sectoral wages) with year-to-year fluctuations around the trend. The behaviour of real wages which shows some measure of downward stickiness reflects the wage setting and wage adjustment mechanisms operating in the economy. The rise in real wage in the face of increasing unemployment and somewhat declining labour productivity implies something less than a well functioning

labour market. The opposite side of the story however, is that labour has not suffered wage declines because of the stabilization and structural adjustment programmes.

Unemployment rate shows a creeping rise in the adjustment period. The pattern of employment has undergone some changes in the adjustment period. The share of agricultural employment has declined as Lewis would have predicted. But the slack has not been taken up by manufacturing employment which has also suffered a decline. Instead the share of non-tradables sector employment has registered an increase. These changes in the employment patterns are consistent with changes in composition of gross domestic product which shows rising share of non-tradable sectors.

Educated unemployment situation has worsened in the adjustment period both in relative and absolute terms. The mismatch between demand for and supply of educated labour is an outcome of the forces operating on both sides of the market. The educational institutions turn out graduates with inappropriate skills and in inordinate quantities. Aspiration for good jobs ensuring exalted position in the society leads the students to crowd the academic institutions. Besides, 'luxury unemployment' phenomenon and slower expansion of public sector jobs may also be responsible for this phenomenon.

Growing informalization of labour has been observed in some countries undertaking structural adjustment programmes. Such trends could not be confirmed in Bangladesh because of lack of time series data. Available data suggest that 87 percent of the labour are engaged in the informal labour market. Informal labour market dominates almost all major sectors of the economy. Even in the manufacturing sector informal employment share is as high as 51.5 percent. There seem to have been some changes in the structural characteristics of the urban informal labour market in Dhaka city.

These changes mainly relate to the type of activities, the mode of skill acquisition and the length of stay in the city.

The low rate of unemployment at the macro level does not reveal the full dimension of the employment problem. Several micro studies suggest the existence of much higher level of unemployment, and high rate of underemployment and disguised unemployment in the economy, particularly in agriculture.

Increasing participation of women in the labour force as well as an increase in the share of women employment have been observed in the adjustment period. Women unemployment rate which was above that of male in the pre-adjustment period fell below male unemployment rate in the adjustment period. There exists spatial difference between the unemployment rates. Thus while women unemployment rate in the rural areas underwent both absolute and relative declines, in the urban areas it rose in both absolute and relative terms. Employment opportunities for women seem to be concentrated in a few sectors like manufacturing, community and personal services and agriculture outside the traditional household sector.

There exists annual variation in the distribution of income depending, among other things, on the occurrence of natural disasters. But judging by two end points of the study income distribution has deteriorated between 1984 and 1996. The bottom 40 percent of the income group has lost with the gains accruing to all other groups, the upper middle 20 percent gaining the most. The concentration of income has increased in the adjustment period; the Gini concentration ratio has increased from 0.36 in 1984 to 0.39 in 1992.

The incidence of poverty as measured by head-count index, poverty gap index and squared poverty gap index has decreased though there exists annual variation in the progress of poverty

reduction. There are also spatial differences in the extent of poverty reduction with greater success observed in urban poverty reduction up to 1992. In more recent years the incidence of poverty in urban areas seems to have increased. The modest to imperceptible gains in poverty reduction in the face of rising unemployment can be attributed to the growth of income, provision of direct development assistance to the poor and provision of social safety nets.

Investment rate has not shown any significant response, positive or negative, to the structural adjustment programmes in the 1980s. Investment rate, however, accelerated in the 1990s. Estimates of private investment on education are not available. But rapid expansion of expensive private education system especially at the primary and the university level is suggestive of an increase in private investment in education. Public allocation for education has increased over the years reflecting growing emphasis on human resource development. The expansion of the public education system has not kept pace with the demand for education resulting in rationing of available capacities in academic institutions of certain recognized quality. However, there is a concern over the deteriorating quality of the students graduating from academic institutions stricken by political violence, session jams and general apathy to serious learning.

There is a long tradition of government intervention in trade union activities and settlement of wages of workers in Bangladesh. The massive nationalization programme undertaken immediately after liberation led to enhancement of government's role in those arenas and to mushroom growth of labour unions and federations having affiliation with different political parties. Public sector enterprises dominate the manufacturing sector. Managers of public sector enterprises do not have the autonomy with respect to wage determination. Though not legally recognized, wages in public sector enterprises were, in practice, settled through centralized bargaining between government and leaders of the workers.

The politicization of trade unions, their multiplicity at the enterprise level and presence of outsiders among labour leadership led to frequent and intensive labour disputes and failure to honour terms and conditions of agreements. Such disputes constitute a major cause of low productivity of labour in the industrial sector. The agencies in charge of maintaining good industrial relation and resolving industrial disputes do not have adequate facilities, information as well as competence to tackle the problems.

Privatization of public sector enterprises, it was expected, would lead to reduction of the degree of politicization of labour unions, help to ensure industrial peace and bring wage in line with productivity of labour. The basis of this expectation had been the view that wages in public sector would rise at a proportionately higher rate than labour productivity or even when labour productivity declines or stagnates. It was also held that change in public sector wages might lead to change in wages in private sector independent of the prevailing productivity situation. Furthermore such a programme would subsequently pave the way for decentralized bargaining which has the potential for linking wage in an industry or a firm with industry-specific or firm-specific labour productivity. Surplus labour in different public enterprises was estimated and labour retrenchment programme was executed for jute and cotton textiles, railway and Bangladesh Agricultural Development Corporation. Retrenchment of redundant labour in public sector was expected to help facilitate privatization. But Bangladesh experience in these areas seem to have been frustrating in many cases.

The expected positive impact of trade unions on employment seems to have been somewhat dampened during the adjustment period. In addition, as is widely held, public sector enterprises are found to have poor link between wage and labour productivity. Public sector wages are found to have risen even when the public sector enterprises have been persistently incurring losses. The

hypothesis that public sector wages lead to changes in private sector wages is validated only in a few cases.

As privatization and retrenchment programmes were launched, there followed an interaction between programmes themselves and labour market institutions especially trade unions. A national alliance of trade union federations came into being. The labour fronts of political parties held the interest of the labour class above the interest of the political parties with which they were affiliated. Pace of privatization slowed and government had to change decisions regarding amount of compensation payable to labour and modes of privatization. Tripartite wage settlement procedure was virtually replaced by a bilateral procedure while employers were left out in the process.

In Bangladesh the issue of rehabilitation of displaced workers was not given proper weight at the beginning. Generous separation benefits awarded to retrenched workers in the recent past render rationalization of manpower in public sector enterprises, especially those with strong unions, a formidable task. Bangladesh lacks adequate and useful training facilities to train the huge number of displaced workers.

The introduction of decentralized bargaining to increase efficiency requires certain conditions to be fulfilled. Managers of public sector enterprises should have autonomy with respect to employment and wage settlement in the pursuance of profit maximization goal. The enterprise should face domestic and international competition on the product market. Even if these conditions, which are to some extent found to be lacking at present, are fulfilled there is concern about the ability of plant level workers' unions to effectively bargain with employers. The Sramik Karmachari Oikya Parishad (SKOP), a loose confederation of several national labour federation, may play a role in ensuring security and supplying information to

unions and coordinating bargaining activities. It may also play a role, along with employers and the government in formulating wage, labour and industrial policies.

Despite the fact that movement of wages in the manufacturing sector does not truly reflect productivity, such wages are too low for workers to maintain ability to work and acquire skills. Creation of an environment congenial to investment and transfer of new technologies may raise the productivity of labour and hence wage. But those, in their turn, also require good industrial relation and a pro-work culture. The development of an appropriate regulatory role of the government and institutional infrastructure may contribute significantly to creation of such an environment even under existing conditions.

Chapter 1

Introduction

The Bangladesh economy passed through turbulent times in the 1970s. The war of liberation drove the economy to near ruination. When the reconstruction of the faltering economy and subsequent consolidation for development proceeded, the economy underwent a battery of convulsions caused by loss of export market, natural calamities like floods and droughts, dramatic political changes, unprecedented oil price and terms of trade shocks and aggregate demand shocks. The series of events, any one of which is sufficient for causing tremendous macroeconomic strains on a weak economy like in Bangladesh, resulted in slow growth, rapid inflation, large budget deficits and unsustainable balance of payments accounts. Bangladesh at times undertook stabilization and other measures, which smack of structural adjustment in the 1970s. Aggregate and sectoral limits on credit is an example of stabilization efforts and devaluation, liberalization of imports, reduction in subsidy on foodgrains and agricultural inputs, rationalization of tax structure, are some of the examples of adjustment efforts during this period. These measures did not yield significant results and the economy continued to be plagued with slow growth, high inflation and expanding balance of payments deficits.

Bangladesh turned to the International Monetary Fund (IMF) for balance of payments support under its various financing facilities. These loans contracted on several occasions were conditioned on meeting specific targets regarding credit expansion, fiscal deficits, and exchange rates. In the 1980s, World Bank lending was made increasingly conditional on countries undertaking structural adjustment programmes. The thrust of the programme is on removing distortions in the economy through policy and institutional reforms or “getting prices right” to ensure more efficient use of economic resources. The major areas of attention are trade liberalization,

increased domestic resource mobilization, reduced size of the public sector, increased efficiency of the financial sector, enhanced efficiency in the agricultural sector, increased competitiveness in the industrial sector and increasingly important role of the private sector in the economy including foreign private investment (Ahmad, 1993). The broad result of the wide ranging policy changes is a reallocation of resources to the more efficient tradables sector, which increases the rate of growth of the economy and achieve sustainable balance of payments equilibrium.

The success of the structural adjustment (SA) programme in achieving its objective depends on a 'well functioning' labour market. The reallocation of resources to the tradables sector requires concomitant shift of labour from the non-tradable to the tradable sector. Since factor proportions and skill requirements vary among sectors, labour released from the contracting sector may not find ready employment in the expanding sector resulting in short-term unemployment. The labour market outcome, however, depends, among others, on wage flexibility in downward direction and the degree of capital-labour substitutability. Under certain conditions, employment and output need not fall.

The role of labour market in adjustment depends on how the labour market, especially labour market institutions, respond to the adjustment programme. Faced with the possibility of wage declines and unemployment, the labour union may resist the SA programme, the smooth functioning of the labour market may be interrupted and the SA programme may fail to proceed to achieve its complete fruition.

The impact of stabilization and adjustment policies on different groups of people are mediated through the labour market (Horton, et al. 1994). The resultant wage declines and/or unemployment affect the distribution of income as between capital and labour. The impact of these policies on labour can vary across sectors depending

on the nature and extent of reallocation of labour affecting distribution of income and poverty. The interaction between the labour and SA can thus provide important policy options to address poverty and minimize the adverse effects of structural adjustment on the poor.

Structural adjustment policies though mainly addressed to short run problems will also have long run consequences. The impact on long run trend growth comes from the effects of changes in relative wages on investment in human capital and other investments. In the context of liberalization and globalization of the Bangladesh economy, it becomes difficult for traditional unskilled workers to find jobs in the market. For the structural adjustment policies which contain elements of social aspects of development - the so-called 'adjustment with a human face', the human resource development and competitiveness of labour become important considerations. It is thus important to assess if the adjustment policies lead to a more technologically improved labour force or are limited to overcoming short run problems.

It is now recognized that stabilization and structural adjustment policies in Bangladesh cannot succeed unless accompanied by policies addressed to the labour market (Ahmed and Mondal, 1993). Three aspects of the labour market are likely to have a bearing on industrial growth and external competitiveness. First, the rapid increase in labour force and decline in modern sector employment in the 1980s. Secondly, the process of wage determination (especially in the public sector) which led to increases in real wage in the face of declining or unmatched labour productivity. Thirdly, hostile relationship between the management, the labour unions and the government resulting in strikes or threat of strikes. Especially, militancy of labour unions and politicization of labour force tend to thwart the changes in the labour market necessary for the success of structural adjustment programmes.

1.1 Objectives of the Study

The broad objective of the present study is to review the structural adjustment policies undertaken in Bangladesh since mid-eighties and the response of the labour market to these policies as well as the impact of the policies on the labour market. The specific objectives of the study are the following :

- a. to identify the nature of the shock, the policy responses and the macroeconomic outcomes of the adjustment process having a bearing on the labour market;
- b. to analyze the relevant characteristics of the labour market including labour force composition, wage differentials, and wage setting mechanisms in Bangladesh;
- c. to assess the labour market's role in the adjustment process with attention to institutional feature;
- d. to evaluate the impact of adjustment, as mediated by the labour market, on poverty and on women; and
- e. to analyze the impact of adjustment policies on capital formation including human capital formation.

1.2 Data and Methodology

The study is based on secondary data collected from some relevant publications of the Bangladesh Bureau of Statistics. Data from these sources were complemented by data from the World Bank publications and other studies on Bangladesh labour market. The macroeconomic developments in the economy, characteristics of the labour market, adjustment of labour market and implications of adjustment for income distribution, poverty, women and long run growth are discussed on the basis of data from the secondary sources. To fill voids in the data from the secondary sources primary data are collected. For example, labour supply and earnings function are estimated utilizing data from rural labour market. For this

purpose two villages in Manikganj district and two villages in Kushtia district were purposively selected. A total of 200 respondents were interviewed through a structured questionnaire.

Primary data are also collected from Dhaka Metropolitan Area to identify the conditions of the urban informal market. Since our objective is also to analyze the temporal changes in the urban informal labour market accompanying the structural adjustment programmes we followed a methodology employed by Amin (1982)¹. Amin's study on the urban informal labour market, though dated, is the only available comprehensive study on Bangladesh urban informal labour market. To maintain comparability with his data a similar methodology was used to collect data on urban informal labour market. A total of 543 respondents were interviewed from seven areas of Dhaka city through a structured questionnaire.

1.3 Outline of the Study

The study is organized into eight chapters. The organization of the chapters is as follows : while Chapter 1 serves as the introduction, Chapter 2 discusses major components of the structural adjustment programme which have been undertaken in Bangladesh since 1987. The chapter also discusses the macroeconomic performance of the economy in the pre-adjustment and the adjustment period and thus highlights the improvement or the deterioration in the macroeconomy in the adjustment period. The structure of the labour market giving some historical background is discussed in Chapter 3. Certain key issues relating to the labour market e.g. labour force participation rates, unemployment, underemployment, trends in labour supply and absorption rates in different sectors are also discussed in this chapter. The impact of structural adjustment policies on the labour market is analyzed in Chapter 4 by focussing on the performance of

¹ For details of the methodology see Amin (1982)

the labour market in the pre-adjustment and the adjustment period. The nature and extent of the response of the labour market to the structural adjustment policies determine the outcomes of these policies for economic development. The impact of labour market adjustment on income distribution and poverty, women and investment including investment in human capital are analyzed in Chapter 5.

Appropriate function of the labour unions are important determinants of the success of adjustment policies. Chapter 6 documents how the labour unions have reacted and adjusted to the policies and how the adjustment policies have performed in the presence of the unions. A brief discussion on the characteristics of the labour market institutions having a bearing on the adjustment policies is also included in this chapter. Chapter 7 discusses a number of related issues centering on wage productivity relation and issues of retrenchment and bargaining. The question of decentralized bargaining as a means to bring wage changes in line with productivity growth is also highlighted in this chapter. The major findings and conclusions of the study along with their policy implications are presented in Chapter 8.

Macroeconomic Developments and Structural Adjustment Policies

2.1 Introduction

After gaining independence in December 1971 Bangladesh's economic policies were predicated on a socialist economic ideology which was accepted as one of the four state principles. Large scale government intervention in all major spheres of economic activity including ownership of the means of production in manufacturing, banking, trade and transport and communication and control over distribution of subsidized outputs especially food and essential consumer items as well as inputs featured prominently in the economy. Successive governments which assumed power after 1975 abandoned the socialistic principles and the economy gradually moved to a market oriented economy. However, even before 1975 Bangladesh adopted a stabilization programme under the second stand by arrangement with the IMF which contained elements of structural adjustment of the economy. From 1980 onwards structural adjustment policies were adopted in several phases. However, the policies adopted from 1987 onwards mark a clear distinction over the past programmes. These policies aimed at increasing the growth rate of the economy through improved allocation of resources and better resource balance.

Bangladesh economy experienced a series of real shocks of both domestic and international origin and monetary shocks in the 1970s. These shocks coupled with the general policies pursued by the government affected the macroeconomic performance of the economy. The macroeconomic scenario in the 1970s is characterized by slow growth, high and variable rate of inflation, growing budget deficit and widening balance of payments deficit. The structural adjustment policies were expected to improve the macroeconomic performance of the economy. This chapter presents a brief catalogue

of the structural adjustment policies undertaken from the mid-1980s. Then the macroeconomic performance of the economy in the pre-adjustment and the adjustment period are analyzed to identify the response of the economy to the adjustment policies.

2.2 Economic Reforms under the Structural Adjustment Programmes

Bangladesh entered into an agreement with the IMF in December 1980 for balance of payments support for SDR 800 million over a period of three years under the Extended Fund Facility (EFF). The EFF was suspended in July 1981 after only SDR 20 million were disbursed as Bangladesh failed to strictly adhere to certain conditionalities stipulated in the agreement. Bangladesh again signed an agreement with the Fund for concessional lending under its Structural Adjustment Facility (SAF) for a three year period spanning from 1987 to 1989. After an interlude for a year the country again contracted a three year loan programme with the IMF beginning in 1991. Both the adjustment programmes stipulated sector and institution specific reforms to be carried out by the Government of Bangladesh (GOB) during the programme period. Further to these adjustment programmes, the Import Programme Credits of the International Development Agency (IDA) were also related to various types of policy reforms, which, in fact, meant sectoral adjustment policies of various kinds (Syeduzzaman, 1991). The Policy Framework Paper (PFP) required by the SAF contained predetermined targets for macroeconomic parameters and policy reforms. The PFP was jointly developed by the World Bank and the IMF along with GOB and provided a device for Bank-Fund coordination on economic management.

It may be pointed out that Bangladesh adopted two industrial policies in the 1980s - one in 1982 and another in 1986. These policies were in agreement with the basic features of the structural adjustment programmes initiated and followed during the period. The new industrial policy of 1982 (NIP, 1982) envisaged denationalization of state owned enterprises (SOEs) and restricted

future public sector involvement in the industrial sector. Only six industries were kept as the exclusive domain of the public sector and the rest were opened for private sector investment. One of the conditions for transfer of public enterprises to private hand was that the denationalized companies will take over all personnel in employment in the enterprise on the date of transfer along with liability of service benefits, and also some agreed upon number of Head Office staff declared surplus as a consequence of the denationalization. This policy attached importance to capital restructuring and physical rehabilitation of public enterprises to be retained and gave public enterprises limited autonomy in setting prices and offering management contracts to run big units.

Industrial policy of 1986 (IP, 1986) put forth more prominently than before the possibility of joint public private ventures in industrial fields for which the private sector could not procure adequate funds. IP, 1986 restated and elaborated the programme drawn earlier of converting the public corporations into public limited holding companies and consequent offering of shares to the private sector of upto 49 per cent of enterprises under the sector corporations.

The economic policy reforms carried out under the successive adjustment programmes embraced significant changes in all major spheres of the economy. The economic reforms aimed at remedying the macroeconomic imbalances, improving the supply response of the economy and achieving allocative as well as X-efficiency in the economy. Here we shall touch upon the broad changes which are relevant to our study and indicate their implications for labour market performance.

2.2.1 Food and Agriculture

The adjustment policies in the food sector included withdrawal of food subsidies in the urban rationing system and limit it eventually to the vulnerable population groups through a number of targeted programmes like Test Relief, Food for Work and Vulnerable Group Development. Subsidies on agricultural inputs, like fertilizer were

gradually withdrawn and the procurement, import and distribution of fertilizer and irrigation equipment were left to the private sector replacing the monopoly of the Bangladesh Agricultural Development Corporation (BADC). The administration of public procurement of food grains was to be improved to provide incentive prices to farmers. Import of food grains, once a monopoly of government, was allowed on private account. The minimum price policy regarding jute was also suspended. In short the overall thrust of policy reforms in the agricultural sector has been to reduce government intervention and increase private sector involvement in the marketing of outputs and inputs and to reduce the drainage on budgetary resources through elimination of subsidies (Abdullah, 1994).

2.2.2 Trade and Industry

There has been a significant shift in the trade regime with shift of emphasis from import substituting industrialization to one of export-led growth. Tariff rates have been drastically slashed and the number of operative tariff rates have been reduced. Significant progress has been made in removing quantitative restrictions to the point where a small sensitive list of items remains.

Consequently, there has been substantial decline in the effective rates of protection enjoyed by the import substituting industries, though a few industries like edible oil, milled cloth, wood and wood products still enjoy effective protection rates exceeding 100 per cent. To assist the exporters to access world priced inputs export incentive measures have been introduced and the scope and effectiveness of these measures have been improved. Voluntary Pre-shipment Inspection system has been introduced whereby foreign pre-shipment inspection (PSI) firms can certify valuation of imports for tariff purposes. Distortionary multirate sales tax on imports (and domestic production) has been replaced by uniform value added tax (VAT). Import procedures have been simplified though there is still room for further simplification of the import procedure. Dual exchange rate system has been replaced by a unified exchange rate system and the

Taka has been made convertible on current account. The exchange rate has been devalued more frequently in recent years to keep the real effective exchange rate competitive.

One key element of the industrial sector reform is the diminished role of public sector in manufacturing through denationalization and divestiture of state owned enterprises (SOEs) and restricting further public investment in a few reserved areas like defense, security printing, railway, etc. A significant share of excess manpower has been reduced through voluntary separation schemes and lay-offs in some of the state owned enterprises (SOEs). Improvement in efficiency of SOEs was sought through greater management autonomy in operations, more flexible pricing policies and technical and financial restructuring.

To encourage private sector participation in industry, investment sanctioning procedures have been relaxed and regulatory constraints have been reduced. The Government has also eased investment sanctioning procedures for foreign direct investment and offers an attractive package of incentives for foreign direct investment. It also offers opportunities for foreign private investment in all areas barring the few reserve sectors for public investment. Thus the thrust of the trade and industrial reforms is on export-led industrialization with dynamic import substitution involving a dominant role of the private sector and a strong role of foreign direct investment.

2.2.3 Fiscal Sector

Fiscal sector reforms were aimed at improved performance of both the revenue and the expenditure side of the budget. On the revenue side, the reform programme sought to improve the revenue/GDP ratio in general and the tax/GDP ratio in particular. It also sought to improve the equity and efficiency of the tax system. The introduction of value added tax (VAT) in 1992 which together with supplementary excise duties replaced the earlier differentiated sales tax on imports and excise taxes on domestic goods marked a significant improvement in the tax system. The highest income and corporation tax rates have been brought down and the tax administration is being strengthened.

On the expenditure side, government attempted to contain the growth of current or consumption expenditures and thus change the composition of expenditure in favour of development expenditure. Within current expenditures category, subsidies and increase on account of salaries and wages were discouraged while expenditure on social sectors received priority again shifting the composition of public expenditure. Besides, attempts at enhancing the implementation of projects and budget making capacity of the Ministry of Finance have been underway. Further, growth of the budget deficit was contained to reduce inflation and current account deficit.

2.2.4 Financial Sector

In the early 1980s the financial sector reform programme aimed at raising the interest rates on deposits to provide a positive real return to depositors and reducing the role of the public sector in the financial sector. Private banks were allowed to enter the market and two Nationalized Commercial Banks (NCBs) were denationalized and another one was partially privatized. The problem of debt default had been regarded as a key issue in the financial sector but nothing substantial has been done in the way of recovery of debts. In 1990 the government initiated a five year financial sector reform project (FSRP) with a broad agenda. This included, among others, a liberal interest rate policy, improvement of the loan classification system, introduction of capital adequacy requirements, improvement of the supervision systems for the banks, development of the money market instruments, improvement of the operation of the capital markets and adoption of needed regulatory steps, reform of the NCBs through recapitalization and improved operating systems, improvement of loan recovery through introduction of better legislation for bankers and courts to collect delinquent loans and improvement in manpower through upgraded training (Hassan, 1997). It also included provision for setting up private banks to ensure competition in the banking industry. The overall thrust of the project had been to enhance greater competition in the banking

industry, to improve management, operation and supervision of the banking system and to improve the financial health of the industry. While these programmes were being implemented the key issue raised by the National Commission on Money, Banking and Credit in 1986 relating to delinquent loans had proved to be more intractable. One immediate impact of debt default had been that “current borrowers pay high interest rates charged by the banks to accommodate the cost of provisioning for bad loans made years ago” (Hassan, 1997). The banking sector has thus performed become a relatively costly supplier of credit.

2.3 Macroeconomic Performance of the Economy, 1973-96

2.3.1 Economic Growth : GDP and Sectoral Growth Rates

The gross domestic product (GDP) of the economy grew at a compound rate of 3.5 per cent per annum during the period from 1973 to 1995 (Table 2.1). The growth rate of the economy can be termed as slow. The structural adjustment programme imparted a negative shock to income growth in 1987. The trend growth rate seems to have increased in the adjustment period.

As can be seen from Table 2.2 the economy experienced an average annual growth rate of 3.8 per cent during the period from 1974 to 1986; it increased slightly to 4.1 per cent during the period from 1987 to 1995. The growth performance of the economy in the structural adjustment period thus, judged by the average annual growth rate, marks some improvement over the past performance. However, the improvement is not significant as mentioned before. There are also wide variations in the annual growth rates of GDP. The fluctuation in growth rate is more pronounced in the seventies when the economy was recuperating from the ravages of the liberation war and consolidating for future growth. In the structural adjustment period the fluctuation in the growth rate of output seems to have moderated and output grew at more than 4 per cent rate in the last four years till 1995.

Table 2.1: Growth of GDP and Its Components, 1973-95

| <i>Dependent variable</i> | <i>Constant</i> | <i>b₁</i> | <i>b₂</i> | <i>b₃</i> | <i>R²</i> |
|---|---------------------|----------------------|----------------------|----------------------|----------------------|
| GDP | 12.46* (1253.93) | 0.0349* (29.86) | -0.091 (2.04) | 0.006** (2.481) | 0.99 |
| Agriculture | 11.77* (847.08) | 0.0208* (12.735) | -0.0235 (0.377) | 0.0004 (0.118) | 0.96 |
| Crops | 11.50* (621.82) | 0.024* (11.059) | 0.1099 (1.320) | -0.009 (1.861) | 0.94 |
| Forestry | 8.83* (222.416) | 0.0380* (8.141) | 0.059 (0.332) | -0.008 (0.772) | 0.90 |
| Livestock | 9.22* (451.5) | 0.01517* (6.33) | -0.447* (4.87) | 0.027* (5.266) | 0.94 |
| Fisheries | 9.54* (197.46) | -0.016* (2.827) | -0.899* (4.136) | 0.065* (5.280) | 0.67 |
| Mining and Quarrying | 1.89* (4.29) | -0.021 (0.408) | -9.23* (4.653) | 0.587* (5.17) | 0.70 |
| Industries | 10.23* (273.2) | 0.031* (7.024) | -0.446* (2.647) | 0.026* (2.73) | 0.93 |
| Large Scale | 9.32* (105.67) | 0.056* (5.382) | -0.411 (1.035) | 0.0199 (0.877) | 0.84 |
| Small Scale | 9.70* (2561.47) | 0.011* (24.428) | -0.288* (16.92) | 0.018* (18.76) | 0.99 |
| Construction | 8.949* (105.012) | 0.078* (7.812) | 0.428 (1.117) | -0.0272 (1.241) | 0.91 |
| Power, Gas, Water, Sanitary | 5.73* (61.12) | 0.153* (13.867) | -0.022 (0.053) | 0.008 (0.313) | 0.97 |
| Transport, Storage and Communication | 10.19* (1111.53) | 0.040* (37.27) | 0.022 (0.54) | 0.002 (1.01) | 0.99 |
| Trade Services | 9.93* (332.34) | 0.05* (14.31) | 0.013 (0.094) | -0.007 (0.888) | 0.96 |
| Housing Services | 9.99* (7642.14) | 0.030* (196.60) | -0.061* (10.43) | 0.004* (12.12) | 0.99 |
| Public Administration and Defence | 8.64* (135.84) | 0.0621 (8.321) | 0.006 (0.022) | 0.011 (0.658) | 0.95 |

Continued

Table 2.1: Continued

| <i>Dependent variable</i> | <i>Constant</i> | <i>b₁</i> | <i>b₂</i> | <i>b₃</i> | <i>R²</i> |
|--|--------------------|----------------------|----------------------|----------------------|----------------------|
| Banking and Insurance | 7.56* (104.15) | 0.1049* (19.39) | 1.197* (5.77) | -0.082* (6.901) | 0.97 |
| Professional and Miscellaneous Services | 9.92* (25.34) | 0.075 (1.634) | -0.289 (0.164) | -0.009 (0.087) | 0.88 |
| Tradable | 11.92* (852.44) | 0.0218* (13.257) | -0.135** (2.154) | 0.007*** (2.08) | 0.97 |
| Non-Tradable | 11.59* (887.46) | 0.0496* (32.31) | 0.004 (0.075) | 0.001 (0.354) | 0.99 |

Notes :

1. Growth rates are estimated using an equation of the following form which allows for a change in parameters in the adjustment period : log $Y = a + b_1T + b_2D + b_3(TxD)$ where Y = dependent variable, T = time = 1 for 1973 ... 23 for 1995 D = dummy variable which equals 0 for the period up to 1986 and 1 afterwards.
2. t. statistics in the parentheses.
3. * significant at 1 per cent level.
4. ** significant at 5 per cent level.
5. *** significant at 10 per cent level.

Sources: Own calculation based on data from BBS, Twenty Years of National Accounting of Bangladesh, 1972-73 to 1991-92, July 1993; BBS, Statistical Pocketbook, 1995; Bangladesh Bank Economic Trends, June, 1996.

Table 2.1 shows that agricultural output grew at a compound rate of 2.1 per cent per annum during the period from 1974 to 1995. The growth of the agricultural sector has been sluggish. There does not seem to be any structural break in growth of the agricultural sector in the adjustment period. The average annual growth rate of agricultural output has been 1.5 per cent since 1987 compared to 2.3 per cent in the period from 1974 to 1986. Though the two rates are not significantly different implying two different observations along the same long-run trend the slackening of the rate of growth of the agricultural sector in the latter period has been a cause for concern.

There is a sharp fluctuation in the annual growth rate of agricultural output. In some years this sector experienced even negative growth rates. It can be seen from Table 2.2 that negative growth rate occurred in 1975, 1977 and 1979 in the pre-structural adjustment period and in 1988, 1989 and 1995 in the adjustment period. Besides many years witnessed less than 1 per cent growth rate or near stagnation in the agricultural sector. The years in which the sector shows high growth performance are usually preceded by years of negative or near zero growth rates. This implies that the high growth rates largely reflected restoration to normal output and improved performance only in part. The pronounced fluctuation of growth rates was usually generated by natural hazards like, drought, flood, cyclone etc. which is characteristic of agriculture that heavily depends on uncertain weather.

The crop sub-sector experienced a compound annual growth rate of 2.4 per cent during the period under consideration. The growth performance of the crop sub-sector has not been particularly encouraging in view of the government intervention in the agricultural sector through its price support and input subsidy policies which largely benefited the crop sub-sector. This is especially so when judged against the fact that during the same period population increased at a compound annual growth rate of 2.03 per cent. The crop sub-sector seems to have experienced unchanged growth rate in the adjustment period.

The average annual growth rate of the crop sub-sector during the period from 1974 to 1986 has been 2.8 per cent; it fell to 0.8 per cent in the structural adjustment period. The negative or less than 1 per cent growth rate which occurred in several years in the earlier period occurred more frequently in the latter period. To be more specific negative growth rates occurred in three consecutive years from 1987 to 1989 and in two consecutive years from 1994 to 1995. This sustained decline in crop output for a number of years in a row is a matter of serious concern to the policy makers and researchers as mentioned earlier. Several factors have been identified as possible

Table 2.2 : Annual Growth Rate of GDP and Its Components, 1973 - 1995

| Activity Sector | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|--------|--------|-------|--------|-------|-------|--------|--------|--------|-------|-------|
| GDP | 9.59 | -4.08 | 5.66 | 2.67 | 7.07 | 4.08 | 0.81 | 3.39 | 1.23 | 4.89 | 5.42 |
| 1. Agriculture | 6.43 | -4.56 | 8.38 | -3.68 | 7.83 | -0.66 | 0.15 | 4.18 | 0.15 | 4.23 | 3.60 |
| a. Crop | 9.08 | -5.54 | 10.61 | -4.51 | 7.97 | 1.09 | 0.12 | 4.91 | -1.01 | 4.16 | 4.80 |
| b. Forestry | -8.99 | -7.48 | 3.15 | -5.00 | 3.90 | 13.79 | -3.34 | 1.46 | 6.24 | 6.10 | 7.20 |
| c. Livestock | 1.67 | 1.60 | 1.66 | 1.65 | 4.47 | 2.24 | 2.30 | 2.33 | 2.58 | 2.47 | -9.86 |
| d. Fisheries | 0.32 | 0.39 | -0.32 | 0.00 | 1.29 | 26.45 | 1.42 | 0.43 | 5.68 | 5.26 | 1.82 |
| 2. Mining and Quarrying | 0.00 | -26.00 | 33.33 | 225.00 | 7.69 | 21.42 | -23.52 | -69.23 | 100.00 | -62.5 | 33.33 |
| 3. Industry | 42.58 | -10.91 | -0.69 | 11.69 | 1.17 | 11.19 | 1.45 | -3.65 | 0.26 | 1.89 | 7.49 |
| a. Large Scale | 137.35 | -22.35 | -2.95 | 25.69 | 1.21 | 21.97 | 1.73 | -6.70 | -0.47 | 2.60 | 13.29 |
| b. Small Scale | 1.23 | 0.87 | 1.10 | 0.96 | 1.14 | 0.95 | 1.13 | 1.15 | 1.04 | 1.14 | 1.34 |
| 4. Construction | -20.87 | -17.99 | 6.48 | 39.91 | 12.85 | 51.82 | -20.47 | 19.81 | 3.58 | -3.42 | 20.11 |
| 5. Power, Gas and Sanitary services | -20.00 | -23.92 | 34.27 | 11.81 | 60.75 | 1.29 | 16.22 | 11.06 | 18.49 | 53.10 | 7.12 |
| 6. Transport, Storage and Communication | 4.78 | 2.53 | 4.83 | 7.99 | 3.99 | 4.15 | 0.58 | 2.19 | 3.77 | 7.21 | 4.23 |
| 7. Trade Services | 27.51 | -3.04 | 1.02 | 2.15 | 23.57 | 5.42 | 8.11 | -2.79 | 0.42 | 7.41 | 9.09 |
| 8. Housing Services | 2.91 | 3.03 | 3.01 | 2.91 | 3.06 | 3.01 | 3.11 | 3.07 | 3.18 | 3.06 | 3.03 |
| 9. Public Administration and Defence | 20.25 | -23.50 | 34.16 | 36.56 | -8.45 | 7.11 | -4.97 | 7.44 | -10.66 | 22.47 | -6.91 |
| 10. Banking and Insurance | 3.21 | 5.98 | -2.70 | 11.80 | 11.12 | 30.05 | -23.37 | 13.53 | 0.13 | 0.51 | 14.52 |
| 11. Professional and Miscellaneous | 4.32 | 4.57 | 4.74 | 4.98 | 5.17 | 4.49 | 5.64 | 5.88 | 6.38 | 6.52 | 6.77 |

Continued

Table 2.2: Continued

| Activity Sector | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|-------|--------|--------|--------|-------|---------|-------|-------|-------|-------|-------|
| GDP | 3.01 | 4.33 | 4.18 | 2.89 | 2.51 | 6.62 | 3.39 | 4.22 | 4.48 | 4.21 | 4.44 |
| 1. Agriculture | 0.68 | 3.28 | 0.39 | -0.76 | -1.06 | 10.00 | 1.61 | 2.19 | 1.80 | 0.34 | -1.03 |
| a. Crop | 0.82 | 3.38 | -0.002 | -1.77 | -1.90 | 12.13 | 1.15 | 1.65 | 9.83 | -1.62 | -3.19 |
| b. Forestry | -5.35 | 4.24 | -2.14 | 7.79 | -2.25 | 2.25 | 2.05 | 2.36 | 2.95 | 3.99 | 4.51 |
| c. Livestock | 3.25 | 2.93 | 5.52 | 0.94 | 3.29 | 3.42 | 2.15 | 3.63 | 6.20 | 8.49 | 8.30 |
| d. Fisheries | 2.48 | 1.63 | 2.24 | 1.08 | 0.38 | 2.05 | 5.81 | 6.47 | 6.62 | 8.65 | 9.67 |
| 2. Mining and Quarrying | 0.00 | -25.00 | 33.33 | -50.00 | 50.00 | 2100.00 | 21.21 | 17.50 | 13.82 | 13.08 | 13.22 |
| 3. Industry | -1.60 | 2.60 | 7.88 | 0.62 | 2.78 | 7.24 | 2.36 | 7.32 | 9.08 | 7.84 | 8.63 |
| a. Large Scale | -3.48 | 3.78 | 13.57 | 0.70 | 2.69 | 10.59 | 2.00 | 10.49 | 13.24 | 10.20 | 11.20 |
| b. Small Scale | 1.06 | 1.26 | 1.30 | 0.53 | 2.89 | 2.89 | 2.88 | 2.93 | 2.89 | 3.99 | 4.20 |
| 4. Construction | 12.18 | 1.73 | 6.81 | 12.27 | 4.88 | 3.23 | 4.49 | 4.45 | 4.80 | 6.00 | 6.98 |
| 5. Power, Gas and Sanitary Services | 8.45 | 12.52 | 21.76 | 16.35 | 28.82 | 15.23 | 20.55 | 17.48 | 13.42 | 14.00 | 11.34 |
| 6. Transport, Storage and Communication | 4.93 | 3.19 | 11.09 | 3.72 | 4.26 | 4.26 | 3.07 | 4.12 | 4.84 | 5.53 | 5.86 |
| 7. Trade Services | 1.35 | 1.47 | 2.55 | 3.17 | 4.77 | 2.98 | 3.87 | 3.96 | 4.26 | 5.23 | 10.10 |
| 8. Housing Services | 3.28 | 3.25 | 3.28 | 3.21 | 3.27 | 3.31 | 3.38 | 3.40 | 3.76 | 3.79 | 3.80 |
| 9. Public Administration and Defence | 32.56 | 20.46 | 7.82 | 7.92 | 6.93 | 2.64 | 9.67 | 8.28 | 8.50 | 8.55 | 8.69 |
| 10. Banking and Insurance | 3.54 | 26.28 | 5.51 | 1.43 | 1.12 | 1.12 | 2.43 | 2.53 | 2.99 | 3.50 | 4.02 |
| 11. Professional and Miscellaneous | 4.74 | 8.32 | 6.91 | 11.12 | 6.24 | 6.25 | 6.19 | 6.40 | 6.80 | 7.30 | 7.30 |

Sources : Own calculation based on data from BBS, Twenty Years of National Accounting of Bangladesh, 1972-73 to 1991-92, July 1993 ; BBS, Statistical Pocketbook, 1995 ; Bangladesh Bank, Economic Trends, June 1996.

causes for recent stagnation in the crop sector. Abdullah et al. (1995) argue that exhaustion of easy sources of irrigation, agronomic constraints and decline in the profitability of different rice crops caused by increase in fertilizer prices combined with fall in paddy prices, have contributed to the stagnation in the rice sector. To these physical and economic factors must be added the floods and droughts which caused severe damage to crops. Of the non-rice crops, the trend growth rate of jute has been negative caused by substitution of rice production for jute production which in its turn is caused by decline in relative profitability of jute production.

In the non-crop agricultural sector forestry and livestock have experienced positive trend growth rates while fisheries exhibit significant negative trend. It is interesting to note that the livestock and the fisheries sub-sectors exhibit significant upward trend marked by a downward shift in the trend growth in the period since 1987 as is evident from experienced any significant improvement in growth rate. Increased allocation of resources and development of infrastructure have led to the improved performance of the former two sub-sectors (Alam, 1997). The forestry sub-sector though benefited from increased investment by government, NGO and private sources, has not yet shown improved growth performance perhaps because of the gestation lag in harvesting.

Mining and quarrying does not show any significant trend in growth for the whole period but exhibits significant upward trend in the adjustment period. This sector shows high degree of fluctuation in output. However, the astronomical high growth rate that occurred in 1990 is primarily due to a change in the definition of the sector which now includes sands, stone and boulder.

As Table 2.1 shows industrial output grew at a compound rate of 3.1 per cent per annum during the period from 1973 to 1995. The growth of the industrial sector has been disappointingly slow. The rate shows some sign of improvement in the structural adjustment period marked by a downward shift in the trend growth. The

structural adjustment programme seems to have exerted a negative shock to industrial growth but the sector afterwards managed to improve its growth performance.

The average annual growth rate of industrial output has been 5.8 per cent per annum in the period since 1987 as can be seen in Table 2.2. This is little higher than the rate of growth of 4.9 per cent which was registered during the period from 1974 to 1986. Industrial growth rate has fluctuated markedly, some years experiencing negative growth rates. There was not much difference in the growth rates that occurred in the initial years of the adjustment period compared to the rates in the pre-adjustment period. However, more stable and higher growth rates in the range of 7-9 per cent per annum was registered during the 1990s. The export led industrialization policy with active role of the private sector seems to have yielded some positive results in recent years.

Output of large scale manufacturing sector, which was dominated by state owned enterprises, grew at a compound rate of 5.6 per cent per annum. There was no significant difference in the trend growth rate in the adjustment period. There has been very sharp fluctuation in the growth rate in the period from 1974 to 1986, high growth rate in one year followed by very low or negative growth rate in subsequent years. The negative shocks to industrial output were caused by many factors whose severity varied between years, e.g., management problems, power outages, labour unrest, political turmoil, etc.

Sharp fluctuation in growth rates in large scale manufacturing output continued in the initial years of the adjustment period. However, the sector persistently experienced growth rates exceeding 10 per cent in the nineties; the cyclical pattern also seems to have dampened in recent years. Large scale manufacturing growth performance thus seems to have improved in the adjustment period. The sustained high growth performance of large scale industries is largely attributable to the expansion of export oriented industries.

The compound annual growth rate in the small scale manufacturing sector has been very low - 1.1 per cent per annum. There has been significant improvement in the trend growth rate in the adjustment period. The sector grew at an average annual rate of only 1.1 per cent during the period from 1974 to 1986. The rate of growth, though still low, more than doubled in the adjustment period reaching 2.9 per cent per annum. The sharp fluctuation in growth rate which is so characteristic of the large scale manufacturing sector is not to be seen in the small scale manufacturing sector. This may, however, be partly a reflection of the accounting procedure followed to estimate gross domestic product of this sector which estimates the GDP at a certain year and then assumes its output to be growing at a particular rate.

Construction sector output grew at a compound rate of 7.8 per cent per annum during the period from 1974 to 1986. There does not seem to be any significant change in the trend growth rate in the structural adjustment period. The average annual growth rate of this sector was 8.1 per cent in the pre-adjustment period which declined to 7.0 per cent in the adjustment period. The average growth rate was thus higher in the pre-adjustment period despite sharp fluctuations and negative growth rates in four years. However since 1991 there has been a sustained increase in the growth rate of construction sector output.

In the pre-adjustment period the highest rate of growth occurred in the power, gas, water and sanitary services sector, the compound annual growth rate being 15.3 per cent. The trend growth rate in the adjustment period does not seem to have diverged from the rate that obtained in the earlier period. This sector experienced an average annual growth rate of 14.7 per cent in the earlier period. There has been substantial improvement in the growth performance of this sector in the adjustment period, the average annual growth rate being 19.1 per cent. However, if we exclude the higher negative growth rates of the immediate post-independence years the difference

between the growth rates in the two periods narrows. Despite impressive growth this sector has not been able to keep pace with the increasing demand for its output. This is especially true for the power and gas sub-sector output whose inadequate supply constrain the growth of sectors which depend critically on their adequate and timely flow.

Transport, storage and communication sector output grew at a compound rate of 4.0 per cent per annum in the pre-adjustment period. No significant change in the trend growth rate is observed in the adjustment period. The average annual growth rate was 4.2 per cent in the pre-adjustment period which increased to 5.2 per cent in the adjustment period. There has been sustained increase in the sectoral growth rate since 1992.

Trade services output grew at a compound rate of 5.0 per cent per annum in the pre-adjustment period. There does not seem to have been any significant change in the growth rate in the adjustment period. The average annual growth rate of the sector was about 6 per cent in the pre-adjustment period which declined to 4.5 per cent in the adjustment period. The fluctuation in growth rate has also decreased in the adjustment period. There has been sustained increase in growth rate of trade services output since 1991.

The compound growth rate in housing services was 3.0 per cent per annum in the pre-adjustment period. There was a sharp decline in the growth rate in the beginning of the adjustment period. The trend growth rate has, however, improved though marginally. The average annual growth rate in the pre-adjustment period was 3.1 per cent per annum which increased to 3.5 per cent per annum in the adjustment period. There is not much fluctuation in the growth rate of housing services: it has fluctuated around 3 per cent level during whole period. However, since 1989 there has been steady though small increase in the growth rate of housing services output.

Public administration and defence sector output grew at a compound rate of 6.2 per cent per annum during the period from 1974 to 1986. The trend growth does not exhibit any significant change in the

adjustment period. There was enormous fluctuation in the annual growth rates in the pre-adjustment period with negative growth rates occurring in 5 years. The average annual growth rate in this period came to be 9.7 per cent. A sharp decline in the annual growth rate occurred in the beginning of the adjustment period; the decline continued throughout the rest of the 1980s. This pattern of growth of the sector is quite understandable. After liberation public administration had to be expanded rapidly to keep pace with the growing administrative burden of the national government. Defence services were also expanded to meet the perceived defence need of the country. After the sector has reached a reasonable size growth rate slackened.

The second highest rate of growth in the pre-adjustment period occurred in banking and insurance sector which experienced a compound annual growth rate of 10.5 per cent. There has been significant decline in the trend growth rate in the adjustment period; the sectoral trend growth rate being only 2.3 per cent per annum. The financial sector reform programme which has been a major component of the structural adjustment programme as mentioned before, has not been able to accelerate the growth rate of this sector. A high degree of fluctuation in growth rate occurred in the pre-adjustment period and the average annual growth rate was also high 10.9 per cent per annum. There was sharp fall in annual growth rate in the beginning of the adjustment period and the decline persisted throughout the 1980s. This to some extent indicate the maladies in the banking system created by delinquent loans. Since 1991 the annual growth rate has been gradually increasing.

Professional and miscellaneous services sector does not exhibit any significant trend in output either positive or negative. The average annual growth rate was 5.6 per cent in the pre-adjustment period which increased to 7.2 per cent in the adjustment period.

It has been mentioned before that the structural adjustment programme that was put into operation in 1987 marks a sharp

departure in the policy regime. This reform agenda includes a policy package which aims at liberalization of the trade regime in Bangladesh. Such a policy shift is expected to impact on the allocation of resources to boost the tradable goods sector relative to the non-tradable goods sector. The compound annual growth rate of tradables sector output has been 2.2 per cent which shows some sign of change in the adjustment period marked by a negative shift. The average annual growth rate of the tradable sector was 2.77 per cent per annum in the pre-adjustment period while it declined to 2.45 per cent per annum in the adjustment period. On the other hand the non-tradable sector experienced a compound annual growth rate of 4.9 per cent which is more than double the rate of the tradable sector output. This trend rate however does not show any deviation in the adjustment period. However, the average annual growth rate of 4.95 per cent in the period from 1974 to 1986 improved during the adjustment period when the rate rose to 5.51 per cent per annum. Thus the tradable goods sector has experienced somewhat improved performance in the adjustment period in so far as trend growth is concerned. But measured in terms of average annual growth rate the non-tradable sector seems to have fared better.

2.3.2 Structural Change

Differences in sectoral growth rates over the period have led to noticeable change in the structure of the economy. Table 3 shows that in 1973 agriculture contributed 49.75 per cent, industry contributed 13.77 per cent (of which manufacturing contributed 9 per cent) and the rest of the sectors (services for brevity) contributed 36.48 per cent of GDP. Slow growth in agriculture, and relatively faster growth in industry and services resulted in a decline in the share of agriculture and a rise in the share of industry and services. Thus in 1986 the share of agriculture fell to 41.34 per cent while those of industry and services increased to 15.7 per cent and 42.96 per cent respectively.

These trends in sectoral shares have continued and in the terminal year of the study agriculture's contribution to GDP stood at 32.76 per cent and that of services to GDP stood at 47.69 per cent. One discomfoting feature of the structural transformation of the economy is the persistence of the low share of manufacturing which is regarded as the more dynamic part of industry. Its share in GDP has fluctuated around 10 per cent. Its share reached 11.34 per cent in 1995 which was, however, no better than that reached in 1974 (11.71 per cent).

Table 2.6 shows the share of tradable sector in GDP declined from 55.57 per cent in 1973 to 48.35 per cent in 1986 while that of non-tradable sector increased from 44.42 per cent to 51.64 per cent during the same period. A faster decline in the share of tradable sector took place in the adjustment period. In 1995 the share came to be 41.69 per cent of GDP. On the other hand, a faster increase occurred in the share of non-tradable sector which reached 58.30 per cent of GDP in 1995.

Thus it appears that the reform package could not reverse the trend in the relative shares of tradable and non-tradable sectors. Rather, the share of the tradable sector has undergone a faster decline in this period. This decline in the share of tradables sector has been mainly caused by reduction in the share of crop sub-sector in GDP. Policy induced supply and demand shocks caused by elimination of fertilizer subsidies and weak performance of output price support programme, supply shocks generated by unfavourable weather conditions, sustained negative demand shocks to the export crop, etc. account for the weak performance of the crop sub-sector.

2.3.3 Savings and Investment

One of the most striking features of Bangladesh's macroeconomic scenario is the depressingly low rate of savings generated in the economy. As can be seen from Table 2.6 domestic savings rate was

negative or less than one per cent in the early seventies. A big jump in the savings rate occurred in 1977 but this could not be sustained. In the early eighties savings rate plummeted to around half per cent which indicated severe macroeconomic strain on the economy and provided an immediate logic for the adoption of a structural adjustment programme. The average savings rate during the period from 1973 to 1986 was only 1.41 per cent.

In the adjustment period the domestic savings rate averaged 2.96 per cent during the period from 1987 to 1990 which, though still very low, marks some improvement over the previous period. Rahman (1992) attributes the poor saving performance of the economy to the goodwill and largess of the donors which made massive amount of aid available to Bangladesh as well as to the attitude of total dependence on foreign aid among the decision makers of the country which created a vested interest and rent seeking group in the society.

A definite upturn in the domestic savings rate seemed to have taken place in 1991 when it exceeded 4 per cent. The upward trend continued in the following years and it peaked to 8.34 per cent in 1995. The encouraging performance of the domestic savings rate, seems to have run out of steam in 1996 when it slid to 7.8 per cent. The improved saving performance of the economy in this period is a direct consequence of the increase in public savings (Mahmud, 1995). Revenue earnings increased as a result of fiscal reforms while current expenditure as proportion of GDP was maintained at about the same level. A part of the increased savings may, however, also originate in the private sector which might have restrained its earlier profligate consumption made possible by cheap bank credit. doled out to private investors for projects many of which were of questionable quality and never went into operation. National savings rate has always been much higher than the domestic savings rate and it averaged 7.15 per cent in the pre-adjustment period. The rate fluctuated between 9-11 per cent in the period from 1987 to 1991.

There was also a jump in the national savings rate in 1992 and the upward trend seems to have continued. Large net factor income from abroad, specifically the increasing flow of workers' remittances, contributed to the better performance of national savings rate though on the face of it, the performance still leaves much to be desired.

Foreign savings complemented national savings in financing gross domestic investment. The contribution of foreign savings to investment is not smooth over the period. The foreign savings ratio averaged 4.19 per cent in the pre-adjustment period. In the adjustment period it declined for three years but increased again in 1989 to 3.55 per cent and stayed at around that level in 1990. A sustained decline in the foreign savings ratio started in 1991 which has been kept to less than 1 per cent level until 1994 and a little above 1 per cent in 1996. The improved performance of the export sector complemented by increased flow of workers' remittances led to the gradual decline of the importance of foreign savings.

Table 2.3 : Sectoral Shares of GDP at Constant (1984-85) Prices, 1973-1995

| Activity Sector | (Per cent) | | | | | | | | | | | |
|---|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
| 1. Agriculture | 49.75 | 48.32 | 48.08 | 49.32 | 46.28 | 46.61 | 44.18 | 43.89 | 44.22 | 43.76 | 43.48 | 42.73 |
| a. Crop | 37.54 | 37.36 | 36.79 | 38.52 | 35.82 | 36.13 | 34.85 | 34.61 | 35.12 | 35.34 | 34.10 | 33.90 |
| b. Forestry | 3.18 | 2.64 | 2.54 | 2.48 | 2.29 | 2.66 | 2.88 | 2.76 | 2.71 | 2.86 | 2.87 | 2.92 |
| c. Livestock | 3.81 | 3.53 | 3.74 | 3.60 | 3.57 | 3.48 | 3.39 | 3.45 | 3.41 | 3.46 | 3.37 | 2.88 |
| d. Fisheries | 5.21 | 4.77 | 4.99 | 4.71 | 4.59 | 4.34 | 3.04 | 3.06 | 2.98 | 3.11 | 3.12 | 3.01 |
| 2. Mining and Quarrying | - | - | - | - | - | - | - | - | - | - | - | - |
| 3. Industry | 9.00 | 11.71 | 10.87 | 10.22 | 11.12 | 10.51 | 11.15 | 11.21 | 10.52 | 10.42 | 10.12 | 10.31 |
| a. Large Scale | 2.74 | 5.94 | 6.06 | 4.42 | 5.41 | 5.11 | 5.95 | 6.00 | 5.42 | 5.33 | 5.21 | 5.60 |
| b. Small Scale | 6.25 | 5.76 | 6.06 | 5.80 | 5.70 | 5.39 | 5.19 | 5.21 | 5.08 | 5.09 | 4.90 | 4.71 |
| 4. Construction | 4.55 | 3.29 | 2.81 | 2.48 | 3.39 | 3.57 | 5.17 | 4.08 | 4.73 | 4.48 | 4.45 | 5.08 |
| 5. Power, Gas and Sanitary Services | 0.22 | 0.16 | 0.12 | 0.16 | 0.18 | 0.26 | 0.25 | 0.29 | 0.32 | 0.37 | 0.53 | 0.54 |
| 6. Transport, Storage and Communication | 10.47 | 10.01 | 10.70 | 10.61 | 11.17 | 10.85 | 10.78 | 10.75 | 10.63 | 10.90 | 11.12 | 11.01 |
| 7. Trade Services | 7.35 | 8.55 | 8.64 | 8.26 | 7.87 | 9.09 | 9.14 | 9.81 | 9.22 | 9.15 | 9.36 | 9.69 |
| 8. Housing Services | 8.54 | 8.02 | 8.61 | 8.40 | 8.42 | 8.11 | 7.96 | 8.15 | 8.12 | 8.28 | 8.13 | 7.95 |
| 9. Public Administration and Defence | 2.19 | 2.41 | 1.92 | 2.44 | 3.25 | 2.77 | 2.83 | 2.67 | 2.78 | 2.45 | 2.86 | 2.52 |
| 10. Banking and Insurance | 0.91 | 0.85 | 0.94 | 0.87 | 0.94 | 0.98 | 1.21 | 1.49 | 1.64 | 1.62 | 1.55 | 1.68 |
| 11. Professional and Miscellaneous Services | 6.99 | 6.66 | 7.26 | 7.19 | 7.36 | 7.23 | 7.27 | 7.62 | 7.81 | 8.21 | 8.33 | 8.44 |

Continued

Table 2.3: Continued

| Activity Sector | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Agriculture | 41.76 | 41.34 | 39.84 | 38.42 | 37.08 | 38.26 | 37.59 | 36.86 | 35.91 | 34.58 | 32.76 |
| a. Crop | 33.81 | 32.87 | 31.55 | 30.12 | 28.82 | 30.31 | 29.65 | 28.92 | 27.91 | 26.35 | 24.28 |
| b. Forestry | 2.69 | 2.68 | 2.53 | 2.64 | 2.63 | 2.52 | 2.49 | 2.45 | 2.41 | 2.41 | 2.41 |
| c. Livestock | 2.89 | 2.85 | 2.89 | 2.83 | 2.86 | 2.77 | 2.74 | 2.72 | 2.77 | 2.88 | 2.98 |
| d. Fisheries | 2.99 | 2.92 | 2.86 | 2.81 | 2.75 | 2.64 | 2.70 | 2.76 | 5.81 | 2.93 | 3.08 |
| 2. Mining and Quarrying | - | - | - | - | - | - | - | - | - | - | - |
| 3. Industry | 9.85 | 9.69 | 10.03 | 9.81 | 9.84 | 9.90 | 9.80 | 10.09 | 10.53 | 10.90 | 11.34 |
| a. Large Scale | 5.22 | 5.20 | 5.67 | 5.55 | 5.56 | 5.76 | 5.68 | 6.031 | 6.53 | 6.91 | 7.36 |
| b. Small Scale | 4.62 | 4.49 | 4.36 | 4.26 | 4.28 | 4.13 | 4.11 | 4.06 | 3.99 | 3.99 | 3.98 |
| 4. Construction | 5.53 | 5.39 | 5.53 | 6.03 | 6.17 | 5.97 | 6.04 | 6.05 | 6.07 | 6.17 | 6.32 |
| 5. Power, Gas and Sanitary Services | 0.57 | 0.62 | 0.72 | 0.82 | 1.03 | 1.11 | 1.30 | 1.46 | 1.59 | 1.74 | 1.85 |

Table 2.3 : Continued

| <i>Activity Sector</i> | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 6. Transport, Storage and Communication | 11.21 | 11.09 | 11.83 | 11.92 | 2.13 | 11.86 | 11.82 | 11.81 | 11.85 | 12.00 | 12.16 |
| 7. Trade Services | 9.53 | 9.27 | 9.13 | 9.15 | 9.35 | 9.03 | 7.64 | 7.58 | 7.53 | 9.12 | 9.62 |
| 8. Housing Services | 7.97 | 7.87 | 7.80 | 7.83 | 7.88 | 7.64 | 7.64 | 7.58 | 7.53 | 7.50 | 7.45 |
| 9. Public Administration and Defence | 3.25 | 3.75 | 3.88 | 4.07 | 4.25 | 4.09 | 4.34 | 4.51 | 4.68 | 4.87 | 5.07 |
| 10. Banking and Insurance | 1.69 | 2.04 | 2.07 | 2.04 | 2.01 | 1.91 | 1.89 | 1.86 | 1.83 | 1.82 | 1.81 |
| 11. Professional and Miscellaneous Services | 8.58 | 8.89 | 9.12 | 9.85 | 10.21 | 10.17 | 10.45 | 10.87 | 10.90 | 11.23 | 11.53 |

Sources: Own calculation based on data from BBS, Twenty Years of National Accounting of Bangladesh, 1972-73 to 1991-92; July 1993; and Statistical Pocketbook, 1995; Bangladesh Bank, Economic Trends, June 1996.

Saving Behaviour

While gross domestic investment can be financed by net factor income from abroad and foreign savings, in the final analysis a sustained high level of investment must be financed by a high rate of domestic savings. The flow of remittance in the long run is uncertain and the cost of foreign savings increases with its volume as increasing volume of foreign savings is perceived to be associated with higher risks. It is clear from the above discussion that the rate of domestic savings has been very low. It is possible that the availability of net factor income from abroad and foreign savings created a somewhat relaxed environment allowing the economy to maintain a low rate of domestic savings both public and private. Rahman (1992) finds that real aggregate savings is determined by real income and real financial savings is determined by real interest rate, real income and number of scheduled bank branches. Thus the growth of real income is a key determinant of savings rate and a low savings rate is a consequence of low income. The policy of keeping interest rate low in the face of varying and higher rate of inflation made the real rate of interest low or negative. The financial repression constrained domestic savings. The fact that the financial institutions expanded the number of their branches and were able to mobilize savings is symptomatic of financial repression. The policy of financial savings mobilization through expanding branches in a predominantly rural economy like Bangladesh is not an unwelcome policy. But the transfer of these resources to the urban centres of presumed higher productivity and dispensing loan to large defaulting borrowers not only weakens the financial viability of the financial institutions but also deprives the rural economy of the needed investment fund unless some measures are taken to initiate or reverse transfer of resources.

Table 2.4 : Percentage Change in Tradable and Non-Tradable Sectors (1974-1995).

| <i>Year</i> | <i>Tradable Sector</i> | <i>Non-Tradable Sector</i> |
|-------------|------------------------|----------------------------|
| 1974 | 13.17 | 5.10 |
| 1975 | - 5.70 | - 1.90 |
| 1976 | 6.87 | 4.09 |
| 1977 | - 0.85 | 7.36 |
| 1978 | 5.82 | 8.61 |
| 1979 | 0.91 | 9.44 |
| 1980 | 0.62 | 1.03 |
| 1981 | 2.77 | 4.07 |
| 1982 | - 0.13 | 2.71 |
| 1983 | 3.65 | 8.19 |
| 1984 | 4.18 | 6.70 |
| 1985 | 0.56 | 5.46 |
| 1986 | 3.09 | 5.53 |
| 1987 | 2.04 | 6.18 |
| 1988 | - 0.92 | 6.32 |
| 1989 | - 0.42 | 4.99 |
| 1990 | 9.85 | 4.06 |
| 1991 | 1.75 | 4.78 |
| 1992 | 3.30 | 4.97 |
| 1993 | 3.39 | 5.35 |
| 1994 | 1.93 | 6.01 |
| 1995 | 1.10 | 6.97 |

Sources : Own calculation based on figures from BBS. Twenty Years of National Accounting of Bangladesh, 1972-73 to 1991-92, July 1993, Statistical Pocketbook of Bangladesh, 1995; Bangladesh Bank, Economic Trends, June 1996.

Table 2.5: Tradable, Non-Tradable Sectors as Percentage of GDP at Constant (1984/85) Prices, 1973-1995.

| <i>Year</i> | <i>Tradable Sector</i> | <i>Non-Tradable Sector</i> |
|-------------|------------------------|----------------------------|
| 1973 | 55.57 | 44.42 |
| 1974 | 57.39 | 42.60 |
| 1975 | 56.42 | 43.57 |
| 1976 | 57.07 | 42.92 |
| 1977 | 55.11 | 44.88 |
| 1978 | 54.46 | 45.53 |
| 1979 | 52.44 | 47.55 |
| 1980 | 52.34 | 47.65 |
| 1981 | 52.03 | 47.96 |
| 1982 | 51.28 | 48.67 |
| 1983 | 50.72 | 49.27 |
| 1984 | 50.12 | 49.87 |
| 1985 | 48.93 | 51.06 |
| 1986 | 48.35 | 51.64 |
| 1987 | 47.35 | 52.64 |
| 1988 | 45.60 | 54.39 |
| 1989 | 44.28 | 55.71 |
| 1990 | 45.63 | 54.36 |
| 1991 | 44.90 | 55.09 |
| 1992 | 44.50 | 55.49 |
| 1993 | 44.04 | 55.95 |
| 1994 | 43.07 | 56.92 |
| 1995 | 41.69 | 58.30 |

Source : Own calculation based on figures from BBS, Twenty Years of National Accounting of Bangladesh, 1972-73 to 1991-92, July 1993; Statistical Pocketbook of Bangladesh 1995; Bangladesh Bank, Economic Trends, June 1996.

Table 2.6: Consumption, Investment and Savings as Percentage of GDP at Current Prices, 1973-1996

| <i>Categories</i> | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---------------------|--------|-------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Consumption | 101.92 | 99.30 | 99.04 | 102.97 | 94.00 | 98.26 | 98.36 | 97.75 | 96.63 | 99.51 | 99.40 | 98.63 |
| a. Private | 98.47 | 94.49 | 94.24 | 89.14 | 78.34 | 85.07 | 84.85 | 84.30 | 83.31 | 86.42 | 86.95 | 86.29 |
| b. Public | 3.45 | 4.80 | 4.80 | 13.83 | 15.66 | 13.20 | 13.51 | 13.45 | 13.32 | 13.10 | 12.45 | 12.40 |
| 2. Investment | 3.01 | 7.14 | 6.27 | 9.94 | 11.06 | 11.83 | 11.33 | 15.29 | 16.72 | 15.47 | 13.41 | 12.26 |
| a. Private | 2.91 | 4.20 | 3.41 | 5.38 | 4.88 | 5.61 | 5.70 | 8.16 | 9.55 | 9.08 | 7.20 | 6.66 |
| b. Public | 0.10 | 2.94 | 2.86 | 4.56 | 6.18 | 6.21 | 5.63 | 7.13 | 6.67 | 6.39 | 6.21 | 6.61 |
| 3. Domestic Savings | -1.92 | 0.70 | 0.96 | -2.97 | 6.00 | 1.74 | 1.64 | 2.25 | 3.37 | 0.49 | 0.60 | 1.31 |
| 4. National Savings | -1.19 | 3.38 | 4.19 | 0.93 | 9.50 | 6.83 | 8.37 | 9.78 | 10.64 | 7.97 | 10.86 | 9.92 |
| 5. Foreign Savings | 4.20 | 3.76 | 2.08 | 9.01 | 1.56 | 5.00 | 2.96 | 5.51 | 5.58 | 7.51 | 2.54 | 2.34 |

Continued

Table 2.6: Continued

| Categories | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Consumption | 97.67 | 96.79 | 86.48 | 97.02 | 97.36 | 97.28 | 95.87 | 94.16 | 93.05 | 92.09 | 91.66 | 97.30 |
| a. Private | 85.46 | 84.25 | 85.12 | 85.31 | 83.85 | 83.28 | 82.12 | 80.38 | 78.88 | 77.87 | 77.92 | 78.60 |
| b. Public | 12.21 | 12.53 | 11.36 | 11.72 | 13.71 | 13.99 | 13.75 | 13.78 | 14.17 | 14.22 | 13.74 | 13.80 |
| 2. Investment | 12.94 | 12.54 | 12.89 | 12.44 | 12.92 | 12.80 | 11.50 | 12.12 | 14.26 | 15.35 | 16.63 | 17.00 |
| a. Private | 7.35 | 6.27 | 6.20 | 6.41 | 6.50 | 6.41 | 5.82 | 6.63 | 7.85 | 7.79 | 9.41 | 10.70 |
| b. Public | 5.59 | 6.27 | 6.69 | 6.03 | 6.41 | 6.39 | 5.68 | 5.49 | 6.42 | 7.56 | 7.22 | 6.30 |
| 3. Domestic Savings | 2.33 | 3.21 | 3.52 | 2.97 | 2.64 | 2.72 | 4.13 | 5.84 | 6.95 | 7.41 | 8.34 | 7.80 |
| 4. National Savings | 9.27 | 9.68 | 10.77 | 10.71 | 9.37 | 9.17 | 10.86 | 13.01 | 14.42 | 14.85 | 13.09 | 15.30 |
| 5. Foreign Savings | 3.67 | 2.86 | 2.12 | 1.73 | 3.55 | 3.63 | 0.64 | 0.89 | 0.16 | 0.49 | 1.07 | 1.70 |

Sources : Own calculation based on figures from BBS, Twenty Years of National Accounting of Bangladesh, 1972-73 to 1991-92, July 1993 and Statistical Pocketbook of Bangladesh 1995; Bangladesh Bank, Economic Trends, June 1996.

Investment

Investment rate shows cyclical pattern during the period under study. It reached from an average of 6.59 per cent during the period from 1973 to 1976 to an average of 11.41 per cent during the period from 1977 to 1979. An investment boom started in 1980 which lasted for three years resulting in an average investment rate of 15.66 per cent for the period. Investment rate fell in 1983 to 13.41 per cent and declined to still lower level in 1984. The year 1984 actually marked the beginning of a long period of stagnation in the investment rate which hovered around 12 per cent upto 1992. The economy recovered from the investment stagnation in 1993 when a persistent upward trend began and the investment rate reached 17 per cent in 1996.

It is interesting to note some aspects of the investment performance in the economy. The short-lived investment boom in the early 1980s "was made possible by relying increasingly on foreign aid and by adopting a privatization strategy based on direct government controls along with lavish dispensation of cheap credit and provision of other incentives" (Mahmud, 1995). The investment boom ended as the external aid climate began to deteriorate sharply in 1983. Investment rate did not show any significant response in either direction to the policy changes under the structural adjustment programme during the period from 1984 to 1992. In fact, there was a sharp decline in the investment rate in 1991 caused by the political turmoil in that year. The persistent upturn in the investment rate in 1993 may be interpreted as a delayed response of investment rate to the policy reforms. However, the experience of 1993-1994, though encouraging, is not entirely in commensurate with the increase in national savings. Increase in national savings was in fact matched by a decline in foreign savings (Mahmud, 1997). Since 1994 the higher investment rate is composed of increasing share of private investment and declining share of public investment. These trends are in agreement with governments' market oriented development policy. A cut in public sector investment may reduce demand for savings which may be utilized by the private sector. However, the reduction or slower increase of public investment should not affect all sectors

equally. Given the crowding in effects of public investment, failure to maintain adequate investment for efficient provision of social and economic services and physical infrastructure might constrain the growth of private investment. Further, it remains to be seen whether the recent performance represents a long run trend to a substantially higher and stable investment rate required for sustained higher economic growth rate or a cyclical phenomenon ending up in a slip to lower rates in the near future.

Public consumption was constrained to less than 5 per cent of GDP during the period from 1973 to 1975. It jumped to 13.83 per cent in 1976. Between 1976 and 1986 public consumption fluctuated between 12.21 per cent in 1985 to 15.66 per cent in 1977. Public consumption declined in the adjustment period from its higher level in the pre-adjustment period indicating some success of the government to contain consumption expenditure as envisaged in the structural adjustment programme. The tight rein on public consumption, however, could not be maintained and it gradually rose to 14.22 per cent in 1994. The last two years again experienced some decline in public consumption from its previous high levels.

2.3.4 The Fiscal Sector

The ratio of total revenue receipts to GDP in Bangladesh is one of the lowest in the world. The total revenue/GDP ratio was less than 5 per cent during the period from 1973 to 1975. Between 1976 and 1986 the revenue/GDP ratio fluctuated from 7.9 per cent in 1976 to 9.4 per cent in 1981. One of the major aims of the structural adjustment programme is to raise the revenue/GDP ratio through fiscal sector reforms. But the ratio actually fell in the initial two years of the adjustment period from the level that prevailed in 1986. Reduction of import duties as part of the trade liberalization programme mainly contributed to the observed behaviour of the revenue/GDP ratio (Rahman, 1992). The trend was reversed in 1989 and it continued to increase reaching its highest level in 1994 with discrete jumps in 1992 and 1993. This increase may be attributed to a range of tax reforms including the introduction of the value added tax (VAT) in 1992 and its extension in coverage in 1993 (Mahmud,

1995). The revenue/GDP ratio slightly declined in 1995 and remained stagnant in 1996. This is perhaps an indication that the possibility of expanding revenue further through the existing measures has been exhausted and new measures in the form of increasing the efficiency of the tax administration, increasing reliance on direct taxes etc., are required to enhance revenue collections.

The ratio of total government expenditure to GDP shows quite erratic movement. A significant upward movement took place in the 1970's but in the 1980's and 1990s no significant trend can be discerned. The average expenditure/GDP ratio in the adjustment period came to be 17.3 per cent which is marginally less than the one (17.8 per cent) which prevailed in the early eighties.

The fiscal deficit/GDP ratio shows similar irregular movement during the period under study. However, there is a general decline in the fiscal deficit in the adjustment period relative to what obtained in the yearly eighties. The average fiscal deficit/GDP ratio during the period from 1980 to 1986 was 8.9 per cent and in the adjustment period the ratio fell to 6.9 per cent. The decline in the fiscal deficit/GDP ratio is achieved not so much by curtailing government expenditure as by increased mobilization of domestic resources. However, as the ratio of revenue to GDP marginally declined in 1995 from its peak in 1994 and remained stagnant in 1996 fiscal deficit worsened.

Fiscal deficit has been widely discussed in academic and policy circles. The impact of fiscal deficit on the economy depends on the way it is financed. The deficit can be financed by borrowing from the public through debt issues, by borrowing from external sources like international agencies, governments and banks; and by levying an inflation tax (Dornbusch, 1988). Financing the deficit by public debt issues may preempt others from using these funds, raise interest rates, and may hence reduce investment which in its turn reduces the long run growth potential of the economy. Financing the deficit by borrowing from the international agencies and governments on concessionary terms is a feasible way for developing countries like Bangladesh. However, this can lead to excessive aid dependence, curtail policy maker's freedom to take decisions involving crucial

choices and can reduce government's effort to mobilise domestic resources. Borrowing from the foreign banks at market rates of interest can create debt servicing burden and can sink the country into a debt trap. Finally, the inflation tax can precipitate a balance of payments crisis as the excess demand is met by imports. To deal with the balance of payments crisis devaluation may be necessary. Bangladesh has traditionally depended on foreign grants and concessionary loans to finance the greatest proportion of the fiscal deficit. Thus the level of foreign grants and concessionary loans imposes a binding constraint on the level of government expenditure (and hence fiscal deficit) in Bangladesh (Hossain and Chowdhury, 1995).

Tax Structure

Government revenue in Bangladesh are classified into two broad heads - tax revenue and non-tax revenue. Tax revenues account for about 80 per cent of total revenue and the remaining 20 per cent or so are derived from non-tax revenues consisting of user charges for public services and various fees and miscellaneous receipts.

Like many other developing countries Bangladesh's tax structure is dominated by indirect taxes. The average share of indirect taxes in total tax revenues, however, has decreased marginally from 81.4 per cent in the pre-adjustment period to 78.9 per cent in the adjustment period. Indirect taxes consist mainly of customs duty, excise duty and sales tax. Customs duty contributes around 33 per cent of total tax revenue. A major innovation in taxation took place in July 1991 when Value Added Tax (VAT) was introduced. VAT was imposed at the import-cum-manufacturing stage and replaced the prevailing excise duty on domestic production at the production stage and sales tax on imports at the import stage. The coverage of VAT has been broadened by bringing in more domestic commodities and some services under its net. VAT contributed around 30 per cent of total taxes in 1995.

Table 2.7 shows that the share of direct taxes has a slight upward trend and the average share has increased by 2.5 percentage points

in the adjustment period. The base of direct taxes remains narrow and it is a major cause of its low contribution to total tax revenue (Chowdhury, 1995). The low contribution of direct taxes reflects the underdeveloped character of the economy and to some extent the inefficiency of the tax collection system.

It appears from the discussion above that there has been some improvement in the revenue and tax effort in Bangladesh in the adjustment period. These are, however, still less than those in other South Asian countries and many other least developed countries in the world. Some marginal changes in the tax structure have occurred in the adjustment period. The share of direct taxes increased to some extent in the early nineties but the trend was reversed in the last two years of the study.

We have seen the overwhelming importance of trade taxes in total tax revenue. Since the structural adjustment programme involves substantial tariff rationalization it can be argued that such tariff reforms could lead to slower growth or decline in tax revenue. So far Bangladesh has been able to avoid the negative impact of tariff reforms on tax revenue. The introduction and broadening of the tax base of VAT enabled the country to cushion its tax revenues from tariff reforms. Besides, many of the high tariff rates on imports were not binding and yielded little revenue so that the lowering of these rates did not cause decline in revenue. Further lowering of the tariff rates can reduce tax revenues in the future if it is not complemented by broadening of the tax base of VAT and improving the efficiency of the income tax system.

Structure of Government Expenditure

Under present budgetary practices government expenditure is divided into two broad heads - revenue expenditure and development expenditure. Expenditures of recurrent nature are put into the group of revenue expenditure while those of capital nature are grouped under development expenditure. But the economic classification of recurrent and capital expenditure are not strictly followed. Chowdhury (1995) observes that in the nineties more than a third of development expenditure comprised of recurrent expenditure thus

lowering the share of capital expenditure in development expenditure. As is well known, division of expenditure into revenue and development expenditure is based on some kind of notion that while development expenditure directly contributes to economic development, revenue expenditure does not. One of the important consequences of this classification has been the neglect of maintenance of capital goods resulting in more than usual rapid deterioration of quality of services of capital goods with consequent negative effect on productivity.

In the pre-adjustment period the ratio of development expenditure to GDP averaged 8.83 per cent with the lowest of 4.21 per cent in 1975 and the highest of 11.76 in 1980. The historically high development expenditure/GDP ratio in the early eighties reflected government's over zealous expenditure policy as mentioned earlier. The ratio fell to an average of 7.26 per cent in the adjustment period with the lowest of 6.2 per cent in 1991 and the highest of 8.6 per cent in 1987 and 1995. The ratio stagnated in the late eighties and the early nineties and then gradually increased. It has decreased again in 1996. The decline in development expenditure/GDP ratio, it may be claimed, is in line with government's market oriented development policy where the main burden of economic development would be carried by the private sector with the public sector playing a supportive role. However, the decline also partly reflects the difficulties in improving the quality and implementation of the Annual Development Programme (ADP) where achievement fell short of targets.

The average ratio of revenue expenditure to GDP increased from 6.73 per cent in the pre-adjustment period to 8.51 per cent in the adjustment period. The ratio has remained stagnant at 8.8 per cent in the last three years. The increase in the ratio of non-development expenditure to GDP in the adjustment period vis-a-vis the decrease in the development expenditure to GDP ratio in the same period and its lower value relative to the former indicates that the burden of fiscal adjustment has fallen disproportionately on development expenditure. Given the crowding in effect of public investment on private investment this decline may constrain the future growth

prospect of the economy. In the revenue budget the share of expenditure on social services suffered some decline in the early adjustment period. As the future growth of the economy critically depends on social sector development, a decline in expenditure on these sectors is least desirable. However, in recent years the expenditure share of social sectors has increased.

2.3.5 The Monetary Sector

As can be seen from Table 2.10 money supply (M1) grew at an average rate of 17.89 per cent per annum during the preadjustment period though there was substantial annual fluctuation in the growth rate varying from 1.30 per cent in 1982 to 34.76 per cent in 1984. The average annual growth rate fell substantially in the adjustment period by more than 6 per centage points to 11.59 per cent. The wide swings in annual growth rate continued in the adjustment period with rates varying from -4.09 per cent in 1988 to 23.22 per cent in 1994. Broad money supply shows similar pattern of growth. Its average growth rate declined from 21.63 per cent in the pre-adjustment period to 14.02 per cent in the adjustment period. The range of variation in the growth rates of broad money supply in the pre-adjustment period was greater - from 1.21 per cent in 1975 to 42.17 per cent in 1984. Broad money supply shows a more stable pattern of growth in the adjustment period ranging from 8.24 per cent in 1996 to 16.88 per cent in 1990. Thus financial programming under the ESAF programme seems to have been able to put a rein on the rapid monetary growth of the pre-adjustment period and to bring more stability in the growth rate of M2.

Inflation in Bangladesh has a chequered history. The immediate post liberation years witnessed very high rate of inflation unmatched in its earlier history. Inflation rate reached 70.21 per cent in 1975 fuelled by output loss because of floods, heavy deficit financing, oil price shock and rise in world food prices because of crop failure. In 1976 the economy underwent a sharp deflation involving a 23.75 per cent price decline followed by a further mild decline in 1977. The demonetization of 100 Taka notes in April 1975 not only arrested the growth of money supply but also affected people's

expectations about inflation. These factors coupled with better performance of the economy especially the foodgrains output led to deflation in two subsequent years. Inflation bounced back in 1978 with great severity and then fell to about 13 per cent in 1989. Inflation continued at the double digit level till the beginning of the adjustment period with the exception of 1983. The average annual rate of inflation in the pre-adjustment period was 16.15 per cent.

The legacy of double digit inflation was carried over to the adjustment period and the economy experienced an inflation rate of 10.91 per cent in 1987. In the following year the rate dropped to 7.38 per cent and the economy experienced low inflation rate in the adjustment period ranging from stable price level in 1993 to 9.46 per cent inflation rate in 1991. The average annual rate of inflation in the adjustment period stood at 6.36 per cent. Not only the mean rate but also the dispersion in inflation declined in the adjustment period. The coefficient of variation declined from 137.83 per cent in the pre-adjustment period to 50.31 per cent in the adjustment period. Thus the economy enjoyed a more stable inflation environment in the adjustment period. Lower inflation uncertainty is known to provide a better environment for output supply decisions than higher inflation uncertainty.

Table 2.7: Government Revenue and Expenditure, 1973-1996

(As Percentage of GDP)

| <i>Fiscal Year</i> | <i>Total Revenue</i> | <i>Total Tax</i> | <i>Total Expenditure</i> | <i>Fiscal Deficit</i> |
|--------------------|----------------------|------------------|--------------------------|-----------------------|
| 1973 | 5.0 | 4.2 | 12.5 | 7.5 |
| 1974 | 5.2 | 4.4 | 9.1 | 3.9 |
| 1975 | 4.9 | 4.4 | 8.0 | 3.1 |
| 1976 | 7.9 | 6.3 | 11.1 | 3.2 |
| 1977 | 8.4 | 7.2 | 15.1 | 6.7 |
| 1978 | 7.9 | 7.6 | 14.5 | 6.6 |
| 1979 | 8.3 | 6.7 | 14.9 | 6.6 |
| 1980 | 8.4 | 7.3 | 17.2 | 8.8 |
| 1981 | 9.4 | 7.6 | 18.4 | 9.0 |
| 1982 | 9.0 | 7.4 | 18.2 | 9.2 |
| 1983 | 8.7 | 7.5 | 19.7 | 11.0 |
| 1984 | 8.1 | 6.7 | 17.2 | 9.1 |
| 1985 | 8.8 | 7.1 | 16.6 | 7.4 |
| 1986 | 9.1 | 7.1 | 17.3 | 7.5 |
| 1987 | 8.9 | 7.2 | 16.0 | 8.4 |
| 1988 | 8.9 | 7.1 | 16.7 | 7.1 |
| 1989 | 9.1 | 7.5 | 16.0 | 7.2 |
| 1990 | 9.3 | 7.8 | 17.2 | 7.9 |
| 1991 | 9.6 | 7.8 | 16.6 | 7.2 |
| 1992 | 10.9 | 8.8 | 16.8 | 5.9 |
| 1993 | 12.0 | 9.4 | 17.8 | 5.9 |
| 1994 | 12.2 | 9.2 | 18.1 | 6.0 |
| 1995 | 12.1 | 9.6 | 18.9 | 6.8 |
| 1996 | 12.1 | 9.3 | 18.3 | 6.2 |

Sources : Own Calculation based on data from World Bank, Country Economic Memorandum, Various Years; Planning Commission, General Economics Division, Fiscal Statistics (1972/73-1987/88), September 1987.

Table 2.8: The Structure of Government Revenue Receipt (1973-1996)

(in millions of Tk.)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Tax revenue | 1865 | 3091 | 5479 | 6718 | 7633 | 9842 | 11596 | 14363 | 17818 | 19681 | 21598 | 24100 |
| Customs | 697 | 1187 | 1517 | 2602 | 2890 | 3950 | 4948 | 6500 | 7500 | 7850 | 9100 | 10000 |
| Sales | 214 | 434 | 619 | 1105 | 1230 | 1770 | 2350 | 2700 | 3400 | 3500 | 3168 | 3450 |
| VAT (Domestic) | - | - | - | - | - | - | - | - | - | - | - | - |
| VAT (Import) | - | - | - | - | - | - | - | - | - | - | - | - |
| Supplementary (Domestic) | - | - | - | - | - | - | - | - | - | - | - | - |
| Supplementary (Import) | - | - | - | - | - | - | - | - | - | - | - | - |
| Excise | 550 | 836 | 1503 | 1780 | 2030 | 2300 | 2445 | 2700 | 3730 | 4628 | 4800 | 6000 |
| Income | 141 | 332 | 677 | 804 | 1044 | 1240 | 1240 | 1761 | 2200 | 2601 | 3150 | 3310 |
| Others | 263 | 302 | 1163 | 427 | 439 | 582 | 658 | 702 | 988 | 1102 | 1388 | 1340 |
| Non-tax revenue | 370 | 848 | 1358 | 2108 | 2328 | 2604 | 3206 | 3914 | 5612 | 5858 | 5509 | 6230 |
| Total revenue | 2235 | 3939 | 6837 | 8826 | 9961 | 12446 | 14802 | 18277 | 23430 | 25539 | 27107 | 30330 |
| Share of direct taxes in total tax revenue (per cent) | 5.83 | 14.54 | 17.98 | 18.55 | 20.25 | 18.56 | 17.49 | 17.28 | 17.75 | 20.41 | 21.27 | 19.97 |

Continued

Table 2.8: Continued

| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------------|-------|--------|--------|--------|--------|
| Tax revenue | 28070 | 32420 | 37880 | 43070 | 48330 | 57120 | 63120 | 76610 | 89340 | 97600 | 121113 | 122331 |
| Customs | 11200 | 13380 | 15500 | 16180 | 18200 | 21670 | 23280 | 28200 | 28350 | 30700 | 35040 | 37693 |
| Sales | 4100 | 4610 | 5500 | 5250 | 5400 | 53109 | 8230 | - | - | - | - | - |
| VAT (Domestic) | - | - | - | - | - | - | 2002 | 7975 | 22825 | 29682 | 12522 | - |
| VAT (Import) | - | - | - | - | - | - | 7892 | 16340 | 4457 | 5809 | 25378 | - |
| Supplementary (Domestic) | - | - | - | - | - | - | 279 | 4250 | 10749 | 15539 | 14070 | - |
| Supplementary (Import) | - | - | - | - | - | - | 992 | 118 | 1884 | 2103 | 3051 | - |
| Excise | 7500 | 7720 | 9000 | 11720 | 14000 | 17000 | 17130 | 13600 | 3200 | 1750 | 4555 | 1800 |
| Income | 3900 | 4600 | 5500 | 6640 | 7500 | 8750 | 10710 | 13000 | 17200 | 17350 | 15917 | 15830 |
| Others | 1370 | 2110 | 2380 | 3280 | 3230 | 4390 | 3770 | 21810 | 40590 | 47800 | 10580 | na |
| Non-tax revenue | 6700 | 8310 | 9290 | 8390 | 9890 | 10670 | 15110 | 18560 | 21260 | 25200 | 27786 | 32789 |
| Total revenue | 34770 | 40730 | 47160 | 51460 | 58220 | 67790 | 78230951700 | 10600 | 122800 | 148899 | 155119 | - |
| Share of direct taxes in total | 19.79 | 21.22 | 21.64 | 20.90 | 19.11 | 19.84 | 22.26 | 21.34 | 22.84 | 23.84 | 19.40 | 19.70 |
| tax revenue (per cent) | | | | | | | | | | | | |

Note : n.a. = not available

Source : i. World Bank, Country Economic Memorandum, Various Years.

ii. Fiscal Statistics (1972/73-1987/88), Planning Commission, General Economics Division, September 1987.

iii. O.H. Chowdhury (1995, 1996).

Money-Inflation Relationship in Bangladesh

Available evidence suggests (e.g. Hossain, 1985; Mujeri, et.al. 1993; Parikh and Starner, 1990; Rahman, 1992; Taslim, 1982) inflation in Bangladesh is not a purely monetarist phenomenon. It is not a structuralist phenomenon either. Models of inflation including monetarist variables like money supply, cost of holding money, and income together with one or more structural variables explain the rate of inflation better than alternative pure models. Inflation management in Bangladesh is thus fundamentally a problem of monetary management and management of adverse supply shocks. Especially given the sensitivity of rice prices to supply shocks extreme price swings can be moderated by quickly augmenting supply of foodgrains.

There may be a question that velocity is not stable in Bangladesh so that simple quantity theory relationship of strict proportionality between money and prices do not obtain (Rahman, 1992). This concern is logical especially if the movement of income velocity is considered. Table 9 shows that income velocity is anything but constant and there is unmistakable downward trend over the years. But modern quantity theory does not assume velocity to be numerically constant over time (Friedman, 1969). It postulates that velocity is a stable function of few economic variables. Empirical studies on the determinants of income velocity find that income velocity bears a stable relationship with inflation, income, and financial development (Hassan, Khan and Haque, 1993; Howlader and Khan, 1990). The observed behaviour of income velocity of money is thus rooted in the variation of its determinants.

Table 2.9 : Composition of Public Expenditures, 1973-1996. (Percentage of GDP)

| <i>Fiscal year</i> | <i>Development Expenditure</i> | <i>Revenue Expenditure</i> |
|--------------------|--------------------------------|----------------------------|
| 1973 | 9.06 | 6.63 |
| 1974 | 6.64 | 6.33 |
| 1975 | 4.21 | 4.54 |
| 1976 | 8.86 | 6.38 |
| 1977 | 9.54 | 7.79 |
| 1978 | 9.23 | 7.95 |
| 1979 | 9.27 | 6.53 |
| 1980 | 11.76 | 6.77 |
| 1981 | 10.15 | 6.35 |
| 1982 | 10.24 | 6.95 |
| 1983 | 10.83 | 7.44 |
| 1984 | 8.50 | 6.50 |
| 1985 | 7.50 | 6.50 |
| 1986 | 7.80 | 7.50 |
| 1987 | 8.60 | 7.70 |
| 1988 | 6.40 | 8.10 |
| 1989 | 6.70 | 8.50 |
| 1990 | 6.40 | 8.80 |
| 1991 | 6.20 | 8.70 |
| 1992 | 6.30 | 8.30 |
| 1993 | 7.00 | 8.60 |
| 1994 | 8.40 | 8.80 |
| 1995 | 8.60 | 8.80 |
| 1996 | 7.70 | 8.80 |

Source : World Bank, Country Economic Memorandum, Various Years.

Table 2.10: Money and Inflation, 1974-1996

| Fiscal Year | Real GDP | Money Supply | | GDP Deflator | Income Velocity ^a | Nominal Wage (General) | Real Wage (1970=100) |
|-------------|----------|--------------|-------|--------------|------------------------------|------------------------|----------------------|
| | | M1 | M2 | | | | |
| 1974 | 9.59 | 23.38 | 22.99 | 41.00 | 5.8 | 32.37 | 65 |
| 1975 | -4.08 | 7.23 | 1.21 | 70.21 | 10.0 | 27.87 | 51 |
| 1976 | 5.66 | 10.39 | 10.90 | -23.75 | 7.7 | 10.24 | 67 |
| 1977 | 2.67 | 10.28 | 24.55 | -3.28 | 6.1 | 3.32 | 71 |
| 1978 | 7.07 | 25.82 | 23.05 | 30.51 | 6.8 | 11.00 | 67 |
| 1979 | 4.80 | 24.57 | 28.91 | 12.99 | 6.3 | 23.92 | 76 |
| 1980 | 0.81 | 13.58 | 17.57 | 13.03 | 6.1 | 25.05 | 82 |
| 1981 | 3.39 | 14.70 | 27.46 | 10.51 | 5.6 | 13.63 | 87 |
| 1982 | 1.23 | 1.30 | 9.98 | 12.58 | 5.8 | 31.02 | 86 |
| 1983 | 4.89 | 30.92 | 29.67 | 4.90 | 4.9 | 5.65 | 88 |
| 1984 | 5.42 | 34.76 | 42.17 | 16.62 | 4.2 | 14.34 | 90 |
| 1985 | 3.01 | 19.21 | 25.62 | 14.70 | 4.0 | 7.31 | 86 |
| 1986 | 4.33 | 16.45 | 17.12 | 10.00 | 3.7 | 21.95 | 95 |
| 1987 | 4.18 | 6.70 | 16.33 | 10.91 | 3.8 | 21.22 | 102 |
| 1988 | 2.89 | -4.09 | 14.32 | 7.38 | 3.6 | 10.69 | 106 |
| 1989 | 2.51 | 8.18 | 16.27 | 7.63 | 3.4 | 7.24 | 107 |
| 1990 | 6.62 | 16.63 | 16.88 | 4.96 | 3.3 | 10.71 | 110 |
| 1991 | 3.39 | 13.11 | 12.14 | 9.46 | 3.3 | 3.93 | 110 |
| 1992 | 4.22 | 14.62 | 14.08 | 4.32 | 3.2 | 4.79 | 107 |
| 1993 | 4.48 | 9.75 | 10.55 | 0.00 | 3.0 | 5.54 | 113 |
| 1994 | 4.21 | 23.22 | 15.44 | 4.14 | 2.8 | 4.27 | 114 |
| 1995 | 4.44 | 18.02 | 15.96 | 9.09 | 2.8 | 4.51 | 111 |
| 1996 | 4.70 | 9.71 | 8.24 | 5.73 | 2.8 | 5.71 | 114 |

Source: Own calculations based on data from Bangladesh Bank, Economic Trends, Various Issues and BBS, Statistical Yearbook of Bangladesh, Various Issues.

a. absolute level

Imported Inflation

The issue of imported inflation is addressed in most of the earlier studies on inflation in Bangladesh. As is well-known the impact of world prices rising faster than domestic prices depends on the particular exchange regime. Under the fixed exchange rate system world inflation affects domestic inflation and the domestic inflation equation must include some variables to capture the impact of world inflation. Under a flexible exchange rate system the domestic economy is completely insulated against world inflation. Each country's inflation rate is its own making though in the short run there may be some effect of world inflation. Bangladesh has been pursuing a managed floating exchange rate policy since 1980 and the system has been made more flexible in recent years. Bangladesh's inflation is now largely unaffected by world inflation - the difference in the inflation rate is to be equalized through changes in the exchange rate. For example, if world inflation is greater than domestic inflation world demand for our exports increases while our demand for imports decreases leading to an improvement in the balance of trade and thus to an appreciation of our exchange rate. The higher exchange rate affects demand for our goods and at some point completely offsets the initial increase in demand returning the balance of trade to equilibrium.

Wage Price Relationship

In the formal labour market, wages have been adjusted upward from time to time to compensate for the loss in purchasing power caused by inflation. In the formal labour market, government is the dominant employer and hence public sector wage fixation may exert an influence on wages in other parts of the formal labour market. In the informal labour market wages are changed more frequently in cognizance of the falling purchasing power of labour. Certain parts of the informal labour market may also experience upward pressure on wages from the wage adjustments in the formal sector.

Table 2.10 shows that nominal wage adjusts to the on-going inflation rate at various speeds. In the pre-adjustment period nominal wage increased at an average annual rate of 17.51 per cent, the rate

varying from 3.32 per cent in 1977 to 32.37 per cent in 1975. In the adjustment period nominal wages grew at the rate of 7.86 per annum with the rates varying from 3.93 percent in 1991 to 21.22 per cent in 1987. Thus both the mean rate of increase of wages and the dispersion around the mean have decreased in the adjustment period.

It is interesting to compare the average nominal wage changes with the inflation rate prevailing during the same period. In both periods the average annual changes in nominal wages exceeded that in the price level. It exceeded by 1.36 per centage points in the pre-adjustment period and by 1.5 per centage points in the adjustment period. This led to some small gains in real wages in both periods. Though marked by fluctuations there is an upward trend in real wages in both periods. Notwithstanding these gains, real wage remained below its 1970 level until the end of the pre-adjustment period. Real wage exceeded its pre-liberation level only in 1987. Thus it took about a decade and a half for real wage to regain its pre-liberation level.

Growth of Monetary Aggregates

It has been mentioned that changes in money supply exert important influence on the inflation rate. It is worthwhile to investigate into the sources of changes in money supply. According to the money multiplier theory of money stock determination, the stock of money equals the product of money multiplier and the monetary base. Thus changes in money supply originates from changes in money multiplier and/or the monetary base. Assuming a stable money multiplier, the only source of changes in money supply is the change in the monetary base. With the exception of 1975, 1982 and 1995 the monetary base expanded rapidly during the period under study with marginal increases in 1992 and 1996. The years of rapid increase in money supply are usually associated with large change in the monetary base as can be seen from Table 2.11.

Table 2.11: Growth of Monetary Aggregates, 1974 -1996

(per cent)

| <i>Fiscal Year</i> | <i>Money Supply (M2)</i> | <i>Money Multiplier (%)</i> | <i>Monetary Base</i> |
|--------------------|--------------------------|-----------------------------|----------------------|
| 1974 | 22.99 | 9.68 | 12.86 |
| 1975 | 1.21 | 8.45 | - 6.67 |
| 1976 | 10.90 | - 1.95 | 13.17 |
| 1977 | 24.55 | 9.27 | 14.14 |
| 1978 | 23.05 | - 4.55 | 28.71 |
| 1979 | 28.91 | 3.49 | 24.69 |
| 1980 | 17.57 | - 4.91 | 23.48 |
| 1981 | 27.46 | 2.26 | 24.80 |
| 1982 | 9.98 | 13.25 | - 2.96 |
| 1983 | 29.67 | 6.41 | 21.81 |
| 1984 | 42.17 | 0.00 | 42.44 |
| 1985 | 25.62 | 5.50 | 18.84 |
| 1986 | 17.12 | 3.23 | 13.61 |
| 1987 | 16.33 | 1.44 | 14.76 |
| 1988 | 14.32 | -17.30 | 37.99 |
| 1989 | 16.27 | 6.88 | 8.86 |
| 1990 | 16.88 | 1.07 | 15.81 |
| 1991 | 12.14 | 1.59 | 10.37 |
| 1992 | 14.08 | 12.01 | 1.82 |
| 1993 | 10.55 | -16.78 | 32.80 |
| 1994 | 15.44 | - 7.00 | 23.95 |
| 1995 | 15.96 | 24.70 | - 6.87 |
| 1996 | 8.24 | 6.04 | 1.95 |

Source : Own calculation based on data from Bangladesh Bank, Economic Trends, Various Issues.

The most noteworthy feature of Table 2.11 is the high degree of variation in the money multiplier. Money multiplier increased exacerbating the effect of change in the monetary base on the money supply. Certain years also experienced decline in the money multiplier which offset part of the expansionary impact of growth in monetary base on the money supply. This kind of fluctuation of the money multiplier renders the task of monetary management difficult. "... any control by the monetary authority over monetary base does not guarantee a control over the money supply because of unpredictability of movement of the money multiplier" (Hossain 1993). In such a situation the monetary authority should try to stabilize the value of the money multiplier and provide a stable monetary environment.

2.3.6 External Sector

Bangladesh economy is becoming more open over the years. The trade/GDP ratio increased from 17.07 per cent in 1973 to 23.84 per cent in 1986 and peaked to 31.97 per cent in 1996. The increasing openness of the economy owes to the growth of both exports and imports. In the pre-adjustment period exports growth was sluggish (7.4 per cent per annum) and exports/GDP ratio stabilized around 7 per cent. On the other hand, imports grew at a relatively faster rate.

In the adjustment period exports grew at a much faster rate - about 17 per cent per annum. There have been fluctuations in the growth rate which varied from 4.38 per cent in 1988 to 37.04 per cent in 1995. But absolute decline in export earnings which occurred in some of the years in the pre-adjustment period was not repeated in the adjustment period. The growth of imports in this period lagged behind that of exports. The average annual growth rate has been 11.2 per cent. However, there have been enormous variation in the growth rate of imports. Imports fell by as much as 7.4 per cent in 1991 and remained stagnant in 1992. It increased by 15.5 per cent in 1992 and by 15.5 per cent in 1993 but grew only 3 per cent in 1994.

The highest growth rate of 39.4 per cent was recorded in 1995. Thus the increasing openness of the economy in the adjustment period owes to growth of both export and imports but the incremental contribution of exports has been greater.

Table 2.12 provides data on some major items of the balance of payments. There has been some shift in the composition of foreign exchange receipts in Bangladesh. Foreign aid was the dominant form of foreign exchange receipts followed sequentially by exports and private transfers in the pre-adjustment period. The same trend continued in the adjustment period but in 1992 the trend changed with exports now contributing more than foreign aid. In fact, in recent years while exports have increased quite rapidly the flow of foreign aid has stagnated.

Private transfers including workers' remittances have become an important source of foreign exchange earnings. Workers' remittances contribute substantially to foreign exchange earnings though its share has declined because of more robust growth of exports since 1992. However, 'exported workers' have become the second most important foreign exchange earner after readymade garments. The flow of workers' remittances had depended of course, on the economic and political conditions of labour importing countries of the middle east where the largest concentration of exported workers has taken place.

The balance of trade deficit sharply jumped in the early eighties nearing 2 billion dollar level in 1982. This was an outcome of the sharp decline in the terms of trade which reduced the import purchasing power of exports.

Table 2.12 : Balance of Payments, 1974-96

| Fiscal Year | (million US \$) | | | | | | |
|-------------|-----------------|---------|---------------|------------------|------------------------|-----------------|-------------|
| | Exports | Imports | Trade Balance | Private Transfer | (Worker's Remittances) | Current Account | Foreign Aid |
| 1974 | 369.7 | 925.0 | -555.3 | 19.5 | | -547.1 | 461.3 |
| 1975 | 344.0 | 1403.0 | -1059.0 | 35.0 | | -1003.4 | 901.3 |
| 1976 | 371.9 | 1275.0 | -903.1 | 28.9 | (16) | -881.5 | 808.2 |
| 1977 | 404.6 | 875.0 | -470.4 | 60.3 | (47) | -439.1 | 533.2 |
| 1978 | 489.8 | 1349.0 | -859.2 | 113.2 | (102) | -777.9 | 828.7 |
| 1979 | 609.7 | 1556.0 | -946.3 | 142.8 | (124) | -830.8 | 1030.0 |
| 1980 | 722.3 | 2372.0 | -1649.7 | 249.0 | (249) | -1435.7 | 1222.4 |
| 1981 | 710.7 | 2533.0 | -1822.3 | 379.1 | (379) | -1428.3 | 1147.2 |
| 1982 | 626.0 | 2572.0 | -1946.0 | 424.0 | (412) | -1592.0 | 1236.1 |
| 1983 | 686.0 | 2309.0 | -1623.0 | 628.0 | (617) | -1107.0 | 1345.5 |
| 1984 | 811.0 | 2353.0 | -1542.0 | 627.0 | (596) | -948.0 | 1268.0 |
| 1985 | 934.0 | 2647.0 | -1713.0 | 476.8 | (441) | -1314.4 | 1267.0 |
| 1986 | 819.0 | 2364.0 | -1545.0 | 586.0 | (555) | -1067.0 | 1306.0 |
| 1987 | 1074.0 | 2620.0 | -1546.0 | 731.0 | (696) | -966.0 | 1595.0 |
| 1988 | 1231.0 | 2986.0 | -1755.0 | 788.0 | (737) | -1111.0 | 1640.0 |
| 1989 | 1286.0 | 3375.0 | -2089.0 | 836.0 | (771) | -1376.0 | 1669.0 |
| 1990 | 1524.0 | 3759.0 | -2235.0 | 802.0 | (761) | -1541.0 | 1810.0 |
| 1991 | 1718.0 | 3470.0 | -1752.0 | 846.0 | (764) | -932.0 | 1733.0 |
| 1992 | 1993.0 | 3463.0 | -1470.0 | 975.0 | (848) | -516.0 | 1611.0 |
| 1993 | 2383.0 | 4071.0 | -1688.0 | 1067.0 | (944) | -535.0 | 1675.0 |
| 1994 | 2534.0 | 4191.0 | -1657.0 | 1247.0 | (1089) | -420.0 | 1559.0 |
| 1995 | 3473.0 | 5834.0 | -2361.0 | 1426.0 | (1198) | -1030.0 | 1739.0 |
| 1996 | 3800.0 | 6500.0 | -2700.0 | 1475.0 | (1216) | -1270.0 | 1400.0 |

Source : World Bank, Country Economic Memorandum, Various Years; Ministry of Finance, Government of the People's of Bangladesh; Bangladesh Economic Review, Various Years.

-negative value implies deficit.

The deficit declined to US\$1.6 billion in 1983 primarily because of import compression and varied between US\$1.5 to 1.8 billion until 1988. The deficit exceeded 2 billion dollar level in 1989 and reached US \$ 2.2 billion in 1990 and then fell to US \$ 1.8 billion in 1991. The deficit remained at around US \$ 1.5 billion until 1994. The deficit shoot up to US \$ 2.4 billion in 1994 and it reached an all time high level of 2700 million US dollar in 1996. The current account deficit shows marked variations as well as cyclical fluctuations. The level of the deficit, however, has been lower than the trade deficit because of positive net private transfers. A major development in the early nineties was the sharp decline in the level of current account deficit. Sluggish import growth in the face of robust export growth and net private transfers led to declining current account deficit. When import growth picked up in 1995 the deficit expanded and it expanded even more in 1996.

There has been remarkable change in the composition of exports. A transition from jute centric to RMG-centric exports has occurred in the adjustment period. The decline in the contribution of jute and jute goods, however, is part of the long term deceleration in its importance which already started in the seventies. The gains in

Table 2.13 Structure of Exports, Selected Years, 1974-96

| | (Percentage Shares) | | | | | | |
|------------------------|---------------------|-------|-------|-------|-------|-------|-------|
| <i>Items</i> | 1974 | 1978 | 1982 | 1986 | 1990 | 1994 | 1996 |
| A. Primary Commodities | | | | | | | |
| Raw Jute | 34.50 | 19.59 | 16.26 | 15.14 | 8.20 | 2.25 | 1.84 |
| Tea | 4.05 | 9.18 | 6.06 | 4.03 | 2.56 | 1.50 | 0.92 |
| Frozen shrimps | 2.16 | 4.08 | 8.61 | 13.80 | 9.06 | 8.33 | 10.00 |
| B. Manufactured | | | | | | | |
| Commodities | | | | | | | |
| Jute goods | 52.70 | 50.40 | 46.57 | 35.78 | 21.72 | 11.21 | 10.00 |
| Leather | 4.32 | 9.18 | 10.04 | 7.45 | 11.75 | 6.63 | 6.56 |
| RMG | - | 0.01 | 1.11 | 16.00 | 39.96 | 50.99 | 52.63 |
| Knitwear | - | - | - | - | 0.99 | 10.42 | 10.00 |
| C. Others | 2.16 | 7.53 | 11.32 | 7.80 | 5.77 | 8.67 | 8.04 |

Sources : Own calculation based on data from World Bank, Country Economic Memorandum, Various Years; Ministry of Finance, Government of the People's Republic of Bangladesh; Bangladesh Economic Survey, Various Years.

RMG exports cannot be attributed much to the trade liberalization policies. They resulted from the Multi-Fibre Arrangement governing international trade in textiles and special incentive measures for exporters such as special bonded warehouses which allowed exporters to access world-price inputs.

As can be seen in Table 2.14, the composition of imports has also changed over time, with a shift from primary goods to other commodities. The decline in the share of primary goods imports reflects expansion of import substituting domestic production of foodgrains. However, despite notable gains in the foodgrains sector its vulnerability to weather shocks remains as can be seen from the rapid jump in the share of food imports in 1996 necessitated by a decline in rice production and low government food stocks.

Bangladesh's industrial sector is critically dependent on imported intermediate and capital goods. A noticeable trend in either direction cannot be identified in imports of these critical inputs. The share of intermediate and capital goods rose to 22.38 per cent and 42.13 per cent respectively in 1986 and the share started to decline which has continued till the end of the period of study. This trend has different meaning for different subsectors within the industrial sector. While increasing imports are needed to meet the growing requirements of the dynamic RMG and knitwear subsectors and other expanding subsectors including the energy subsector the declining or stagnant subsectors require less of these inputs. Overall the import trends are consistent with the slow growth and almost stagnant share of the manufacturing sector in gross domestic product as discussed earlier in this chapter.

Exchange rate policy has been used to maintain external balance. A large devaluation of 67 per cent took place in 1975 when the economy was pursuing a fixed exchange rate system. The economy moved to a flexible exchange rate policy in 1979. The dual exchange rate system which maintained separate higher rate in secondary exchange market through which worker's remittances could flow in were unified in 1991. Finally, Taka was made convertible on current account in 1993. Bangladesh seems to manage her nominal exchange rate to keep real exchange rate slightly depreciated over time.

Foreign aid played an important role in bridging the savings-investment and foreign exchange gaps and in providing budgetary resources. Its growing role until 1990 is evident from Table 2.12. In the nineties the importance of foreign aid has declined to some extent. The debt service liability (DSL) has been increasing and it reached 22.4 per cent of export earnings in 1986. In the adjustment period DSL continued to rise and peaked to 24.4 per cent in 1988. There has been continuous decline in the DSL as a proportion of export earnings in the nineties because of faster growth of exports. On the whole debt service liability did not rise much as most of the foreign aid is grant or concessional aid.

Table 2.14 : Structure of Import, Selected Years, 1974-96
(Percentage Shares)

| <i>Items</i> | <i>1974</i> | <i>1978</i> | <i>1982</i> | <i>1986</i> | <i>1990</i> | <i>1994</i> | <i>1996</i> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| A. Major Primary goods | | | | | | | |
| Rice | 2.26 | 5.43 | 1.79 | 0.34 | 2.71 | 0.55 | 5.28 |
| Wheat | 33.73 | 12.03 | 9.29 | 8.90 | 6.41 | 3.46 | 4.39 |
| Oil seeds | 1.46 | 1.53 | 0.20 | 0.00 | 0.37 | 1.55 | 1.26 |
| Crude petroleum | 2.23 | 9.22 | 12.99 | 7.43 | 3.27 | 3.75 | 2.85 |
| Raw cotton | 5.11 | 3.51 | 3.07 | 2.18 | 2.79 | 1.70 | 2.92 |
| B. Major Intermediate goods | | | | | | | |
| Edible oil | 1.22 | 3.60 | 2.76 | 5.71 | 5.32 | 3.34 | 2.91 |
| Petroleum products | 6.83 | 3.66 | 8.28 | 6.63 | 4.63 | 3.96 | 3.62 |
| Fertilizer | 2.27 | 5.32 | 4.08 | 4.54 | 1.22 | 3.22 | 2.23 |
| Cement | 0.54 | 1.45 | 1.21 | 2.39 | 2.21 | 3.08 | 2.23 |
| Staple fibres | 0.20 | 1.21 | 0.20 | 0.71 | 0.27 | 0.74 | 0.65 |
| Yarn | 4.68 | 1.50 | 0.86 | 2.10 | 1.44 | 2.67 | 3.85 |
| C. Capital goods | | | | | | | |
| | 16.97 | 23.57 | 34.14 | 42.13 | 34.48 | 31.02 | 27.85 |
| D. Others | | | | | | | |
| | 22.50 | 29.47 | 21.13 | 16.63 | 34.88 | 40.97 | 39.99 |

Sources : Own calculation based on data from World Bank, Country Economic Memorandum, Various Years; Ministry of Finance, Government of the People's Republic of Bangladesh; Bangladesh Economic Survey, Various Years.

Chapter 3

The Structure of the Labour Market

3.1 Introduction

Burdened with a situation of burgeoning population, poor resource base, a nascent industrial base and a huge surplus labour force, Bangladesh, implemented a number of short-term and medium-to-long-term macroeconomic policy reforms to augment growth and eradicate poverty. These measures, as discussed in Chapter 2, have significant bearings on the labour market. But we know very little about them as well as the dynamics of labour market functioning in the country. No systematic mechanism has been developed for generation, documentation and monitoring of the labour market information in Bangladesh. The present chapter draws from various labour force surveys and censuses at the national level, and micro-level studies on the subject.

The chapter is divided into five sections including the introduction. Section 3.2 discusses the nature and characteristics of the labour market in Bangladesh, Section 3.3 discusses the linkages among labour market segments, Section 3.4 shows the labour force participation rates, while Section 3.5 discusses the trends in labour supply and the absorption rates.

3.2 Nature and Characteristics of the Labour Market

In this section we consider the labour force particularly, the civilian labour force and their growth rate over the past few decades together with characteristics of the labour market in terms of skill, location, production sectors and gender. The information is important for

policy formulation and policy action for efficient utilization of the available manpower for economic growth and development.

3.2.1 Labour Force

Over the two decades preceding 1981 Population Census, Bangladesh experienced a moderate annual growth rate in the labour force (2.7 percent) commensurating almost equally with the population growth rate. But during the next fifteen years from 1981 to 1996 the total labour force jumped from 25.9 million to 56.0 million recording an annual average growth rate of about 8 percent. Such an increase in the civilian labour force occurred mainly because of the definitional change in the female economic activities made in the 1989 Labour Force Survey (LFS). While the previous surveys did not include household activities like threshing, parboiling, raising poultry and livestock etc. within economic activities, the 1989 LFS did, which resulted in the entrance of a large number of women in the labour force. Thus the female labour force shot up from only 1.5 million in 1981 to as high as 21 million in 1989 and to 21.3 million in 1995-96 (see Table 3.1).

One important phenomenon of the Bangladesh labour market is that the female ratio of the labour force compared to their male counterpart, although always been very meagre, had the tendency to increase over time even before the extended definition of women economic activities was introduced in the 1989 LFS. Thus the male-female ratio of the labour force increased from 1:0.05 in 1961 and 1:0.096 in 1983-84 to 1:0.12 in 1985-86 and 1:0.71 in 1989. The 1989 figure commensurates well with the male-female ratio of the total population (1:0.94) in the country. But then the ratio started falling and came down to 1:0.61 in 1995-96.

Table 3.1: Civilian Labour Force

| Sources | Both Sex (Million) | Male (Million) | Female (Million) | Average Annual Growth Rate (Percent) | |
|-------------|-----------------------|-------------------|---------------------|---|-------------|
| | | | | Both Sex | Male Female |
| 1961 Census | 16.9 | 16.0 | 0.9 | - | - |
| 1974 Census | 21.9 | 21.0 | 0.9 | 2.0 | 2.1 0.0 |
| 1981 Census | 25.9 | 24.4 | 1.5 | 2.4 | 2.2 7.6 |
| 1983-84 LFS | 28.5 | 26.0 | 2.5 | 3.2 | 2.1 18.6 |
| 1984-85 LFS | 29.5 | 26.8 | 2.7 | 3.5 | 3.1 8.0 |
| 1985-86 LFS | 30.9 | 27.7 | 3.2 | 1.4 | 3.4 18.5 |
| 1989 LFS | 50.7 | 29.7 | 21.0 | 17.9 | 2.4 87.2 |
| 1990-91 LFS | 51.2 | 31.1 | 20.1 | 0.5 | 2.3 -2.2 |
| 1995-96 LFS | 56.0 | 34.7 | 21.3 | 1.8 | 2.2 1.2 |

Sources : BBS, Statistical Pocket Book of Bangladesh, 1995; Labour Force Survey, 1995-96 and Own Calculation based on data from preceding sources.

3.2.2 Child Labour

An important characteristic of the labour market in Bangladesh is that it is participated by a considerably high number of child labourers aged between 5 and 14 years. Although labour law of the country does not permit employment of child labour, this cheap source of labour is exploited in the non-formal private sectors including hotels, restaurants and transports, in most informal sectors both rural and urban, and in agriculture. Thus child labour constitutes more than one-tenth of the civilian labour force and the scenario remained more or less unchanged over the last decade (Table 3.2).

3.2.3 Youth Labour

Youths aged between 15 and 29 years comprised of 36-39 per cent of the civilian labour force (Table 3.2). Labourers in this age group are comparatively more mobile, amenable to migration depending on real wage and/or, real benefit differentials between geographic locations, trades and sectors. This chunk of the labour force supposedly contribute highly to inter-sectoral equilibrium with regard to labour demand (and wage) changes. The 'pull' factors of labour migration in general, attract this section of labour force more compared to the other age groups, who are more socially and/or otherwise bounded to their families and localities. Seemingly, the structural adjustment measures are to have pronounced positive effects on this section of the labour force. But the irony is that the most unemployed in Bangladesh belong to this age group and their rate increased rather progressively since the strengthening of the structural adjustment policies since mid-1980s.

3.2.4 Female Labour

We have already pointed out that a large proportion of the labour force in Bangladesh are women. Table 3.2 further shows that around 40 percent of the civilian labour force in the country are female. The question that now arises is whether the structural adjustment

policies will affect favourably the employment situation of this section of the labour force. The opposite question, viz., how will the prevailing social, economic and religious constraints on women's economic activities, movements and gainful employment affect the success of the adjustment also needs serious examination.

First, in Bangladesh women face constraints on free access to labour market. The 'purdah', the tradition, social norms and institutions, male dominance etc. put restrictions on their mobility and taking up gainful employment outside 'bari' (homestead). These restrictions are more pronounced in rural areas, although of late, these have been little eased in urban localities. Such restrictions may work as impediments to adjustment measures.

Secondly, women entrepreneurship in the country is very rare. Their entry to the credit market is limited. Government programmes like MSS (Mohila Samabay Samity), NGOs like Grameen Bank, BRAC, PROSHIKA and others do provide credit to women for enhancing their income generating activities and thus alleviating poverty; but such credits are very small both in scale and amount and therefore, inadequate for industrial investment of a considerable size. However, for the success of adjustment such credit facilities should expand together with the produces particularly the tradable produces, and their markets.

Thirdly, the 1989 census included and considered such activities as threshing, cleaning, husking, drying, boiling, growing vegetables and spices, processing and preservation of food, livestock raising, poultry raising etc. as economic activities if one spent at least one hour in a week on any such activities. These activities were generally performed by the females in and out of the agriculture based households in the rural areas and as a result, the survey recorded a boost in the total female labour force, both at national (185 percent increase compared to 1985-86 LFS, Table 3.1) and particularly, at rural levels. Most of these activities however are seasonal, provide employment much below the full employment level, and the outputs produced are mostly nontradables. Reallocation of women's labour

into more productive activities is therefore, essential for optimization of women productivity, income, growth and poverty alleviation. The success of the structural adjustment measures as have been effected in Bangladesh rests to a great extent on female labour market reorganization, strict implementation of non-discriminatory wage laws, revision of the structure and institution with regard to women employment. Creation and expansion of the existing facilities for women's access to credit market (basically formal credit market) may go a long way in boosting women entrepreneurship and employment. But so far, no fundamental change or special move to amend the women labour market structure is observable excepting a few NGO programmes for generation of women self-employment.

3.2.5 Skilled Labour Force

Human capital formation depends on skill formation which, in turn, depends on expansion of education and training facilities, both in the formal and in the informal sectors. One way of determining skilled labour growth in any country is by human capital investment by the government. Judged from this point of view, the Bangladesh Government's endeavour to this end in recent past has been appreciable. The Government has made primary education universal with special emphasis on female education. For under-privileged children the 'food for education programme' has been launched. Government expenditure, both current and capital, on education has gone up sharply in recent years.

Commensurating with the increase in expenditure of the government on human capital formation, the availability of skilled manpower is on the increase in Bangladesh at a considerable rate. One estimate shows that the skilled personnel almost doubled in 1994 compared to 1985, the annual growth rate being more than 10 percent (Table 3.3). These statistics are not exhaustive. There are

Table 3.2: Child, Youth and Female Labour Force

| <i>Characteristics</i> | <i>LFS (1985-86)</i> | <i>LFS (1989)</i> | <i>LFS (1990-91)</i> | <i>LFS (1995-96)</i> |
|--------------------------------------|----------------------|-------------------|----------------------|----------------------|
| 1. Child Labour (5-14 years) | | | | |
| Number (million) | 2.8 | 6.1 | 5.8 | 5.7* |
| Percent of total CLF | 9.1 | 12.2 | 11.3 | 10.2 |
| 2. Youth Labour Force (15-29 years) | | | | |
| Number (million) | 12.0 | 19.1 | 19.8 | 20.1 |
| Percent of total CLF | 38.8 | 37.7 | 38.7 | 35.9 |
| 3. Female Labour Force (15-29 years) | | | | |
| Number (million) | 3.2 | 21.0 | 20.1 | 21.3 |
| Percent of total CLF | 10.4 | 41.4 | 39.3 | 38.0 |

* Shows the child labour in 10-14 age group.

Source : BBS, Labour Force Survey, 1985-86, 1989, 1990-91 and 1995-96.

Table 3.3: A Profile of Skilled Personnel in Bangladesh

| | 1972 | 1974 | 1981 | 1985 | 1994 |
|--------------------------------|--------|--------|--------|--------|---------|
| Post Graduates | 31296 | 42757 | 77773 | 85371 | 163127 |
| Professionals | 21090 | 28371 | 58018 | 73790 | 175546 |
| Technical | 61131 | 68775 | 157061 | 193173 | 317176 |
| Agriculturists and others | n.a | 74169 | 136565 | 171208 | 353212 |
| Total (Numbers) | 113517 | 214072 | 429417 | 523542 | 1009061 |
| Average annual growth rate (%) | - | 37.3 | 10.5 | 5.1 | 7.6 |

Source : Adapted and estimated from Raisul Awal Mahmood, "Development of Technical and Vocational Skill - Challenge of 21st Century", Bangladesh Unnayan Samiksha, 12th Issue, Feb. 1995.

many skills which are acquired through various traditional ways. Many skills are handed down through participation and observation methods; many skills are acquired by joining firms or factories as apprentice without a salary, and yet some parental occupations requiring specific skill are adopted through a gradual learning process from the parents. Thus the number of skilled personnels are likely to be much higher than what has been shown in Table 3.3.

The paradox in the skilled labour market in Bangladesh is that while there are unemployed skilled and semi-skilled labour force there are also vacancies both in the public and in the private sector. Table 3.4 shows that while in 1993 there were 1,096,829 sanctioned posts in the government, semi-government, autonomous bodies and corporations the total employed personnel had been 972,837 leaving more than 11 percent sanctioned posts vacant.

Such mismatches between demand and supply in the market for skilled manpower cause prolonged period of unemployment and of underemployment for them. An ILO-ARTEP survey (1984) of some 10,919 establishments employing about 1,069,000 workers

Table 3.4: Number of Civil Officers and Staff in the Secretariat, Directorate and Autonomous Bodies, January 1, 1993

| | <i>Sanctioned positions</i> | <i>Actual (Male & Female)</i> | <i>Female (Number)</i> | <i>Vacant positions (Number)</i> |
|--------------------------------|-----------------------------|-----------------------------------|------------------------|----------------------------------|
| Ministry/Division | 9385 | 8611 | 779 | 774 |
| Departments/Directorate | 726642 | 656405 | 68902 | 70237 |
| Autonomous Bodies/Corporations | 360802 | 307821 | 13490 | 52981 |
| Total (Number) | 1096829 | 972837 | 83171 | 123992 |
| Percentage | 100.00 | 88.69 | 8.55 | 11.31 |

Source : BBS, Statistical Pocketbook of Bangladesh, 1995.

reveals that the skill composition of the employed manpower is quite different from the usual presumption of skilled manpower employment in the complex production processes of such establishments. Unskilled workers were found to constitute about 47 percent of total employment while the proportion of general service staff was quite high. These firms without looking for skilled labourers in the market prefer to give on-the-job training to their apprentices for two reasons. One, the training provided by the formal institutions are, in many cases, inappropriate and of low quality; and two, on-the-job training of the apprentices is activity specific and incur almost no cost. The scenario of the skilled labour market is such that while the private sector in the country is expected to generate as much as 46 percent of the employment for skilled manpower, they meet as much as 75 percent of their skill requirement by the apprentices who for the lack of a formal certificate command much less wage than the market rate. To overcome such mismatches and to make the adjustment successful government intervention

against exploitation and to ensure a competitive market wage rate not less than marginal productivity of the labour is needed.

3.2.6 Spatial Distribution of Labour

For the success of the structural adjustment it may require not only the reallocation of resources activity-wise but also spatially. Labour market, specific or general, may require readjustment through migration of labour from the surplus area to the deficit area. Generation of market forces (like investment, wages etc.) for the required mobility of the labour force inter-regionally for maintaining an equilibrium between the market demand for labourers and the supply ensures higher production and growth, and lowers unemployment rates and poverty.

The scenario of spatial distribution of labour force (old administrative division-wise) and their average concentration per square kilometre within the division and the concentration division-wise are shown in Table 3.5. The deviation of labour concentration (labour density per square km.) from the national averages in a division will reflect, in a naive way though, the degree of economic activities there at present, and the scope of future activities from the stand point of labour availability.

Table 3.5 shows that the highest concentration of labour is in Dhaka division followed successively by Chittagong, Rajshahi and Khulna. It may be concluded from the table that the division of Khulna deserves much attention in terms of reallocation of resources and hence labour followed by Chittagong and Rajshahi divisions. Dhaka is already crowded. Chittagong division (and the newly created Sylhet division which was previously within the Chittagong division) needs special attention for the reason that this division contains most of the hilly areas of the country which are comparatively thinly populated and have tribal races with distinct socio-cultural affinity of their own. For the success of the adjustment these facts

must be taken into account and reallocation of resources and growth related efforts must be directed in such a manner that the available local resources, both natural and human, are exploited optimally. Hilly areas have tremendous prospects for new industrial set-up particularly, for processing exportable and internally marketable foods, fruits, fruit juice etc.

3.2.7 Rural/Urban Distribution of Labour

The rural/urban distribution of labour force, in a way, demonstrates the relativity of labour dependence for gainful work on 'traditional' and 'modern' sectors. Their growth rate (change in supply of labour) therefore, will indicate the expansion or contraction of the relevant sector. In Bangladesh the modern sector produces output which are mostly exportable and import-competing (tradables). Structural adjustment at its heart, aims at expansion of such outputs through a shift in the age-old pattern of production through the use of relative price instruments.

Such a shift in the pattern of production requires a corresponding shift in factors of production towards the modern sector and it is the labour market through which sectoral composition of labour use is altered. Reallocation of labour may be required across firms in the same area, across the formal/informal or covered/uncovered divide, across regions or across sectors. This reallocation can take place through a number of mechanisms viz. wage differentials, creation of employment opportunities for the unemployed and creation of demand for the labourers who are surplus in the traditional sector. However, in Bangladesh the rural/urban labour flow also depends on different 'push' factors other than these 'pull' factors only.

In Bangladesh more than 84 percent of the people live in rural areas. Its economy is fundamentally agriculture based. About one-third of the GDP (32.76 percent in 1995) comes from agriculture. Agriculture alone provides more than 63 percent of total employment

Table 3.5: Economically Active Population (Labour Force) by Administrative Divisions (Old)

| | <i>Labour force(in thousand)</i> | <i>Labour force concentration per sq. km. (Average)</i> | <i>Labour force concentration (percentage)</i> |
|-------------------|--------------------------------------|---|--|
| Bangladesh | | | |
| 1981 Census | 25907 | 176 | 100.00 |
| 1984-85 LFS | 29509 | 200 | 100.00 |
| 1985-86 LFS | 30917 | 209 | 100.00 |
| 1990-91 LFS | 51200 | 347 | 100.00 |
| 1995-96 LFS | 50337 | 341 | 100.00 |
| Chittagong | | | |
| 1981 Census | 6451 | 139 | 24.90 |
| 1984-85 LFS | 7616 | 164 | 25.81 |
| 1985-86 LFS | 8185 | 177 | 26.47 |
| 1990-91 LFS | 14131 | 305 | 27.60 |
| 1995-96 LFS | 11910 | 257 | 23.66 |
| Dhaka | | | |
| 1981 Census | 8213 | 264 | 31.70 |
| 1984-85 LFS | 9145 | 294 | 31.00 |

Continued

Table 3.5: Continued

| | <i>Labour force(in thousand)</i> | <i>Labour force concentration per sq. km. (Average)</i> | <i>Labour force concentration (percentage)</i> |
|-----------------|--------------------------------------|---|--|
| 1985-86 LFS | 9830 | 316 | 31.80 |
| 1990-91 LFS | 15820 | 508 | 30.90 |
| 1995-96 LFS | 13665 | 439 | 27.15 |
| Khulna | | | |
| 1981 Census | 4895 | 137 | 18.90 |
| 1984-85 LFS | 5846 | 164 | 19.80 |
| 1985-86 LFS | 5771 | 162 | 18.67 |
| 1990-91 LFS | 9933 | 279 | 19.40 |
| 1995-96 LFS | 12456 | 350 | 24.75 |
| Rajshahi | | | |
| 1981 Census | 6348 | 184 | 24.50 |
| 1984-85 LFS | 6902 | 200 | 23.39 |
| 1985-86 LFS | 7131 | 207 | 23.06 |
| 1990-91 LFS | 11315 | 328 | 22.10 |
| 1995-96 LFS | 12306 | 356 | 24.44 |

Note : 1995-96 figures show the labour force aged 15 and above only.

Sources : Own calculation based on data from BBS, Labour Force Survey, Various Years and Statistical Pocketbook of Bangladesh 1995.

(1996 LFS) while more than 80 percent of the labour force live in the rural areas of the country (Table 3.6).

The urban sector in the country is however expanding gradually. As can be seen from Table 2.3 the contribution of the manufacturing sector to GDP has increased from 9.9 percent in 1990 to 11.34 percent in 1995. The wage rate in the industrial sector has increased by about 29 percent and little more than 37 percent for the skilled and the unskilled labourers respectively during the period from 1990 to 1994 while on the national count the increase, on average, had been less than 20 percent. All these partially explain why the labour flow is on the increase in the urban sector, although the overwhelming pressure of the labour force on agriculture still persists. It is interesting to note that while the annual growth rate of labour force in the rural sector recorded a fall by as much as (-) 5.77 percent in 1991 the corresponding growth rate had been as high as 52.63 percent (male : 57.14 percent, female : 40 percent) in the year in the urban sector (see Table 3.6). The table further shows that from 1961 till the LFS in 1995-96 the labour force increased consistently in both the rural and the urban sectors but the rate had always been higher in the urban sector. In recent years, particularly in the urban sector, the female labour force growth rate showed a steady increase over that of the male labour force. This phenomenon is due, to a great extent, to admission of increasing number of female workers to employment in garments and other small industries.

3.3 Linkages

Productive pursuits in different sectors - modern and traditional - of an economy are inter-linked with one another through two-way linkages : backward and forward. Such linkages also exist among

Table 3.6: Rural/Urban Distribution of Labour Force and the Annual Growth Rate by Sex

| Sources (million) | Bangladesh | Rural (Percent) | | | Urban (Percent) | | |
|----------------------|-----------------|------------------|-------------------|------------------|------------------|-----------------|------------------|
| | | Male | Female | Both | Male | Female | Both |
| 1961 census | 16.9 | 89.35 | 4.73 | 94.08 | 5.33 | 0.59 | 5.92 |
| 1974 census | 21.9 (2.28) | 86.76 (1.99) | 3.65 (0.00) | 90.41 (1.89) | 9.13 (9.40) | 0.46 (0.00) | 9.59 (8.46) |
| 1981 census | 25.9 (2.61) | 82.24 (1.73) | 5.02 (8.93) | 87.26 (2.02) | 11.97 (7.86) | 0.77 (14.29) | 12.74 (8.16) |
| 1983-84 LFS | 28.5 (5.02) | 78.95 (2.82) | 7.37 (30.77) | 86.32 (4.42) | 11.93 (4.84) | 1.75 (75.00) | 13.68 (9.09) |
| 1984-85 LFS | 29.5 (3.51) | 78.64 (3.11) | 7.46 (4.76) | 86.10 (3.25) | 12.20 (5.88) | 1.70 (0.00) | 13.90 (5.13) |
| 1985-86 LFS | 30.9 (4.75) | 76.38 (1.72) | 8.41 (18.18) | 84.79 (3.15) | 13.27 (13.89) | 1.94 (20.00) | 15.21 (14.63) |
| 1989 LFS | 50.8 (16.10) | 50.39 (2.12) | 38.39 (162.50) | 88.78 (18.03) | 8.27 (0.60) | 2.95 (37.50) | 11.22 (5.32) |
| 1990-91 LFS | 51.2 (0.79) | 47.85 (-0.99) | 35.16 (-7.69) | 83.01 (-5.77) | 12.89 (57.14) | 4.10 (40.00) | 16.99 (52.63) |
| 1995-96 LFS | 56.0 (2.40) | 48.78 (3.00) | 33.02 (0.70) | 81.80 (2.0) | 13.16 (3.0) | 5.04 (8.3) | 18.20 (4.3) |

Note : Figures in the parentheses indicate average annual growth rate.

Sources : Own calculation based on data from BBS, Labour Force Survey, Various Years and Statistical Pocketbook of Bangladesh 1995.

different segments of the product market as well as of the resource market including human resource and labour. The success of the adjustment depends to a large extent on the successful exploitation of these linkages. If exploited carefully, both way linkages will promote efficient utilization of resources, material and human, in all the inter-linked sectors and thus foster growth and development. The structural adjustment strategies aim to affect the economy at macro level. At this, the inter-linkage between the inter-sectoral

product markets and the resultant demand-supply shift in the labour market goes a long way in product appreciation on the one hand, and employment promotion, on the other. The inter-linkage - backward and forward - between agriculture and industry in the formal sector, between agriculture and industry in the informal sector, between agriculture and micro-industries, between formal and informal sector industries, between micro and medium and large-scale industries, between rural-urban-and-growth centre linkages may be exploited through the adjustment strategies in such a manner that the complementarity of the sectors develop in a way that a general equilibrium at the macro-economic level is attained and a full employment level is achieved through the interaction of market forces. Market failures must be identified and corrective measures taken immediately.

In the labour market the mechanism of the terms of contract between buyer and seller matches the supply and demand of the factor of production - labour. Different types of labour, differentiated by skill, location, gender, and so on, constitute different labour markets and these markets are linked with each other because the condition in one can influence the workings of another. The inter-linked individual labour market system is, again, linked to other markets in the country. The working of the one is influenced by the other.

In a competitive labour market wages play a vital role in the market adjustment. In Bangladesh the nationalized sector acts as the wage leader, while the private industries take the government determined wage as a reference point and prefers to resort to collective bargaining for wage fixation at plant level. The inter-sectoral wage linkage or in other words, the impact of wage rate changes on inter-sectoral (and even intra-sectoral) mobility of labour seem to be very weak in Bangladesh. This has, probably, to be so in a labour abundant economy where labour supply is almost unlimited. Thus while the wage rate in the agricultural sector was higher than that in the industrial sector (mainly cotton and jute) during the seventies labour flow to industrial sector from the rural agricultural sector did not reverse; nor while the wage rate in the said industries became higher than that in the agricultural sector during

the early eighties (1980 to 1984) the agricultural workers created a rush to the industrial sector; and again, while the wage rate in the industrial sector became lower than that in the agricultural sector after 1983-84 (i.e. after strengthening the structural adjustment policies) there existed no record that the industrial workers had retreated to agriculture or rural sector. The inter-regional movement (migration) particularly, the movement from rural to urban centre(s) is effected more by the 'push' factor than by the 'pull' factors in Bangladesh. The migrants enter more into the informal sector than into the formal or non-formal sectors. Thus about 71 percent of the informal sector labourers are found to be migrants and doing such activities as street selling, repair and other personal services, crafts and other manufacturing and construction works, pulling of rickshaw and other informal transport. Their average daily income is however, more or less similar to the daily average wages of industrial workers; but much less than that of the construction labourers.

3.4 Labour Force Participation Rates

Labour force participation rate or activity rate distinguishes the labour force as a ratio of the population. Crude labour force participation rate is the ratio of economically active population expressed in percentage. In other words, the crude activity rate represents the labour force as percent of total population, while refined activity rate is the ratio of the number of economically active persons to the population of aged 10 years and over expressed in percent. This is also called 'economic participation rate'.

The labour force participation rate can be interpreted as the probability that a person of a certain age (10 years and above) and sex will be in the labour force, and can be used to estimate the size of labour reserves within the economy. Thus, it has an important bearing on the meaning of unemployment statistics.

Table 3.7 shows the trend in crude labour force participation rates in Bangladesh since 1961. While the male participation rates remained more or less steady over the years the female participation rates varied significantly. However, since the use of the 'extended definition' of the labour force in 1989 LFS, the female labour force

participation rate has become, as expected high and steady. What is noteworthy here is that the participation rates for males have always been higher, rather significantly higher, than that for females.

As expected, Table 3.8 shows that the rural labour force participation rate is much higher than the urban rate. The striking point is that the crude activity rate for females in rural areas is almost double the level obtaining in urban areas. The trend in case of refined activity rate is also similar. In fact, the variation between refined and crude activity rates are based on definitional issues, and therefore, due to the denominator. However, the female activity rate (crude) both in the rural and in the urban areas remained more or less steady over the years from 1989 till 1996. The trend in the refined activity rate within itself is not widely different.

Table 3.7: Crude Labour Force Participation Rates
(1961-1995/96)

| <i>Year and source</i> | <i>Both sex</i> | <i>Male</i> | <i>Female</i> |
|------------------------|-----------------|-------------|---------------|
| 1961 Census | 33.2 | 54.3 | 10.4 |
| 1981 Census | 28.8 | 52.7 | 3.4 |
| 1985-86 LFS | 30.3 | 53.6 | 6.4 |
| 1989 LFS | 46.9 | 53.1 | 40.2 |
| 1990-91 LFS | 46.9 | 54.5 | 38.6 |
| 1995-96 LFS | 46.0 | 55.8 | 35.7 |

Sources : Hye, S.A. in M. Asaduzzaman and K. Westegaard eds., "Growth and Development in Rural Bangladesh"; BBS, Labour Force Survey, Various Years.

As the labour force participation rate tends to show the size of labour reserve in the economy, the phenomenon becomes more significant with the fact that in Bangladesh an overwhelming majority of the rural female work participants (83 percent) are unpaid family helpers (mostly underemployed and/or disguised unemployed) while the corresponding figure for urban female participants is also reasonably high (41 percent). The unpaid male family helpers account for more than one-sixth of the total labour force participants and the proportion in the rural area is more than double (19.4 percent) than that in the urban area (8.4 percent). All

these demonstrate the wage labour market limits in both the rural and the urban sectors for male and female labour forces alike.

3.5. Labour Supply and Labour Absorption

Compared to the growth of population and the demand for labour, the labour force has grown at a much high rate in Bangladesh since 1961. In 1961, Bangladesh (the then East Pakistan) had a total population of 50.8 million (1961 census) which rose to 111.45 million in 1991 (1991 census), but during the period the labour force rose from 16.9 million to 51.2 million. Thus while the population doubled during the period the labour force tripled. Since then the labour force had further increased and reached a total of 56 million in 1995-96. The bulk of the labour force consists of unskilled labourers and as pointed out earlier, 30 to 40 percent of the labour force are unemployed and underemployed. There are also disguised unemployed, particularly in the agriculture sector. Thus the Bangladesh economy faces a major challenge of making provisions of employment for these unsurmountable quanta of the unemployed, underemployed and the disguised unemployed. Provisions are also to be made for the new entrants.

3.5.1 Employed Population

Irrespective of the incidence of underemployment and disguised unemployment the total employed among the labour force in the country had been 50.1 million in 1989, 50.2 million in 1990-91 and 54.6 million in 1995-96, the average annual growth rate of employment during the period being only about 1.5 percent. Percentage-wise, the proportion of women employment decreased consistently during the period though the male proportion of employment showed signs of marginal increase (Table 3.9). But this improvement in the male employment scenario remained far away from catching the level of labour force increase. The male unemployed population more than doubled during the period. It swelled up from 0.4 million in 1989 to 0.9 million in 1995-96. The male-female

unemployed population together also increased almost in the same proportion and rose to 1.3 million in 1995-96 from 0.6 million in 1989.

3.5.2 Sectoral Distribution of Employed Population

In Bangladesh agriculture including forestry and fisheries still remains the largest sector in terms of employment. It accounts for more than 63 percent of the total employment; although the inter-temporal trend is that the proportional labour force pressure on agriculture is falling. Thus while agriculture absorbed 66.4 percent of the labour force in 1990-91, it provided employment to 63.2 percent of the labour force in 1995-96. This however, does not mean an absolute reduction in pressure on agriculture. In absolute terms the employed population in agriculture rose from 33.3 million in 1990-91 to 34.5 million in 1995-96 (Table 3.9). The next important sector in terms of employment is the service sector. The growth rate of employment in this sector had been more than 14 percent per annum over the five years from 1990-91 to 1995-96, while in the manufacturing sector including mining and quarrying the proportion of employed population, both in absolute terms and in percentages, fell consistently over the period, rather at a high rate (see Table 3.9).

3.5.3 Status in Employment

The bulk of employment generation in Bangladesh has occurred in the informal sector. The share of the informal sector in aggregate employment generation during 1989 to 1995-96 was around 60 percent. In absolute terms, employment in the informal sector increased from 45.3 million in 1989 to 47.9 million in 1995-96. More than 79 percent of those employed in the informal sector in 1995-96 had been either in the 'class' 'unpaid family workers' or 'self-employed', the former being about 1.4 times high than the latter (Table 3.9). Women engaged in post-harvest crop processing, raising poultry, growing vegetables etc. constitute a major portion of the 'unpaid family workers/helpers'; while rickshaw pullers, vendors, small traders and people engaged in non-farm activities form the major component of the category 'self-employed/own account workers'.

Table 3.9: Sectoral Employment Trends

| | 1989 LFS | 1990-91 LFS | 1995-96 LFS | Annual growth rate over previous period | |
|---|-----------------|----------------|----------------|--|---------|
| | | | | 1990-91 | 1995-96 |
| Employed Population | | | | | |
| Total (million) | 50.1 | 50.2 | 54.6 | 0.1 | 1.7 |
| Male (%) | 58.7 | 60.8 | 61.9 | 2.4 | 0.4 |
| Female (%) | 41.3 | 39.2 | 38.1 | (-3.4) | -0.6 |
| Employment by Broad Economic Sectors : (million, % in brackets) | | | | | |
| Agriculture ¹ | 32.6 (65.10) | 33.3 (66.4) | 34.5 (63.2) | 1.4 | 0.3 |
| Manufacturing, mining and quarrying | 7.1 (14.2) | 5.9 (11.8) | 4.1 (7.5) | (-11.6) | 11.1 |
| Services ² | 8.0 (16.0) | 8.6 (17.1) | 14.8 (27.1) | 4.9 | (-12.2) |
| Household sector and not adequately define Status in Employment (%) | 2.4 (4.8) | 2.3 (4.6) | 1.2 (2.2) | (-2.8) | |

Continued

Table 3.9: Continued

| | 1989 LFS | 1990-91 LFS | 1995-96 LFS | Annual growth rate over previous period | |
|-------------------------------------|----------|-------------|-------------|--|---------|
| | | | | 1990-91 | 1995-96 |
| Self-employed/own account workers | 28.5 | 26.5 | 29.3 | (-14.7) | 2.0 |
| Employer | 1.0 | 0.2 | 0.4 | (-165.8) | 14.9 |
| Employee | 9.6 | 11.8 | 12.3 | 14.7 | 0.8 |
| Unpaid family helper | 45.9 | 47.2 | 40.1 | 1.9 | (-13.2) |
| Day labourers | 15.0 | 13.9 | 17.9 | (-15.0) | 5.2 |
| Others | - | 0.4 | - | - | - |
| Major Occupation (%) | | | | | |
| Professional, technical | 2.9 | 2.9 | 3.3 | - | - |
| Administrative, managerial | 0.3 | 0.4 | 0.4 | - | - |
| Clerical workers | 1.9 | 2.2 | 2.2 | - | - |
| Sales workers | 7.4 | 8.0 | 11.3 | - | - |
| Service workers | 2.9 | 3.3 | 3.5 | - | - |
| Agriculture, forestry and fisheries | 73.8 | 68.5 | 63.8 | - | - |
| Production, transport and others | 10.8 | 14.7 | 15.5 | - | - |

Notes : 1. Includes crops, livestock, forestry and fisheries

2. Includes construction, public utilities, commerce, finance and community and special services.

Sources : BBS, Labour Force Survey 1995-96 and own calculation based on it.

Chapter 4

Structural Adjustment Policies and Labour Market

4.1 Structural Adjustment and Labour Market

Structural adjustment policies in Bangladesh have elements of both stabilization and structural adjustment. Stabilization policies seek to shift the economy's aggregate demand curve through the use of restrictive monetary, fiscal and incomes policies. Structural adjustment policies seek to enhance economy's supply response through the use of relative price instruments. The economy's supply response can be enhanced by shifting resources from the non-tradables to the tradables sector through the use of relative price instruments like the exchange rate.

A cut in aggregate demand through restrictive monetary and fiscal policies produces downward pressure on prices which leads to cutback in production and ultimately cut in labour demand. Thus a reduction in aggregate demand leads to Keynesian type unemployment in the economy. However, if real wages are downwardly flexible as in the classical competitive economy, the reduction in cost would help maintain output and under certain conditions previous output level can be maintained. But if real wages do not fall sufficiently to restore employment, output would be less than before and because of unemployment the distribution of income would be more unequal (Horton, Kanbur and Mazumdar, 1994). Thus one of the key mechanisms through which the labour market responds to stabilization policies is through downward flexibility of wages. Three reasons have been advanced for lack of sufficient flexibility of real wages to clear the labour market (Levy and Newman, 1989). First, there may be legal barriers to lowering wages. Second, workers may fail to detect the true demand conditions of their firms' products and may thus resist wage cuts in the face of falling demand. Third, wage cut might also be resisted by the management if it thinks that the lowering of wages would reduce the efficiency of labour force.

Table 4.1 presents data on the movement of real wages during the period from 1981 to 1996. It can be readily seen from the table that general as well as sectoral real wages have slight upward trend though the trend growth varies across sectors. As has been pointed out earlier, the government initiated a three year structural adjustment programme in 1987 and started a much stronger structural adjustment programme in December 1991. The response of the labour market to the adjustment programmes has been quite interesting. General wages increased in 1987 when the adjustment programme got underway and continued to increase in the next three years. Real wages declined first in 1991 and remained stagnant in 1992 when concerted efforts to reform started. Thereafter they rose again for two consecutive years. The fluctuation in real wages has continued till the end of the period of study. Thus movement of real wages is characterized by slight long run upward trend with short run fluctuations. This behaviour of real wages which shows some downward stickiness is a result of the wage setting behaviour in the country.

In the government sector, wages and salaries are determined and periodically revised by government appointed pay commissions to adjust them to the increase in the cost of living index. In the interim period, the increases in the cost of living index are compensated by payment of dearness allowance. Thus though formal wage indexation is absent, lagged adjustment of wages and salaries take place. Wages and salaries were revised upwards in 1985 and 1992. In the formal private sector, wages are determined by a process of collective bargaining. In the cases, where collective bargaining fails or proves inadequate, wages are determined on the basis of the recommendations of the Minimum Wage Board. The recommendations of the Minimum Wage Board are based on consultation with the labour and the employer (Rashid, 1993). The timing of adjustment to cost of living index may vary across sectors and enterprises. However, government sector wage increases might have some lagged influence on private sector wages especially in sectors where both public and private sectors operate. In the

informal sector and the vast agricultural sector, upward adjustment of wages follows the rise in the price of wage good though instantaneous adjustment is unlikely. Boyce and Ravallion (1991) suggest that only about one fifth of an increase in the price of rice is passed on in the agricultural wage rate within the current year and this rises to about one half in the long run. An increase in rice prices thus reduces real wages and this persists in the long run equilibrium.

Table 4.1: Real Wage Indices by Sector, 1981-1996

(Base : 1970 = 100)

| <i>Fiscal Year</i> | <i>General</i> | <i>Agriculture</i> | <i>Manufacturing</i> | <i>Construction</i> |
|--------------------|----------------|--------------------|----------------------|---------------------|
| 1981 | 87 | 81 | 80 | 96 |
| 1982 | 86 | 81 | 79 | 94 |
| 1983 | 88 | 82 | 82 | 99 |
| 1984 | 90 | 70 | 95 | 99 |
| 1985 | 86 | 70 | 91 | 91 |
| 1986 | 95 | 80 | 102 | 100 |
| 1987 | 102 | 86 | 109 | 106 |
| 1988 | 106 | 89 | 108 | 117 |
| 1989 | 107 | 89 | 110 | 120 |
| 1990 | 110 | 94 | 115 | 113 |
| 1991 | 107 | 91 | 114 | 107 |
| 1992 | 107 | 93 | 113 | 104 |
| 1993 | 113 | 99 | 119 | 109 |
| 1994 | 114 | 101 | 121 | 106 |
| 1995 | 111 | 98 | 121 | 100 |
| 1996 | 114 | 97 | 123 | 105 |

Source : BBS, Statistical Yearbook, Various Years.

Increase in real wages in all sectors as well as in general wages in two years in a row in 1986 and 1987 can be attributed to the government sector wage increases towards the end of 1985 and wage adjustment in other sectors. Similar adjustment also took

place in 1993 which was accentuated by sharp fall in the rate of inflation. Nominal wage stickiness and sharp fall in the cost of living index in 1995 led to increase in real wages in all sectors except construction where real wages declined. Movement of real wages thus does not reveal any uniform pattern. While wages increased in all sectors during the initial years of the adjustment period in the mid eighties they declined or stagnated in 1992.

4.2 Unemployment Rate

Analysis of trends in unemployment rate is made difficult by the absence of time series data on unemployment rate. However, data obtained from population census and labour force surveys which are carried out sporadically reveal some pattern. Unemployment rate declined in the pre-adjustment period from 2.3 percent in 1981 to 1.1 percent in 1986. In the adjustment period unemployment rate has gradually increased and reached its peak level in 1996. Male unemployment rate is consistent with the movement of the aggregate unemployment rate. However, female unemployment rate shows some cyclical pattern in the pre-adjustment period. It is possible that during economic recessions the brunt of labour market adjustment falls disproportionately on the female labour force. Urban unemployment rate shows some fluctuation. In the adjustment period, unemployment rate increased from its lowest level in 1986 and reached its peak level in 1996. Both male and female unemployment rates are consistent with the aggregate pattern. There is, however, one notable difference. While male unemployment rate increased in 1996 from its 1991 level female unemployment rate declined over this period. Though the decline is marginal, it might indicate something significant. Expansion of employment opportunities for women in the expanding RMG industry and the women activities supported by government and NGOs might have brought such a result.

Rural unemployment rate is low which conceals the massive underemployment in rural areas. Unemployment rate remained at 1.6 percent in 1984 and 1985. It dropped to 1 percent in 1986 and remained at that level until 1991. There has been a big jump in the unemployment rate in 1996 when it reached 2.1 percent. The decline

in male unemployment rate continued in the pre-adjustment period. It started to increase in 1989 and has more than doubled in 1996. Thus expansion of employment opportunities in the rural economy through increase in farm and non-farm activities could not keep pace with the increase in the labour force. The movement of the unemployment rate shows increasingly disappointing job expansion in the adjustment period. In the rural areas female unemployment rate was much higher than male unemployment rate in the pre-adjustment period. There has also been some cyclical changes in the female unemployment rate. However, the sharp drop in the unemployment rate from 3.4 percent in 1986 to 0.9 percent in 1989 is largely attributable to a change in the definition of employed person. As indicated in Chapter 3, in 1989 some of the on-farm and household activities of women e.g. cleaning, husking and drying/boiling rice, growing vegetables and spices, processing and preservation of food, livestock and poultry raising etc. were included and considered as economic activity if one had spent at least one hour in a week on any such activity. Female unemployment rate also shows upward trend in the adjustment period. Thus both male and female unemployment rates in the rural areas exhibit similar upward trend implying slow growth of employment relative to the growth of labour force in the rural areas.

Table 4.2: Unemployment Rate by Location and Sex

| Sources | Bangladesh | | | Urban | | | Rural | | |
|---------------|------------|------|--------|-------|------|--------|-------|------|--------|
| | Total | Male | Female | Total | Male | Female | Total | Male | Female |
| 1981 (Census) | 2.3 | 2.1 | 6.7 | - | - | - | - | - | - |
| 1983-84 (LFS) | 1.8 | 1.5 | 4.0 | 2.8 | 2.6 | 3.9 | 1.6 | 1.4 | 4.2 |
| 1984-85 (LFS) | 1.8 | 1.4 | 5.6 | 3.2 | 3.1 | 4.0 | 1.6 | 1.2 | 6.0 |
| 1985-86 (LFS) | 1.1 | 0.8 | 3.3 | 1.7 | 1.5 | 2.6 | 1.0 | 0.7 | 3.4 |
| 1989 (LFS) | 1.2 | 1.3 | 1.1 | 2.7 | 2.5 | 3.2 | 1.0 | 1.0 | 0.9 |
| 1990-91 (LFS) | 1.9 | 2.0 | 1.9 | 2.6 | 2.0 | 4.7 | 1.0 | 2.0 | 1.6 |
| 1995-96 (LFS) | 2.5 | 2.7 | 2.3 | 4.5 | 4.4 | 4.6 | 2.1 | 2.2 | 1.9 |

Sources : BBS, Labour Force Survey, Various Years and Population Census 1981.

4.3 Employment Patterns

The structural adjustment programme is predicated on the assumption that reforms would lead to a greater role of the relative prices in the allocation of resources. Specifically, a correct exchange rate would achieve a resource shift from the non-tradables to the more efficient tradables sector resulting in higher output and employment in the tradables sector. Table 4.3 presents data on sectoral composition of employment for selected years. Because of change in the definition of employment whereby participation in some specific household economic activities is considered as employment, pre-1989 data are not strictly comparable with the data in the later period. However, some general observations can be made. In 1983-84 the largest employer was the agricultural sector offering 58.8 percent of total employment in the economy. The second largest employer was trade and restaurant services with manufacturing sector occupying the third position. The tradables sector comprising of agriculture and manufacturing sectors employed 67.7 percent of the labour force and 32.3 percent of the labour force was employed in the non-tradables sector. Agriculture accounted for 63.5 percent of employment of the male labour force followed by trade and restaurant (12.2 percent), community and personal service (8.1 percent), and manufacturing (7.0 percent). Most of women's employment was concentrated in the household sector (46.8 percent), followed by manufacturing (28.8 percent), agriculture (8.9 percent), community and personal service (8.8 percent). Thus while agriculture generated most of the gainful employment for the male labour force, household sector generated most of the gainful employment for the female labour force. Manufacturing sector is an important source of employment for the female labour force but it is a less important source of employment for the male labour force.

In 1989 agriculture was by far the largest employer of the labour force and this holds for both male and female labour force. The very sharp rise in female employment in the agricultural sector is not so much a result of large employment creation as a result of change in the definition whereby household economic activities were treated

as employment as mentioned earlier. Manufacturing employment increased and the share of other sectors in employment decreased. The share of tradables sector in employment rose to 78.8 percent. As mentioned before, this change in the share of employment in the tradables sector is largely a reflection of change in the definition of employed persons and not much can be said about the impact of structural adjustment on the change in the composition of employment.

The share of agricultural employment increased and that of manufacturing employment decreased in 1990-91 compared to 1989. The share of tradables sector employment decreased marginally from 78.8 percent in 1989 to 78.2 percent in 1991. The share of all sectors in the non-tradables sector experienced an increase though the increase is small. Only the share of construction sector suffered a decline. These changes in aggregate employment patterns have different implications for male and female employment. The contribution of agriculture to male employment declined but that of manufacturing increased. On the other hand, the contribution of agriculture to female employment increased while that of manufacturing decreased. Further changes which affected male and female employment differently relate to trade and restaurant sector and community and personal service sector. The share of trade and restaurant sector increased for male employment and decreased for female employment. The opposite took place in the case of community and personal service sector.

In 1996 both agriculture and manufacturing sector's share of employment suffered a decline. In agriculture the decline is sharp in the case of female employment while the share of male employment holds on to its 1991 level of 54.4 percent. In the manufacturing sector a decline in share was experienced by both male and female employment with male employment experiencing a sharper decline. The share of tradables sector employment thus suffered a sharp fall in 1996 compared to the previous years. The fall in the share is larger in the case of female employment (11.1 percentage points) compared to male employment (6.2 percentage points). As development

proceeds the share of agricultural employment declines. The experience of Bangladesh is also consistent with this phenomenon. However, the decline in the relative share of agriculture is not matched by the increase in the relative share of manufacturing employment. Rather, the share of non-tradables sector employment has increased.

These observations on the labour market fit neatly with the general trends in the economy. We have seen in Chapter 2 that in the adjustment period the share of non-tradables sector output expanded at the cost of the share of the tradables sector output. Besides, the relative prices might have provided appropriate guidance to the reallocation of resources between tradables and non-tradables sector but other factors have dwarfed its impact. In the structural adjustment period the composition of government expenditure has shifted towards non-tradables sector. For example, in 1988 the share of annual development expenditure on agriculture and industry stood at 31.2 percent which fell to 19.5 percent in 1995. This provided an impetus to the expansion of output and employment in the non-tradables sector overwhelming the weak relative price effects.

4.4 Educated Unemployment

Unemployment among the educated individuals has been regarded as a major problem facing Bangladesh (e.g. Islam, 1980). Table 4.4 shows the distribution of unemployment rate by level of education, sex and region. In 1983-84 the unemployment rate for people with no education was less than for people with any education. This was true for both male and female labour force. Among the educated, the highest rate of unemployment is observed for people with SSC and HSC level of education. Male unemployment rate was consistently lower for all levels of education than female unemployment for corresponding levels of education. Further, female unemployment had a tendency to rise with the levels of education.

Table 4.3: Sectoral Composition of Employment, Selected Years.

| Broad Sectors | 1984 | | 1985 | | 1990 | | 1991 | | 1996 | | (Per cent) | | | | |
|-----------------------------------|----------|--------|----------|--------|----------|--------|----------|--------|----------|--------|------------|------|------|------|------|
| | Both sex | Female | Both sex | Female | Both sex | Female | Both sex | Female | Both sex | Female | | | | | |
| Agriculture, Forestry | 58.8 | 63.5 | 8.9 | 57.7 | 62.3 | 9.3 | 64.9 | 60.3 | 71.5 | 66.4 | 54.4 | 84.9 | 63.1 | 54.4 | 75.2 |
| Fishery | 8.9 | 7.0 | 28.8 | 9.3 | 9.7 | 25.8 | 13.9 | 8.5 | 21.6 | 11.8 | 13.9 | 8.6 | 7.5 | 7.7 | 7.0 |
| Manufacturing | 1.7 | 1.9 | 0.4 | 1.9 | 2.0 | 0.7 | 1.3 | 2.1 | 0.2 | 1.1 | 1.6 | 0.2 | 1.8 | 2.7 | 3.7 |
| Construction | 11.6 | 12.2 | 5.8 | 12.5 | 13.3 | 4.9 | 8.2 | 13.3 | 1.1 | 8.5 | 13.7 | 0.6 | 11.2 | 16.6 | 2.3 |
| Trade and Restaurant | 3.9 | 4.2 | 0.5 | 4.0 | 4.4 | 0.4 | 2.5 | 4.3 | 0.0 | 3.2 | 5.3 | 0.1 | 4.2 | 6.8 | - |
| Transport, Storage, Communication | 0.5 | 0.5 | 0.1 | 0.7 | 0.7 | 0.4 | 0.5 | 0.8 | 0.0 | 0.6 | 0.9 | 0.1 | 0.4 | 0.6 | - |
| Financial, Business Service | 8.2 | 8.1 | 8.8 | 8.8 | 8.2 | 14.6 | 3.6 | 5.5 | 0.9 | 3.8 | 1.3 | 8.8 | 9.3 | 9.8 | 7.9 |
| Community Personal Service | 6.0 | 2.1 | 46.8 | 4.8 | 1.1 | 43.7 | 3.2 | 3.1 | 3.3 | 4.5 | 4.6 | 4.3 | 2.2 | 1.2 | 3.7 |
| Household Sector | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Not adequately defined | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

Note : Data upto 1986 relate to traditional definition and data from 1989 onwards relate to extended definition where some specific household economic activities not considered previously are considered as employment.

Source : BBS, Labour Force Survey, Various Years.

A comparison of urban and rural areas reveals that female unemployment rate was higher than male unemployment rate in both urban and rural areas. In urban areas, the rate of unemployment among women increased quite abruptly with the level of education; women with graduation and above education had 15 percent unemployment rate. In rural areas, women with education below Class X had the highest rate of unemployment. Male unemployment rate was higher in urban areas than in rural areas for all levels of education except for university graduates and above.

Comparing 1995-96 unemployment data with those relating to 1983-84, certain changes can be observed :

- a. While unemployment rate for persons with no education has decreased from 1.5 percent to 0.7 percent that for persons with any education has increased. Thus over the years the educated unemployment situation has worsened in both relative and absolute terms.
- b. Unemployment rate for both men and women have increased for all levels of education except for women with education level below Class X which has declined.
- c. Urban unemployment has decreased for persons with no education. Educated persons in urban areas now experience higher rates of unemployment than before except women with secondary and higher secondary level education. The sharpest increase in unemployment has occurred in case of men with university education which has more than tripled.
- d. Again, rural open unemployment for persons with no education - both men and women, has decreased while that for persons with any level of education has increased except for women with below secondary level education. In fact, in rural areas unemployment rate for persons with secondary level education and beyond has tripled or quadrupled over the years.
- e. Comparing urban and rural unemployment rates in 1995-96 one finds unemployment rates for persons with no education or education below Class X are lower while those for persons with education SSC and above are much higher in the rural areas.

These features of the performance of the educated labour market are results of forces operating on demand and supply sides of the market (Islam, 1980) as well as the structure of the labour market. The universities and the institutes turn out graduates at rates higher than the rates at which they can find gainful employment of appropriate kind. The high turn out is the result of high enrolment in the academic institutions because of lack of alternative uses of their time and talent as well as aspiration for good jobs to ensure an exalted position in the society (Saha, 1995). Obviously, the market does not function smoothly.

In some cases the 'luxury unemployment' phenomenon may be responsible for the incidence of unemployment. The more educated persons from the more affluent segment of the society can afford the luxury of being unemployed for a time until a preferred job can be procured. Further, secondary household workers (e.g. the young and married women who are not household heads) who do not have to bear the economic responsibility for others and have access to transfer payments from parents and husbands can afford to wait for employment until one commensurate with their economic and social position is available (Berry and Sabot, 1978).

The Government sector has traditionally been the most important employer of educated manpower. Because of privatization of state owned enterprises and rationalization of labour force in the public sector, the rate of expansion of public sector employment has been slow. On the other hand, the private sector has not been able to create enough jobs for the swelling masses of university graduates. 'Production, by and large, is performed at a low level of skill and technology' (Saha, 1995). The need for higher and new skills acquired in educational institutions is not readily recognized in an economy dominated by family enterprises where the concept of modern enterprises is being infused only slowly. Further, private enterprises prefer on-the-job training to get their supplies of semi-skilled workers than people with training from formal institutions (Rahman, 1994).

The Government poverty alleviation programmes like the Test Relief (TR), vulnerable group development (VGD), and food-for-works have direct and indirect impact on generation of employment and self employment for the poor people with little or no education.

Table 4.4: Unemployment Rate by Level of Education, Sex and Region, Selected Years.

| Region | Sex | 1984 | | | 1996 | | | | |
|------------|--------|----------------------------|-------------|------------------|----------------------------|-------------|------------------|------|------|
| | | No education below Class X | SSC and HSC | Degree and above | No education below Class X | SSC and HSC | Degree and above | | |
| Bangladesh | Total | 1.5 | 2.0 | 3.7 | 2.7 | 0.7 | 3.0 | 10.3 | 9.2 |
| | Male | 1.2 | 1.9 | 3.5 | 2.3 | 0.6 | 2.9 | 9.7 | 8.4 |
| | Female | 3.8 | 5.8 | 6.1 | 9.4 | 0.8 | 3.3 | 12.9 | 15.2 |
| Urban | Male | 2.0 | 2.5 | 5.1 | 1.6 | 1.5 | 4.5 | 7.8 | 6.0 |
| | Female | 2.7 | 3.3 | 9.7 | 15.0 | 1.6 | 5.0 | 8.8 | 15.3 |
| Rural | Male | 1.1 | 1.7 | 2.9 | 3.3 | 0.5 | 2.4 | 10.9 | 12.7 |
| | Female | 4.0 | 6.2 | 3.7 | - | 0.7 | 3.0 | 15.0 | 15.4 |

Source : BBS, Labour Force Survey, Various Years.

Different NGOs, notably the Grameen Bank (GB), Bangladesh Rural Advancement Committee (BRAC), PROSHIKA, Association for Social Advancement (ASA), and others have credit programmes targeted to the poor which have succeeded in generating self-employment (Rahman and Khandker, 1994; Rahman, 1995). All these have tended to keep the rate of open unemployment for the poor with little or no education low.

4.5 Informal Sector Labour Market

Growing informalization of the labour market under the structural adjustment programmes have been observed in a number of studies (Horton, 1994; Blundell, Heady and Medhora, 1994; Milne and Neitzert, 1994). The shift of labour from formal sector employment to informal sector employment can occur owing to a number of reasons. First, divestiture or closure of sick state owned enterprises (SOEs) or rationalization of staff of SOEs, which are also characterized by overemployment, lead to loss of jobs in the public formal sector. Some of them become self employed and thus increase informal sector employment. The tendency to become self employed is stronger in cases of persons receiving generous severance pay and who cannot revert to formal sector employment. Secondly, manufacturing industries which flourished under the protective regime and could not become efficient, find their profits squeezed or evaporated under a liberalized trade regime and a deregulated financial sector. This may result in labour shedding in the formal sector. On the other hand, informal sector enterprises which are less likely to benefit from protection or cheap credit, do not feel the crunch as much. Thirdly, wage adjustments are difficult to implement in the formal sector under contractual appointment but the informal sector has a leeway to adjust through downward adjustment of real wages. However, if labour moves to expanding tradables sector, there will be an opposing effect. Actual working of these mechanisms are difficult to evaluate because of unavailability of time series data on employment and wages in formal and informal sectors. In the Report on Labour Force Survey 1995-96, Bangladesh Bureau of Statistics provides data on employment in formal and informal sectors which are presented in Table 4.5.

Table 4.5: Composition of the Labour Force by Major Industry and Sectors, 1995-96

| <i>Major industry</i> | <i>(Per cent)</i> | | |
|--------------------------------------|-------------------------------|---------------------------|-----------------------------|
| | <i>Public/ Autonomous</i> | <i>Private formal</i> | <i>Private informal</i> |
| Agriculture, forestry, fisheries | 0.5 | 1.5 | 98.0 |
| Mining and quarrying | 8.7 | 26.1 | 65.2 |
| Manufacturing | 4.3 | 43.8 | 51.5 |
| Electricity, gas, water | 51.5 | 14.6 | 34.0 |
| Construction | 3.1 | 9.9 | 87.0 |
| Trade, hotel and restaurant | 1.7 | 16.5 | 81.9 |
| Transport, storage and communication | 6.1 | 8.4 | 85.4 |
| Finance, business services | 49.3 | 30.0 | 20.7 |
| Household sector | 28.6 | 20.0 | 51.3 |
| Not adequately defined | 2.2 | 4.2 | 93.6 |
| Total | 4.2 | 8.8 | 87.0 |

Source : BBS, Report on Labour Force Survey in Bangladesh 1995-96.

Table 4.5 shows that the share of informal sector employment in sectoral employment varies between 20.7 percent in finance and business services sector to 98 percent in agriculture, forestry and fisheries sector. Informal sector employment is more important than formal sector employment in all sectors except finance and business services sector and electricity, gas and water sector. The contribution of informal sector to manufacturing sector employment is 51.6 percent. This implies substantial progress in formal employment in this sector but it also implies equally, if not more, important role of informal sector in generating manufacturing sector employment. It is probable that because of privatization, closure or staff rationalization of state owned enterprises, informalization in the manufacturing sector has grown but the share of informal sector

employment has not increased, at least not to any significant extent, because of enhanced employment opportunities in the expanding labour intensive tradables, especially exportables sector. Bakht (1997) shows the pattern of manufacturing growth during the period from 1989 to 1996. The study reveals that 21 out of 56 four-digit industries experienced a negative trend growth in output while another 16 experienced slow or no growth in output. Among the rest of the industries, 6 experienced moderate trend growth of 6-8 percent and 13 experienced high growth of more than 8 percent. The high performing industries include Readymade Garments, Pharmaceuticals, Bidi and the Sugar Industry. On the whole, the manufacturing sector experienced a trend growth of 8.4 percent over this period.

Anecotal evidence on productivity suggests that there has been wide dispersion in movement of labour productivity while labour productivity declined or stagnated in jute and textiles sector, it rose modestly in RMG sector (Rashid, 1993; Bhattacharya, 1997). On the whole, it seems likely that the manufacturing sector experienced a slow rise in labour productivity. Moderate growth in output with slow growth in productivity implies that some employment growth has occurred in the formal manufacturing sector.

Informal sector employment provides 87 percent of total employment in the economy. It is a more important source of employment for female than male labour force. Table 4.6 shows that while 82.8 percent of male get employed in the informal sector, 93.8 percent of female are employed in this sector. Looking at the sectoral distribution of employment one finds that while informal sector employment for males is less important in manufacturing, electricity, gas and water, financial and business services, and community and personal services this is not so for females. Only in financial and business services sector female labour has made any headway in formal employment. Thus informalization is much greater in the case of female labour.

Table 4.6: Distribution of Employment, 1995-96

| Major industry | (Per cent) | | | |
|--|------------|----------|--------|----------|
| | Male | | Female | |
| | Formal | Informal | Formal | Informal |
| Agriculture, forestry, fishery | 2.7 | 97.3 | 1.2 | 98.8 |
| Mining quarrying | 25.0 | 75.0 | 100.0 | 0.0 |
| Manufacturing | 57.0 | 43.0 | 34.1 | 65.9 |
| Electricity, gas, water | 69.1 | 31.9 | 46.2 | 53.8 |
| Construction | 12.5 | 87.5 | 19.7 | 81.3 |
| Trade, hotel, restaurant | 19.6 | 81.4 | 13.1 | 86.9 |
| Transport, storage, communication | 14.4 | 85.6 | 24.4 | 75.6 |
| Financial, business services | 80.0 | 20.0 | 73.3 | 26.7 |
| Community, personal services | 62.4 | 37.6 | 25.2 | 74.8 |
| Household sector and not adequately defined | 10.4 | 89.6 | 3.4 | 96.6 |
| Total | 17.2 | 82.8 | 6.2 | 93.8 |

Source : Own calculations based on data from BBS, Labour Force Survey 1995-96.

4.6 Urban Informal Sector

Amin (1982) analyses the labour force and industrial organization of the informal sector in Dhaka city. To analyze changes in the urban informal sector, a survey was conducted in Dhaka in September 1996. In order to maintain comparability, a similar methodology was utilized in the sample survey. A discussion of results of the two surveys are reported below.

4.6.1 Employment Status

As can be seen from Table 4.7 a majority of the labour force engaged in the informal sector belonged to the category of enterprise heads in 1982. This percentage of the labour force has increased in 1996 when 68.7 percent were found to be enterprise heads. There has been a sharp drop in the proportion of family labour in 1996.

Table 4.7: Distribution of Informal Sector Labour Force by Employment Status.

| <i>Employment status</i> | (Per cent) | |
|--------------------------|------------|------|
| | 1982 | 1996 |
| Enterprise heads | 55.3 | 68.7 |
| Partners | 0.4 | 2.9 |
| Hired labour | 25.3 | 23.9 |
| Family labour | 19.0 | 4.6 |

Source : Amin (1982); Own Survey.

4.6.2 Types of Activities in the Sample

The informal sector activities were divided into five major groups. In 1982, street selling was the most important type of activity in the sample followed sequentially by crafts and other manufacturing and repair and other personal services. In 1996, street selling came out to be most important and the relative position of crafts and other manufacturing and repair and other personal services changed. Street selling has become virtual livelihood of half of the individuals in the sample.

Table 4.8: Distribution of Informal Enterprises by Activity Group .

| <i>Activity group</i> | (Per cent) | |
|--|------------|------|
| | 1982 | 1996 |
| Street selling | 37.2 | 51.6 |
| Repair and other personal services | 15.5 | 19.9 |
| Crafts and other manufacturing | 24.7 | 10.8 |
| Construction work | 11.4 | 9.5 |
| Rickshaw and other informal transports | 11.4 | 8.2 |

Source : Amin (1982); Own Survey.

4.6.3 Age Characteristics of the Labour Force

The age distribution of the labour force in the sample presented in Table 4.9 shows that in 1982 the highest percentage of labour force belonged to the 15-24 age group followed by labour in the 25-34 age group. The labour force in these two age groups represented 72.5 percent of the labour force in the sample. Very few people continued operation in the informal sector in their old age.

The change in the age distribution of the labour force between the two periods is quite interesting. The incidence of child labour seems to have reduced in the sample and the age distribution seems to have shifted towards older age. Labour force in the 25-34 age group is now the largest followed by those in the 35-44 age group. It is possible that many of the individuals in the 1982 sample have been continuing their activities and they have matured in age over time.

Table 4.9: Age Distribution of the Labour Force in the Informal Sector in Dhaka City

| <i>Age group (Years)</i> | <i>(Per cent)</i> | |
|--------------------------|-------------------|-------------|
| | <i>1982</i> | <i>1996</i> |
| Upto 14 | 7.9 | 1.3 |
| 15-24 | 38.8 | 17.0 |
| 25-34 | 33.7 | 32.3 |
| 35-44 | 14.8 | 30.7 |
| 45-54 | 3.2 | 14.8 |
| 55-64 | 1.6 | 3.3 |
| 65 and above | 1.0 | 0.7 |

Source : Amin (1982); Own Survey.

4.6.4 Educational Characteristics

The educational background of the labour force engaged in the informal sector is presented in Table 4.10. The table shows that an overwhelming proportion of the labour force had no education or education upto primary level. Very few individuals had education of higher secondary and above level. There has not been much change in the distribution of the labour force by education level. The

informal sector is still dominated by labour force with primary level or no education. However, their importance has decreased in 1996 and the percentage of labour with secondary, higher secondary and above level education have increased implying greater participation of educated labour force in the informal sector.

Table 4.10 : Distribution of the Labour Force by Education Level

| <i>Education level</i> | <i>(Per cent)</i> | |
|----------------------------|-------------------|-------------|
| | <i>1982</i> | <i>1996</i> |
| No schooling | 31.2 | 29.3 |
| Primary | 52.0 | 47.7 |
| Secondary | 15.7 | 20.7 |
| Higher secondary and above | 1.1 | 2.3 |

Source : Amin (1982); Own Survey.

4.6.5 Acquisition of Skills

As indicated earlier, a majority of the labour force in the informal sector have little or no formal education. So human resource development in this sector depends on the provision of skills in the economy. It can be seen from Table 4.12 that a majority of the labour force engaged in the informal sector in the sample did not depend on any institutional training for acquisition of skills; they were self-taught by asking friends or by observing others. However, a large number of the labour force also received on-the-job training in similar enterprises.

Some changes have occurred in the mode of acquisition of skills between the two sample periods. The importance of self-taught mode has increased while those of apprenticeship mode has decreased. The relative importance of on-the-job training in the same enterprise seems to have increased. On the whole, the self-taught mode of skill acquisition is still the most important way of acquiring skills in the informal sector.

There have been some interactivity differences in the acquisition of skills. Apprenticeship in a large enterprise seems to be important

for labour force engaged in informal manufacturing activity. On-the-job training is important for the labour force employed in trade, services and manufacturing. In all these cases, the proportion of labour force receiving on-the-job training and engaged in the same enterprise have increased compared to their proportion which prevailed in 1982.

4.6.6 Migrant Status

As can be seen from Table 4.13, migrants i.e., who were not born in the city constituted 70.3 percent of the labour force in the sample in 1982. People born in the city represented the other 29.7 percent of the labour force.

Over the years there has been marginal increase in the proportion of migrants in the informal sector and a corresponding decrease in the proportion of non-migrants. Thus in the adjustment period the informal sector labour market has not undergone any significant change in terms of migratory characteristics.

It seems surprising that despite rapid growth of population of Dhaka city there has been little change in the migratory characteristics of the labour force in the informal sector. In order to investigate the issue more fully distribution of the labour force (owners) by length of stay and occupation are presented in Table 4.14. There has been significant changes in employment by length of stay. While in 1982, the majority of the owners (61.2 percent) were new or recent migrants to the city, in 1996 majority of them (62.4 percent) have been living in the city for more than 10 or 15 years. There does not seem to be a new wave of migrants crowding the informal sector in the adjustment period. Rather, migrants who came to the city 10 or 15 years ago have established themselves as owners of informal sector enterprises. Since the survey has been conducted in many of the same areas using a methodology similar to Amin (1982), it is possible that some of the same persons covered by earlier study were also covered in the 1996 sample. As a result, a change in the length of stay is observed.

Table 4.11: Skill Acquisition in the Informal Sector by Activity Group

| Mode of skill acquisition | Activity group | | | | | | | | | | | | (Per cent) | | | | | | |
|--------------------------------------|----------------|------|------|---------------|------|------|--------------|------|------|---------------|------|------|------------|-----------|------|------|--------------|------|------|
| | Trade service | | | Manufacturing | | | Construction | | | Manufacturing | | | | Transport | | | Total sample | | |
| | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 | | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 |
| From technical school | 15.4 | - | 1.7 | 2.8 | 1.9 | 1.7 | - | - | - | - | - | - | - | - | - | - | 2.4 | 0.7 | |
| As apprentice in large enterprise | - | 4.9 | 6.9 | 2.8 | 13.2 | 20.3 | - | - | - | - | - | - | - | - | - | - | 7.1 | 5.3 | |
| As wage employee in large enterprise | - | 1.1 | 1.7 | 0.9 | 2.8 | 3.4 | - | - | - | - | - | - | - | - | - | - | 1.6 | 1.1 | |
| As apprentice in this enterprise | 7.7 | 20.8 | 3.4 | 16.5 | 1.9 | 10.2 | 4.0 | 3.8 | - | - | - | - | - | - | - | - | 2.4 | 15.3 | |
| As apprentice in similar enterprise | 15.4 | 3.5 | 48.3 | 30.3 | 42.5 | 18.6 | 36.0 | 7.7 | 6.0 | 15.5 | 34.5 | 12.5 | 46.2 | 25.8 | 32.8 | 9.2 | 30.2 | 15.3 | |
| Self-taught by asking friends | 15.4 | 43.8 | 5.2 | 38.5 | 7.5 | 30.5 | 16.0 | 59.6 | 16.0 | 44.4 | 9.9 | 42.8 | 15.4 | 43.8 | 5.2 | 38.5 | 7.5 | 30.5 | |
| Self-taught by observing others | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1.9 | 2.2 | |
| Not adequately defined | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |

Source : Amin (1982); Own Survey.

Table 4.12: Proportion of Migrants in the Labour Force.

| | (Per cent) | |
|------------------------|------------|------|
| <i>Migrants status</i> | 1982 | 1996 |
| Migrants | 70.3 | 70.9 |
| Non-migrants | 29.7 | 29.1 |

Source : Amin (1982); Own Survey.

Table 4.13: Distribution of Employment by Length of Stay and Occupation.

| <i>Year in city</i> | <i>Occupation</i> | | | | | | | | | | | |
|---------------------|-------------------|------|----------------|------|-------------------|------|---------------------|------|------------------|------|--------------|------|
| | <i>Sales</i> | | <i>Service</i> | | <i>Production</i> | | <i>Construction</i> | | <i>Transport</i> | | <i>Total</i> | |
| | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 | 1982 | 1996 |
| Less than 5 | 32.2 | 11.2 | 22.7 | 27.3 | 14.7 | 5.6 | 56.2 | 21.3 | 40.9 | 20.6 | 31.3 | 15.4 |
| 5-9 | 32.9 | 20.9 | 34.1 | 27.3 | 28.0 | 8.3 | 22.9 | 23.4 | 27.3 | 32.4 | 29.9 | 22.1 |
| 10-14 | 16.8 | 16.0 | 15.9 | 12.1 | 17.1 | 16.7 | 10.4 | 17.0 | 10.4 | 14.7 | 15.8 | 15.4 |
| 15 and above | 18.2 | 51.9 | 27.3 | 40.9 | 30.2 | 69.4 | 10.4 | 38.3 | 15.9 | 32.4 | 23.0 | 47.0 |

Source : Amin (1982); Own Survey.

4.7 Micro-Level Studies

It has been observed in section 4.2 that the rate of unemployment in Bangladesh has increased in the adjustment period but it is still low by any acceptable standard. However, the unemployment rate does not reveal the full extent of the employment problem facing the economy which is characterized by high degree of underemployment and disguised unemployment. A number of micro-level studies are available on the nature and magnitude of the problem. However, the trend of the problem in the adjustment period vis-a-vis the pre-adjustment period is not clear. Hence we limit ourselves to reviewing the results of a number of studies which, despite their differences in

approach and methodology, provide information on the magnitude of unemployment, underemployment and disguised unemployment that pervade the labour market in Bangladesh.

4.7.1 Unemployment and Underemployment

Labour is not separable from the labourer and in the context of Bangladesh it is almost impossible to find a labourer not working at all throughout the year. Under the circumstances, the concept of 'pure or absolute unemployed' does not bear much significance in the measurement of 'employment' or understanding the nature and magnitude of the 'unemployment' problem. So, to understand the labour market situation in the country, one has to look into the gainful utilization of the total available labour time. If the full potential labour time available is used at the prevailing wage rate in the market, there should not be any problem of 'un' or underemployment, keeping aside the questions of income and/or marginal productivity. For this purpose, many researchers have resorted to measure the quantum of un or underemployment with reference to utilization of labour time (man-hours/man-days). Applying the methodology, micro-level studies on employment since mid-1950s demonstrate a range of unemployment between 11.5 percent and 45.2 percent of the total available labour time in agriculture alone. However, beyond these two extremes most other studies came up with figures that show that on an average, around one-third of the available labour time remains unemployed.

In addition to the huge unemployed labour time, the labour market pervades a large quantum of underemployed manpowers that is, the full potential of this manpower is not utilized. This causes slow growth of output and income. Quite a few micro-level studies have estimated the quantum of underemployed at a minimum of 13.7 percent and a maximum of 31.00 percent. If we take the unweighted mean of these estimates the underemployment labour comes to 22 percent of the total labour force.

4.7.2 Disguised Unemployment/Surplus Labour

Yet another phenomenon of the labour market in Bangladesh, particularly in Bangladesh agriculture, is disguised unemployment.

This labour force can safely be withdrawn from agriculture without causing any loss to the production level and can be utilized in the modern sector at a lesser cost and with less pain. The quantum of such transferable labour surplus in agriculture is estimated to be 20-38 percent (Table 4.14). Rabbani (1966) estimated the surplus labour force in paddy cultivation at 38 percent, by declaring a labour as surplus when his marginal productivity fell below the wage rate (essentially Rabbani fitted a Cobb-Douglas production function). Robinson (1969) estimated the surplus labour force at 20 percent by constructing average and marginal product curves for labourers spread over a period of ten years. Hye (1979) estimated a full employment norm of optimum land/labour ratio and compared the labour requirement for an optimal production with the total labour working in the sample area and came up with as much as 33.10 percent surpluses.

However, there are controversies regarding removable surplus labour in agriculture. Masum (1982) for example, estimated 79.32 percent of the labour force to be fully employed by using what he called a 'peak period approach'; but he stressed that all of those who were found not 'employed' were not 'surplus'; most of them had been underemployed, and to find the 'removable' surplus it was necessary to work out the 'unemployed equivalent' of the underemployed. He then estimated the removable surplus at only 2.26 percent of all the farm labourers. Muqtada (1975) found the 'transferable' surplus labour in Bangladesh agriculture to be negative (-1 percent). The actual situation, however, is far from such estimates. Disguised unemployment persists in Bangladesh agriculture and the quantum of such unemployed labour is quite high. In the same breath, Masum and Muqtada estimated the volume of surplus labour at 28.14 percent and 47.0 percent respectively.

The above discussion reveals some phenomenal characteristics of the labour market in Bangladesh. The market contains an enormous volume of unemployed labour time, a very high quantum of underemployed labour force, and a large number of surplus labourers (disguised unemployed) particularly in the field of agriculture.

Table 4.14: Unemployment, Underemployment and Surplus Labour - 'Some Micro-Level Studies' Estimates.

| <i>Study by</i> | <i>Unemployment rate</i> | <i>Underemployment rate</i> | <i>Disguised unemployment/ surplus labour</i> | <i>(Per cent)</i> |
|--|-------------------------------------|-----------------------------|---|-------------------|
| 1. D.U. Socio-economic Survey Board (1956) | 11.5-45.2 (differs between regions) | - | - | |
| 2. Habibullah (1962) | 25.4 | - | - | |
| 3. R.U. Socio-economic Research Board (1964) | 25.2 | - | - | |
| 4. Rabbani (1966) | - | - | 38.0 | |
| 5. Rajshahi University (1965-66) | - | 13.7 | - | |
| 6. Robinson (1969) | - | - | 20.0 | |
| 7. Ahmed, I. (1973): | | | | |
| 1960-61 | 34.0 | - | - | |
| 1964-65 | 30.8 | - | - | |
| 1969-70 | 32.4 | - | - | |

Continued

Table 4.14: Continued

| <i>Study by</i> | <i>Unemployment rate</i> | <i>Underemployment rate</i> | <i>Disguised unemployment/surplus labour</i> | <i>(Per cent)</i> |
|--------------------------|--------------------------|-----------------------------|--|-------------------|
| 8. Ahmed, R. (1974) | 35.6 | - | - | |
| 9. Ahmed, I. (1974) | - | 13.3 | - | |
| 10. Clay and Khan (1977) | 39.0 | - | - | |
| 11. Habibullah (1977) | 36.8 | - | - | |
| 12. Hye (1979) : Gross* | 33.8 | - | 33.0 | |
| Net* | 11.5 | | | |
| 13. Khuda (1982) : Male | 24.2 | - | - | |
| Female | 30.0 | | | |
| 14. Masum (1982) | - | - | 28.0 | |
| 15. Rahman (1984) | 21.0 | 31.0 | - | |
| 16. Islam (1986) : 1979 | - | 31.0 | - | |
| 1980 | - | 21.0 | - | |
| 1983-84 | | 22.0 | | |

* Gross refers to the difference between the potential mandays and the mandays actually used in farm activities while net refers to the difference between the potential mandays and the mandays used in both farm and non-farm activities.

Sources : S.A. Hye, Review on Labour and Employment in Asaduzzaman, M. and Westergaard, K. (1993) Growth and Development in Rural Bangladesh, University Press Ltd., Dhaka.

Implications of Labour Market Adjustment

5.1 Introduction

Structural adjustment policies are predicated on the assumption that the policies would in general improve the supply response of the economy by removing policy induced distortions and would lead to reallocation of resources to maximize the rate of growth of the economy. The resource shifts are likely to cause the tradables sector to expand and the non-tradables sector to contract. The rate of expansion of the tradables sector being greater than the rate of decline of the non-tradables sector, the economy would experience higher growth. The resource shifts are likely to create impact on the labour market which adjusts through changes in employment and/or real wages. The adjustments in employment and/or real wages vary across sectors, professions, regions, sexes as well as income groups. Labour market adjustment thus impact differentially on women, and has implications for income distribution and long run growth through investment in human capital.

5.2 Implications for Women

The inter-sectoral reallocation of resources consequent on the structural adjustment programme means that the expanding sectors draw labour from the new entrants into the labour force as well as from the labour force released from the contracting sectors. The degree of inter-sectoral mobility of work force is thus important in determining the outcome of the structural adjustment programme for the labour market. In Bangladesh, women's economic activity has traditionally been largely home based rather than market based and women's labour mobility can be assessed at the most basic level by the movement of women from home based to market based economic activity.

The movement of women into the labour force can be assessed by the labour force participation rate (LFPR). Table 5.1 shows that labour force participation rates for women are much lower than those for men. But while labour force participation rates for men has decreased after an increase in 1985-86, women's labour force participation rate has almost doubled between 1985-86 and 1995-96. The increase in the LFPRs are evident in both urban and rural areas but the increase is much higher in the rural areas. These figures indicate increased movement of women from the household to the non-household economy implying certain degree of mobility of the labour force. It has been argued that both demand-pull and supply-push factors underlie the movement of the female labour force to market activity though their relative contribution to labour mobility cannot be established (Mahmud, 1996).

Women have traditionally experienced much higher rate of unemployment than men in the eighties. In 1995-96, the female unemployment rate fell below that of male unemployment rate. In the urban areas female unemployment rate continues to exceed the male unemployment rate both of which actually increased but in the rural areas there is a change in the female unemployment rate. The increased LFPR and decreased unemployment rate in the rural areas do not owe much to the structural adjustment programme. These trends have been caused mostly by various market interventions by government and especially by NGOs. Big non-government organizations like BRAC and Grameen Bank and many small NGOs operating throughout the country have undertaken credit programmes targeting women which help create self-employment for women and other activities which have direct and indirect impact on employment of both men and women.

Sectoral breakdown of employment reveals some interesting patterns and trends. The household sector offers most employment to women where they perform many activities which are inputs to the informal production process. The other sectors where the share of female employment in total employment appears to be important

are manufacturing sector and community and personal services sector. While the share of women in total employment declines in agriculture and household sectors, it increases in manufacturing, community and personal services and trade, hotel and restaurant services. These clearly indicate increasing participation of women in wage employment and market activities away from activities such as unpaid family workers. One alarming development in employment patterns relate to the concentration of women employment in few sectors. Table 5.1 shows certain sectors of the economy like electricity, gas and water, construction, transport, financial and business services do not employ women at least not to any significant extent. These trends may reflect women's preferences for certain jobs because of socio-cultural and psychological reasons. More importantly they might be a result of labour market discrimination where women are discriminated against men in certain types of jobs. The net result of these trends has been an increase in the share of female employment in total employment from 6.5 percent in 1985-86 to 17.6 percent in 1995-96.

Table 5.1 also shows the distribution of women employment among different occupations. There exists some volatility in the percentage of women employed in different sectors. But certain trends can be discerned from the data presented in the table. The proportions of women employed in professional and technical occupation, sales workers and agriculture have registered increases, the proportion of women employed in other occupations has declined.

More revealing patterns of female employment can be identified from more disaggregated CMI data. Khundker (1997) analyses the latest available CMI data and finds that in the manufacturing sector the predominant female activities are food manufacturing particularly rice milling, tobacco manufacturing, textiles including handloom textiles and the readymade garments industry. The most significant increase in employment took place in the export-oriented RMG industry which employs about a million of women. The relatively docile and disciplined nature of the women labour force provide

strong basis for drawing industrial labour from Lewis type unlimited supplies of labour.

In terms of proportion of women in the labour force engaged in an industry, Khundker (1997) finds that the industries where female employment exceeds 10 percent of total employment include rice milling (12.8 percent), tea and coffee processing (12.9 percent), bidies (10.5 percent), cordage, rope and twine (22.0 percent), RMG (69.4 percent), wearing apparel (69.4 percent), embroidery of textiles goods (96.8 percent), bamboo and cane products (65.8 percent), wood and cork products (24.5 percent), electronic components (21.8 percent), and decorative handicrafts (11.1 percent). The employment patterns are consistent with those of other developing countries where significant proportion of women are employed in export-oriented readymade garments and electronics industries. These trends of employment share in labour intensive export oriented industries are also evident from employment data from the export processing zones where female employment is found to be two and half times the ratio of male employment. These trends are noteworthy in themselves but more so because in the same period loss of female employment in the contracting or declining export oriented or import substituting industries has been negligible as these industries had a negligible, if any, share of female employment. This implies that there has been a net expansion in female employment in the manufacturing sector during the period under study.

Discrimination by sex seems to pervade almost all industries in the manufacturing sector. The share of female wage in the total wage bill is less than their share of employment in total employment. The aggregate share of female wages for all industries covered by the CMI stood at 8.5 percent in 1991-92 compared to their employment share of 15 percent. In the rapidly expanding garments industry a female garment worker earns only about 66 percent of the income of her male counterpart (Majumder and Zohir, 1994). There also exists gender segregation of tasks with women concentrating more

on the lower paid activities. For example, in the RMG industry cutting is mostly done by men while women perform most of the sewing - a relatively less remunerative task.

It should be emphasized here that despite lack of a tradition of industrial wage employment it has been possible to create a class of

Table 5.1: Labour Market Indicators by Gender, Selected Years.

| <i>Variable</i> | <i>1983-84</i> | <i>1984-85</i> | <i>1985-86</i> | <i>1995-96</i> |
|--|----------------|----------------|----------------|----------------|
| Participation Rate (Per cent) : | | | | |
| Bangladesh | | | | |
| Male | 78.3 | 78.2 | 81.4 | 77.0 |
| Female | 8.0 | 8.2 | 9.9 | 18.1 |
| Urban | | | | |
| Male | 74.3 | 74.3 | 78.1 | 71.1 |
| Female | 12.3 | 12.1 | 15.6 | 20.5 |
| Rural | | | | |
| Male | 78.9 | 78.8 | 82.0 | 78.8 |
| Female | 7.4 | 7.7 | 9.1 | 17.4 |
| Unemployment Rate (Per cent): | | | | |
| Bangladesh | | | | |
| Male | 1.5 | 1.4 | 0.8 | 2.7 |
| Female | 4.0 | 5.6 | 3.3 | 2.3 |
| Urban | | | | |
| Male | 2.6 | 3.1 | 1.5 | 4.4 |
| Female | 3.9 | 4.0 | 2.6 | 4.6 |
| Rural | | | | |
| Male | 1.4 | 1.2 | 0.7 | 2.2 |
| Female | 4.2 | 6.0 | 3.4 | 1.9 |
| Percentage of women in sector | | | | |
| Agriculture | 1.3 | 14.2 | 2.0 | 13.6 |
| Manufacturing | 28.1 | 24.5 | 36.2 | 35.0 |
| Electricity, gas, water | - | 4.4 | - | - |
| Construction | 1.8 | 3.1 | 6.5 | - |

Continued

emergent industrial workers². Religious and social barriers on the movement of women outside home premises did not deter women's entry into the labour force and, in many cases, relocation of labour to near the industrial sites. The emerging labour force is mostly represented by unmarried young women below 24 years of age. Their living in new environment away from home needs certain facilities in terms of housing, security, transport and working conditions which have not as yet received adequate attention.

Table 5.1 (continued)

| <i>Variable</i> | <i>1983-84</i> | <i>1984-85</i> | <i>1985-86</i> | <i>1995-96</i> |
|---|----------------|----------------|----------------|----------------|
| Trade, hotel and restaurant | 4.3 | 3.5 | 3.6 | 6.7 |
| Transport | 1.0 | 0.9 | 0.2 | - |
| Financial and business service | 2.2 | 5.5 | 17.2 | - |
| Community and personal services | 9.3 | 14.5 | 11.4 | 34.0 |
| Household sector and net adequately defined | 68.0 | 79.5 | - | 70.0 |
| Total | 8.7 | 8.8 | 6.5 | 17.6 |
| Percentage of women employed in | | | | |
| Professional, technical | 3.3 | 3.3 | 3.6 | 7.2 |
| Administrative, managerial | 0.1 | 0.2 | 0.1 | 0.1 |
| Clerical workers | 1.8 | 5.5 | 3.2 | 1.7 |
| Sales workers | 5.3 | 4.4 | 4.2 | 5.9 |
| Services workers | 40.3 | 45.2 | 39.0 | 15.6 |
| Agriculture | 8.9 | 9.3 | 11.4 | 41.7 |
| Production, transport | 31.7 | 29.9 | 35.5 | 27.8 |
| Others | 2.4 | 2.2 | 3.0 | - |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Source : BBS. Household Expenditure Survey. Various Years.

² See Majumder (1994) for a similar observation in the case of Malaysia.

5.3 An Analysis of Labour Force Participation Rate and Earnings Functions

Several micro studies have focused on the determinants of labour force participation of different groups of women. Chaudhuri (1991) analyses the determinants of women labour force participation in rural Bangladesh. Both demand and supply variables were found statistically significant. The demand side variable includes net irrigated cropped area and the supply side variables include literacy rate of women and livestock base of the household. While the demand variable exerts positive influence, the supply side variables exert negative influence on the LFPR of women in rural areas.

The labour supply function for self employed workers engaged in family enterprises financed by the Grameen Bank of Bangladesh is analyzed by Rahman (1992). The variables which are found to exert significant positive impact on female labour input include capital in the enterprise, percent of capital in paddy activity, dummy for small baby and dummy for marginal status (widowed or divorced). The positive impact of having a small baby is contrary to expectation but can be explained by the fact that a small child does not create child care problem for a self employed women as it does in the case of wage employment. Negative influence on female labour input into the family enterprises were exerted by number of dependents in the family, square of capital, square of percentage of capital in paddy activity and years of Grameen Bank membership. Age and education did not have any significant effect on self employment.

Abdullah (1995) analyzed married women's work participation in market activities using a Tobit model and employing pooled data for urban and rural areas. The results are quite consistent with a priori expectation. Hourly wage rate, age, education, and number of dependents in the family encourage women to undertake wage employment in the job market. The discouragement to participation in market employment are provided by various characteristics of the household in terms of husband's income, household assets, number

of children, age of youngest child, and husband's age. The influence of the latter variables indicate the secondary nature of women employment. Women of richer families with greater stock of assets are less likely to participate in the labour force to supplement household income.

Earnings Function

This section examines the determination of earnings of the rural labour force who reported labour income in the survey carried out under the present study. Table 5.2 reports the results of estimation of a simple Mincer-type earnings function. The results are fairly standard.

Table 5.2: Estimates of Rural Earnings Function

| <i>Independent Variable</i> | <i>Natural log (monthly income)</i> | |
|-----------------------------|-------------------------------------|---------------------|
| | <i>Coefficient</i> | <i>t-statistics</i> |
| Education (years) | 0.173 | 2.59* |
| Experience | 0.023 | 2.20* |
| Female dummy | -0.023 | 7.21 |
| Married dummy | 0.186 | 1.45* |
| Wage-employment dummy | 0.560 | 3.55 |
| Intercept | 6.076 | 38.56 |
| Adjusted R ² | 0.272 | |
| F-statistic | 18.815 | N=238 |

* implies significant at 5 percent level

Source : Authors' calculation based on survey data.

Education and experience exert positive impact on earnings. An additional year of schooling increases earnings by 17.3 percent. Each additional year of experience increases earnings by 2.3 percent. Thus education appears to play a more important role in determining labour earnings. The results also indicate higher earnings for persons taking wage employment. Married persons seem to earn more than persons having other types of marital status. However, this coefficient

is not statistically significant. Most notably, the results indicate that women earn significantly less income than men.

5.4 Income Distribution and Poverty

While structural adjustment leads to change in the mix of output consisting of tradables and non-tradables sectors and thus to reallocation of labour between the two sectors with consequent effect on the wages in the two sectors, its impact on income distribution and poverty are not clear. Theoretical discussion on the adjustment - poverty relationship yields ambiguous results. For example, Addison and Demery (1994) suggest that assuming competitive labour market, structural adjustment results in change in relative price of tradables and non-tradables, an increase in output of tradables relative to non-tradables, and an increase in employment in the expanding tradables sector but a decline in employment in the contracting non-tradables sector. To absorb additional labour, real product wage in the tradables sector declines while that in the non-tradables sector rises. The ambiguity starts since the direction of change in the real consumption wage depends on the average propensity to consume tradables relative to the magnitude of wage response to the change in relative prices. If labour's average propensity to consume tradables is high, workers will experience a decline in their living standards under adjustment. The other factor which provides additional source of ambiguity relates to the proportion of the labour in the two sectors. Poverty might increase if poverty (only wage earners are assumed to be poor) in tradables is significantly higher than in non-tradables even if real consumption wage rises. Similarly, poverty need not increase even if real consumption falls. If poverty is significantly greater in non-tradables and if sufficiently large transfer of labour from non-tradables to tradables takes place poverty may in fact decline. Thus the effects of adjustment on poverty depends on net impact of 'real wage' effects and 'reallocation' effects. The extension of the model to various types of imperfections in the labour market implying wage rigidity or barriers to entry results in similar ambiguous impact on poverty.

The empirical investigation on the effect of adjustment on poverty is, as Horton, et al (1994) emphasize, no less difficult than determining it theoretically. Answering the counterfactual question as to what would have happened otherwise is difficult especially if the country in question was on a unsustainable course that necessitated the adoption of structural adjustment programme. Bearing these caveats in mind we shall focus on the income distribution and poverty situation in Bangladesh in the adjustment period and the period preceding it.

The analysis of intertemporal changes in poverty in Bangladesh is made difficult by lack of availability of consistent data. Because of differences in the methodology used for setting poverty lines e.g., “cost-of-basic-needs” method (CBN) or “food-energy-intake” method, method of data collection e.g. “memory” method or “diary” method, and prices used, poverty measures arrived at by different surveys are not comparable. Methodological changes make even Bangladesh Bureau of Statistics data generated through intermittent Household Expenditure Surveys less comparable. Further, surveys carried out at two different point of time may not give an accurate picture of changes in poverty because of changes in poverty situation caused by irregular events like draught, and floods. These consideration lead us to restrict our choice of data generated by BBS between the period 1984 and 1992.

Table 5.3 shows that 18.95 percent of total income accrued to bottom 40 percent of the population in 1984. The share of the bottom 40 percent of the population increased by 0.4 percentage points in 1986 but it declined in 1989 by 1.82 percentage points and declined further in 1992. Thus in 1992 the bottom 40 percent of the population received a lower percentage of income compared to what they received in 1984. Both in rural and urban areas, the bottom 40 percent of the population receive lower percentage of income in 1992 compared to 1984 but the magnitude of decline in their share is more pronounced in rural areas (1.35 percentage points) than in urban areas (0.25 percentage points).

Table 5.3: Income Distribution, 1984 to 1992

| | (Per cent) | | | |
|---|-------------|-------------|-------------|-------------|
| <i>Percentage of Income Accruing to</i> | <i>1984</i> | <i>1986</i> | <i>1989</i> | <i>1992</i> |
| Bottom 40 Per cent | | | | |
| Rural | 19.24 | 19.95 | 18.02 | 17.89 |
| Urban | 17.84 | 19.20 | 17.52 | 17.59 |
| National | 18.95 | 19.35 | 17.53 | 17.41 |
| Lower Middle 40 Per cent | | | | |
| Rural | 38.06 | 36.21 | 36.80 | 38.36 |
| Urban | 37.91 | 37.87 | 35.74 | 36.34 |
| National | 37.67 | 35.80 | 36.28 | 37.72 |
| Upper Middle 15 Per cent | | | | |
| Rural | 24.56 | 22.48 | 25.37 | 25.95 |
| Urban | 27.32 | 24.89 | 26.72 | 26.65 |
| National | 25.08 | 23.50 | 25.68 | 26.02 |
| Top 5 Per cent | | | | |
| Rural | 18.14 | 21.36 | 19.81 | 17.80 |
| Urban | 16.93 | 18.04 | 20.02 | 19.42 |
| National | 18.30 | 21.35 | 20.51 | 18.85 |
| Gini Coefficient | | | | |
| Rural | 0.35 | 0.36 | 0.37 | 0.36 |
| Urban | 0.37 | 0.37 | 0.38 | 0.40 |
| National | 0.36 | 0.37 | 0.38 | 0.39 |

Source : BBS, Household Expenditure Survey, Various Years.

The loss in the share of the bottom 40 percent represents gains in the share of all other groups of population shown in the table. The greatest gain accrues to the upper middle 15 percent of the population. While the lower middle 40 percent gained only 0.05 percentage

points and the top 5 percent gained 0.5 percentage points, the upper middle 15 percent gained 0.94 percentage points. The gain in the proportion of income accruing to the bottom 40 percent of the population in 1986 could not be sustained and it fell drastically in 1989. It may be noted that 1989 was a difficult year for Bangladesh economy because of a devastating flood which caused the economy to grow by only 2.5 percent. This is indicative of the phenomenon that the poorest section of the population loses in times of adversity. Interestingly, the upper 5 percent of the population also experienced a reduction in their proportion of income in 1989. In fact the income shares of the bottom 40 percent and the upper 5 percent follow similar cycles while those of the lower middle 40 percent and upper middle 15 percent follow similar cycles. It may also be noted that the income share of the top 5 percent of the population exhibit different patterns in rural and urban areas. In rural areas, the top 5 percent has suffered a loss in their income share but in urban areas the same group has enjoyed an increase in income share.

Table 5.4: Income Distribution, 1995 and 1996

| <i>Percentage of Income Accruing to</i> | <i>December 1995</i> | <i>April 1996</i> |
|---|----------------------|-------------------|
| Bottom 4 deciles | | |
| Rural | 12.3 | 12.7 |
| Urban | 10.0 | 9.1 |
| Lower middle 4 deciles | | |
| Rural | 32.3 | 32.3 |
| Urban | 27.8 | 23.9 |
| Upper 2 deciles | | |
| Rural | 55.0 | 54.6 |
| Urban | 61.6 | 67.1 |
| Gini coefficient | | |
| Rural | 0.49 | 0.53 |
| Urban | 0.42 | 0.44 |

Source : CIRDP. Poverty Monitoring Surveys.

The pattern of redistribution discussed above imply that the concentration of income has increased over the years. Table 5.3 shows the Gini concentration ratio has increased from 0.36 in 1984 to 0.39 in 1992. The trend towards concentration are not of similar magnitudes in rural and urban areas. The concentration of income is greater in urban areas (Gini coefficient 0.40) than in rural areas (Gini coefficient 0.36). The distribution of income thus appears to have deteriorated in the adjustment period. The increase in unemployment rate and marginal improvement in real wages might have contributed to the deterioration in income distribution.

5.4.1 Poverty

Ravallion and Sen (1994) provide measures of incidence, depth and severity of poverty in Bangladesh during the period from 1984 to 1992 based on BBS data. The head-count index given by the percentage of the population living in households with a consumption

Table 5.5: Poverty Measures for Bangladesh, 1984-1992

| <i>Fiscal Years</i> | <i>Head-count index (%)</i> | <i>Poverty gap index (%)</i> | <i>Squared poverty gap index (x100)</i> |
|---------------------|-----------------------------|------------------------------|---|
| Urban | | | |
| 1984 | 40.9 | 11.4 | 4.4 |
| 1986 | 30.8 | 7.3 | 2.5 |
| 1989 | 35.9 | 8.7 | 2.8 |
| 1992 | 33.6 | 8.4 | 2.8 |
| Rural | | | |
| 1984 | 53.8 | 15.0 | 5.9 |
| 1986 | 45.9 | 10.9 | 3.6 |
| 1989 | 49.7 | 13.1 | 4.8 |
| 1992 | 52.9 | 14.6 | 5.6 |
| National | | | |
| 1984 | 52.3 | 14.5 | 5.7 |
| 1986 | 43.9 | 10.4 | 3.5 |
| 1989 | 47.8 | 12.5 | 4.6 |
| 1992 | 49.7 | 13.6 | 5.1 |

Source : Ravallion and Sen (1994).

per capita which is below the poverty line provides a measure of incidence of poverty. The consumption bundle which defines the poverty line in Bangladesh corresponds to an average per capita daily intake of 2122 calories per adult person as recommended by WHO/FAO for South Asian Countries. The depth of poverty is measured by the poverty gap index which is defined by the mean distance below the poverty line as a proportion of that line. Finally, the severity of poverty is measured by the squared poverty gap index developed by Foster, Greer and Thorbecke (1984) which is defined as the mean of the squared proportionate poverty gaps. Table 5.5 reveals several features of trends in poverty in Bangladesh. All three measures indicate levels of poverty at the national level declined in 1986 from its level in 1984 quite significantly. But the trend was reversed in 1989. Levels of poverty increased in 1989 and it increased further in 1992. The levels of poverty in 1992 is, however, below the level which prevailed in 1984. Thus some reduction in poverty has taken place between the two end points though the significant reduction which occurred in 1986 could not be sustained. The variations in measures of poverty decrease followed by gradual increases, reflect instability in poverty reduction (Sen, 1997).

There exist substantial regional differences in the progress in poverty reduction. While the head-count index fell by more than 7 percentage points in urban areas, it fell by less than 1 percentage point in rural areas. Thus poverty reduction has made a greater impact in urban than in rural areas and whatever poverty reduction has been achieved at the national level is mainly a result of urban poverty reduction.

The squared poverty gap index remained unchanged in urban areas but it increased in rural areas in the adjustment period. This is suggestive of falling living standards of the poorest of the poor in rural areas (Sen 1995) while the urban poorest have been able to maintain their living standards in the adjustment period.

It may be worthwhile to indicate the incidence of poverty revealed by some of the more recent studies. Data collected by the BBS under the Monitoring Adjustment and Poverty (MAP) in Bangladesh

Project implemented by CIRDAP show that in urban areas the head count index of poverty stood at 43.3 percent in December 1995 which increased to 44.4 percent in April 1996. The poverty gap index declined marginally from 14.5 percent to 14.2 percent during the same period while the squared poverty gap index remained unchanged at 6.1 percent. In the rural areas the head count index of poverty which stood at 47.6 percent in April 1995 fell to 46.8 percent in December 1995. But it increased to 47.8 percent in April 1996. The two other measures of poverty show similar movements during the same period. These figures indicate seasonal variations in the incidence of poverty during a year and a slight increase between two end points. While comparison of these results with the HES data presented in Table 5.6 is problematic, the incidence of poverty seems to have increased in the urban areas in 1996 compared to its level in 1992. The incidence of poverty in the rural areas, however, seems to have decreased during the same period.

The modest to imperceptible gains in poverty reduction in the rural areas and modest decline and then increase in the incidence of poverty in the urban areas can be attributed to a number of factors. Analysis of poverty correlates (Mujeri et al. 1993; Sen, 1997) suggests that growth of income, through its demand and supply

Table 5.6: Poverty Measures for Bangladesh, 1995-1996

| <i>Period</i> | <i>Head-count index (%)</i> | <i>Poverty gap index (%)</i> | <i>Squared poverty gap index (%)</i> |
|-----------------|-----------------------------|------------------------------|--------------------------------------|
| Urban | | | |
| 1995 (December) | 43.3 | 14.5 | 6.1 |
| 1996 (April) | 44.4 | 14.2 | 6.1 |
| Rural | | | |
| 1995 (April) | 47.6 | 11.9 | 4.4 |
| 1995 (December) | 46.5 | 11.6 | 4.2 |
| 1996 (April) | 47.8 | 12.0 | 4.4 |

Source : CIRDAP. Poverty Monitoring Surveys

linkages is a major factor determining the movements of levels of poverty. However, the growth of income is likely to exert a greater influence on poverty alleviation if it is broad-based i.e. if the poor are enabled to participate actively in the income generating process. Income generation mechanisms involving human resource development, provision of economic and social infrastructures and provision of direct development assistance through credit, extension, transports, etc. play important role in income growth.

Table 5.7: Poverty Incidence by Occupation of Head of Households

| <i>Occupation</i> | <i>(Head Count)</i> | |
|---------------------------------|---------------------|----------------------|
| | <i>April 1996</i> | <i>December 1995</i> |
| Urban | | |
| Owner farmer | 0.482 | 0.264 |
| Agricultural labourer | 0.607 | 0.743 |
| Other farming | 0.622 | 0.747 |
| Management and professional | 0.300 | 0.203 |
| Trade and business | 0.704 | 0.599 |
| Labour | 0.506 | 0.504 |
| Other | | |
| Rural | | |
| Owner cultivator | 0.334 | 0.328 |
| Tenant | 0.409 | 0.400 |
| Agricultural labourer | 0.696 | 0.711 |
| Other agriculture | 0.360 | 0.460 |
| Trade | 0.416 | 0.429 |
| Production and transport labour | 0.484 | 0.430 |
| Other non-agriculture | 0.427 | 0.372 |

Source : CIRDAP, Poverty Monitoring Surveys

Risk insurance mechanisms which prevent erosion of income caused by natural disaster, sickness, death of an earning member, etc. have received inadequate attention though important for poverty alleviation. Finally, well designed safety net programmes aiming to protect the vulnerable groups from the consequences of the adjustment programme also play crucial role in reducing the incidence of poverty and providing a 'human face' to economic reforms (Farid, 1993). The poor possess different characteristics but one characteristic which is of greater relevance to our discussion relates to the occupational structure of the poor. Table 5.7 shows that in urban areas the incidence of poverty was the highest in the case labour in April 1996 - about 70 percent of labour households were found to be poor. In rural areas the incidence of poverty was found to be the highest in the case of agriculture labour. It thus appears that labour constitutes the majority of the poor in both urban and rural areas.

5.5 Long Run Growth

It has been pointed out before that structural adjustment policies lead to economy wide changes resulting in adjustment in the labour market. Adjustments in the labour market through changes in real wage, relative wages and sectoral shifts in employment help attain the objectives of structural adjustment. If the labour market does not adjust flexibly and sufficiently the predicted sectoral shifts in output and employment will not occur, not to the full extent. The incomplete adjustment in the labour market affects the returns to the factors of production including labour. This leads to behaviour changes of owners of factors of production who try to minimize their losses (Milne and Neitzert, 1994). The effect which is of particular relevance here relates to investment including investment in human capital which has a bearing on long run growth path of the economy.

Table 5.8 presents data on investment in Bangladesh during the period from 1984 to 1995. Investment hovered around 12 percent of GDP between the period 1984 and 1990. Investment rate declined

to 11.5 percent of GDP in 1991. Investment began to accelerate from 1993 reaching 16.63 percent of GDP in 1995. Private investment fluctuated between 6-7 percent of GDP during the period from 1984 to 1990 with the exception of 1985. Private investment collapsed in 1991 and recovered in 1992 and increased to 9.41 percent of GDP in 1995 with a drop in 1994. Thus, with the exception of 1991, investment does not seem to have been significantly negatively affected by the structural adjustment programme and consequent adjustment in the labour market. The acceleration of investment since 1992 in fact tells the opposite story. As the structural adjustment programmes deepened with liberalization of trade and industrial

Table 5.8: Investment in Bangladesh, 1984 - 1995

(As percentage of GDP)

| <i>Fiscal Year</i> | <i>Private</i> | <i>Public</i> | <i>Total</i> |
|--------------------|----------------|---------------|--------------|
| 1984 | 6.65 | 5.61 | 12.26 |
| 1985 | 7.35 | 5.59 | 12.94 |
| 1986 | 6.27 | 6.27 | 12.54 |
| 1987 | 6.20 | 6.69 | 12.89 |
| 1988 | 6.41 | 6.03 | 12.44 |
| 1989 | 6.50 | 6.41 | 12.91 |
| 1990 | 6.41 | 6.39 | 12.80 |
| 1991 | 5.82 | 5.68 | 11.50 |
| 1992 | 6.63 | 5.49 | 12.12 |
| 1993 | 7.85 | 6.41 | 14.26 |
| 1994 | 7.83 | 7.59 | 15.42 |
| 1995 | 9.41 | 7.22 | 16.63 |

Sources : BBS, Twenty Years of National Accounting in Bangladesh, 1972-73 to 1991-92, July 1993 and Statistical Yearbook, Various Years.

policies and fiscal reforms, both private and public investment show upward trend - the trend being more pronounced in the case of private investment.

It may be argued, however, that investment could not realize its full potential because of lack of adequate industrial restructuring. Though staff rationalization took place in some state owned enterprises to some extent, it could not be carried out to the fullest extent because of workers' resistance and the implicit political risks involved. Loss making state owned enterprises which could not be privatized continue to absorb funds which could have been invested in profitable enterprises fostering growth and thus shifting out the economy's production possibility frontier.

Table 5.9: Public Expenditure on Education, 1984 to 1995
(at 1984/85 prices).

| <i>Fiscal Year</i> | <i>(million Taka)</i> | |
|--------------------|----------------------------|--------------------------------|
| | <i>Current Expenditure</i> | <i>Development Expenditure</i> |
| 1984 | 4054 | 1417 |
| 1985 | 4930 | 1375 |
| 1986 | 5464 | 1167 |
| 1987 | 6127 | 1684 |
| 1988 | 6250 | 1917 |
| 1989 | 6713 | 1822 |
| 1990 | 7379 | 2050 |
| 1991 | 7288 | 2067 |
| 1992 | 8175 | 2911 |
| 1993 | 9679 | 3489 |
| 1994 | 9951 | 5413 |
| 1995 | 10463 | 8090 |

Source : BBS. Twenty Years of National Accounting in Bangladesh, 1972-73 to 1991-92, July 1993 and Statistical Yearbook, Various Years.

The trends in the distribution of income seem to have continued in the recent period as evidenced by data collected recently by the BBS under the Monitoring Adjustment and Poverty in Bangladesh Project implemented by CIRDAP. Table 5.4 shows extreme inequity in the distribution of income in both rural and urban areas. In April 1996, rural population belonging to the lowest 4 deciles received only 12.7 percent of income while those belonging to the upper 2 deciles received 54.6 percent of income. In urban areas, the population in the lowest 4 deciles received only 9.1 percent of total income while the population in the upper 2 deciles received 67.1 percent of total income indicating greater income inequality in the urban areas.

It is now widely recognized that human capital is a key element in an economy's growth. Human capital formation requires investment in education. Estimates of private investment in education are not available but public sector expenditures on education are available. Table 5.9 shows that current expenditure on education has steadily increased with a dip in 1991. Development expenditure on education shows cyclical movements but a definite upward trend. Allocation of public resources to human capital formation has thus increased. In fact, in recent years the education sector claims an increasing share of the government budget reflecting demographic pressures and donor preferences. Especially, increased allocation to primary education and emphasis on women education have resulted in improved enrollment rates and improved female participation at all levels (Ahmad, 1995). Notwithstanding these notable developments, the capacity of the education system to produce adequately skilled manpower to fully meet the challenges of the jobs to be undertaken has been called into question. Further, the problem of access to education at all levels has become endemic (Ahmad, 1995).

Chapter 6

The Adjustment Process and Labour Market Institutions

6.1 Introduction

The reform measures undertaken within the framework of IMF, and World Bank structural adjustment programmes may have adverse effect on employment and wage in the immediate short run. But in the medium term, they are claimed to have the potential, provided that some supplementary measures are taken, to generate employment and higher wage by stimulating growth and making growth more labor intensive in a labour abundant country. Khan (1995) classified developing countries into three groups : (i) Efficient and Employment - Friendly (Korea), (ii) Inefficient and Employment-Friendly (Pre-reform China) and (iii) Inefficient and Employment-Hostile (South Asian Countries). He used the rate of growth of GDP with an adjustment for the resource cost of growth, and output elasticity of employment as the index of efficiency and employment-friendliness respectively. South Asian countries have been categorized as Inefficient and Employment- Hostile as they have less than average efficiency of resource use and less than average employment-friendliness. Khan holds that in the third category countries structural imbalances emerge mainly due to the country's own policies, although, external circumstances may be responsible for their aggravation. This means that the conflict between adjustment and growth during the transition period is likely to be less in those countries with an efficient structure of production and incentives. The notable feature of this case is that there is a strong likelihood of complementarity between structural adjustment and elimination of macroeconomic imbalances. As structural reform successfully uses its instruments, higher growth and a rapid expansion of employment would occur simultaneously. In Indonesia, Malaysia and Thailand adjustment consisted of both stabilization and structural reform (Khan, 1995). Higher export earnings, higher public revenue and a

more rational public expenditure are likely to lead to reduction of macroeconomic imbalances.

Structural reforms, if successfully adopted, are likely to make the country adopt technologies consistent with the factor endowment, restrict the public sector to activities which it alone can do in more efficient manner, and domestic production for internal consumption and export is confined to commodities dictated by comparative advantage. As a consequence, production of new commodities may start while production of some old commodities may be reduced or stopped. All these outcomes involving changes in input-mix and output-mix have important implications on absolute and relative wages of workers in different industries, and composition of employment. Labour market itself is required to be flexible in order to accommodate the required shift in composition of employment and changes of relative and real wages. Such a market must ensure a proper link between real wage and productivity of labour and thus enable firms and industries to restructure relatively easily, if the situation so warrants, in order to remain competitive. Such links also generate appropriate signals about skill needs of the workers (on the demand side) and government, private entrepreneurs and non-profit voluntary organizations (the potential suppliers of skills) (Rahman, 1994). Provision of training, information, compensation due to retrenchment, and social security ameliorate the probable adverse impact of structural reforms. East Asian countries like Malaysia, Thailand and Indonesia had labour market flexibility and, therefore, implementation of the adjustment programmes is claimed to have been much easier.

In Bangladesh, wage settlement procedure in the formal sector is believed to have given rise to poor wage-productivity link and wage inflexibility. Public sector still dominates the formal sector in this country. In view of the present complex management structure and lack of autonomy at the unit level in state owned enterprises (SOEs), settlement of wages and non-wage facilities and industrial disputes have become parts of a highly centralized process with continuous and intensive government involvement. Such involvement is claimed to be at least partially responsible for

politicisation of trade unions and centralization of wage bargaining. Decentralized wage settlement procedure is considered to be conducive to improvement in flexibility in the labour market. Such flexibility is considered to be essential for attainment of structural adjustment policy objectives (World Bank, 1994a and 1994b).

As a part of structural reform measure, privatization programme has been carried out in many countries. This action is expected to reduce inefficiency, though in the short run such changes may adversely affect employment and wage. Liberal trade regime and financial sector reforms put viability of many SOEs at stake. Downsizing of public sector through transfer of selected activities to private hands, reduction of manpower and transfer of ownership to private sector is likely to reduce excessive government involvement in wage fixation, as well as lessen the budget deficit. Reduction of the size of public sector and consequent diminution of government's role is expected to improve wage flexibility and improvement in work place environment through (i) reduction of degree of politicisation (ii) weakening of centralized wage bargaining system and replacement of this system by the decentralized system (World Bank, 1994a).

In this chapter, the role and performance of different labour market institutions, especially that in the manufacturing sector have been discussed. How the targets and objectives of privatization have been modified by labour market institutions in general and trade unions in particular and the response and reaction of labour market institutions to structural adjustment have been studied with special emphasis on trade union activities.

The entire time period 1972-1996 has been divided into sub-periods on the basis of actions taken in relation to privatization and restructuring to compare the changes of wage, employment and productivity and performance of labour market institutions in different sub-periods. We have also briefly discussed relevant labour laws and ordinances and aspects labour policies in this section. Section 6.3 presents discussions on wage - determination procedures for public and private sectors. Here the role of the

Minimum Wage Board, National Wage and Productivity Commissions, Collective Bargaining Agents of workers have been focused. In the following section, an attempt has been made to present the complex as well as enormous problem in the arena of industrial relation in Bangladesh. Here we have tried to analyze the roles of and interaction between workers, trade unions, employers and managers, government and political parties. Incidence of labour disputes and their impact have also been discussed. In Section 6.5, we have discussed how industrial disputes are formally raised and resolved and examined the performance of different agencies in the resolution of industrial disputes. Last two sections of this chapter deals with trade unions and concentrates on those in the manufacturing sector. Section 6.6 contains discussions on organizational structure of trade unions, their number and membership strength, federations of such unions and distribution of such unions and federations across industries and regions. Section 6.7 contains discussion on the activities of SKOP - the single national level alliance of labour federations. In this section we have tried to show how workers organized themselves mainly to resist privatization and retrenchment programmes and how they reacted and adjusted their views in the course of adjustment.

6.2 Identification of Three Regimes and Labour Policies

6.2.1 Different Regimes and Sub-periods

On the basis of industrial policies pursued in Bangladesh and government's role in economic activities the entire period 1972-1996 can be broadly divided into (i) Nationalization Regime which covers the period 1972-1975 and a (ii) long continuing Denationalization Regime 1975-1996. The latter again can be subdivided into pre-structural adjustment period (1976-85) and continuing post-structural adjustment period (1986-96). Denationalization that took place before 1986 was not a part of a comprehensive programme imposed and/or approved by donors while privatization and restructuring carried out during 1986-1996

was component of a comprehensive donor approved programme. It may be noted here that certain institutional reforms and contingent measures like increasing the public sector efficiency through providing of the elements of autonomy and accountability, eliminating inefficiency in administrative system, improving public services, ensuring law and order situation, quick settlement of disputes, taking safety measures for displaced workers etc. were not given due consideration. In coming years structural adjustment programme is likely to include many other components side tracked so far.

6.2.2 Labour Policies

Along with industrial policies, labour policies declared from time to time, need to be taken into account for proper understanding of responses and adjustment of labour market institutions as well as impact of structural adjustment.

The first labour policy of Bangladesh was declared in 1972. It deprived the workers in SOEs of the right of collective bargaining. For private sector wage determination in urban areas Minimum Wage Board was set up. This board was supposed to declare minimum wages in sectors not covered by trade unions. In other sectors wages were to be set through collective bargaining. For public sector workers a national wage board comprised of representative of workers, employers and experts was set up in order to review and determine the wage structure and other fringe benefits. The labour policy encouraged formation of one national trade union in the nationalized/taken over industries and discouraged growth of multiple and mushroom trade union in each industrial establishment. So far as the rights of workers are concerned, this policy seemed to be repressive. The Government subsequently withdrew the labour policy in view of the strong resistance from the labourers.

During 1972-75 some amendments were made to 1969 Industrial Relation Ordinance (IRO). Provisions of those included (a) closing of registration of trade unions (b) ban on inclusion of outsiders (non-employee) in the executive committee of plant - level trade

unions (c) debarring Watch and Ward personnel, Security Staff and Confidential Staffs from trade union membership (d) postponement of selection of collective bargaining agencies for SOEs and (e) impositions of restrictions on trade union activities in sector corporations and semi-autonomous bodies.

The second labour policy of Bangladesh, declared in 1980, restored some of the rights of workers. In the light of 1980 labour policy a strong tri-partite labour consultative committee comprising of 15 members nominated by the government, 15 labour representatives and 15 representatives of entrepreneurs was constituted. It was declared that all future policies regarding labour would be formulated on the basis of discussion with the Tri-partite Consultative Committee and in conformity with ILO convention.

6.3 Wage Determination Systems

6.3.1 Wage Settlement Procedure in Private Sector

(a) Minimum Wages

Minimum wages are awarded by the Minimum Wage Board (MWB) set up from time to time for industries where trade union activities are either absent or very weak. At present minimum wage award covers 38 industries (see Table 6.1). During nationalization regime (1972-75) minimum wage was awarded for only 3 industries. During 1986-1995 minimum wage awards were declared for 29 industries - six industries received award twice, whereas during 1976-1985 minimum wage awards were made for 30 industries - of which 6 industries received such awards twice during this period. Over the period 1972-1995, only cinema house staff and printing press workers received the minimum wage award for five times. Hosiery workers, confectionery workers and Bidi workers each received the wage award thrice. Workers of all other industries (thirty three in number) received minimum wage awards only once or twice during the last 24 years. Workers in rubber products, oil mills and vegetable products, saw mills, type foundry, salt crushing

industry, gas and silicates, plastic products, tea packing and rice mills received their last minimum wage award at least as far back as 1985.

Surprisingly workers of cotton textile, press, match factories jute pressing and bailing workshops and cinema houses that are well known for the presence of active trade union activities also received minimum wages. It may also be noted here that workers of the most dynamic private sector industry i.e. garment industry received minimum wage award only twice (in 1985 and 1994) in the past 22 years.

The Minimum Wage Board in most cases recommends three different minimums for unskilled, skilled and semi-skilled workers. Recommendations prepared by the MWB need to be approved by the government and published in the official gazette before they may come into force. In the event of higher wages being set through collective bargaining procedures, the minimum wages does not come into force.

Table 6.1: Minimum Wage Board Award 1960-1995

| <i>Sl.No.</i> | <i>Name of the Industry</i> | <i>Year of Minimum Wage Award</i> |
|---------------|---------------------------------------|-----------------------------------|
| 1. | Jute Textile Manufacturing Industry | 1960 |
| 2. | Jute Press and Bailing | 1961, 1986 |
| 3. | Cotton Textile Industry | 1960, 1986 |
| 4. | Match Industry | 1964, 1981, 1986 |
| 5. | Rubber Products | 1965, 1983 |
| 6. | Aluminium and Enamel Products | 1967, 1982, 1994 |
| 7. | Oil Mills and Vegetable Products | 1970, 1981 |
| 8. | Hosiery | 1970, 1976, 1986, 1994 |
| 9. | Iron Foundry and Engineering Workshop | 1970, 1976, 1981 |
| 10. | Re-rolling Mills | 1970, 1988, 1994 |

Continued

Table 6.1 : Continued

| <i>Sl.No.</i> | <i>Name of the Industry</i> | <i>Year of Minimum Wage Award</i> |
|---------------|---|-----------------------------------|
| 11. | Soap and Cosmetics | 1970, 1982, 1994 |
| 12. | Tannery | 1970, 1982, 1994 |
| 13. | Bakery, Biscuit and Confectionery | 1970, 1976, 1982, 1990 |
| 14. | Printing Press | 1970, 1975, 1980, 1986, 1993 |
| 15. | Inland Water Transport Industrial Undertaking | 1971, 1987, 1993 |
| 16. | Road Transport Industrial Undertakings | 1971, 1981, 1989 |
| 17. | Saw Mills | 1974, 1983 |
| 18. | Cinema Houses | 1975, 1982, 1985, 1987, 1995 |
| 19. | Cold Storage and Ice Factories | 1976, 1987 |
| 20. | Type Foundry | 1976, 1983 |
| 21. | Salt Crushing Industry | 1978 |
| 22. | Hotel and Restaurant | 1979, 1986 |
| 23. | Automobile Workshop | 1980, 1987 |
| 24. | Gas and Silicates | 1980, 1985 |
| 25. | Bidi (Country Cigarette) | 1981, 1985, 1988 |
| 26. | Plastic | 1983 |
| 27. | Tea Packing | 1983 |
| 28. | Rice Mills | 1984 |
| 29. | Garments Industries | 1985, 1994 |
| 30. | Homeopathic Medicine | 1986 |
| 31. | Ayurvedic Medicine | 1986 |
| 32. | Pharmaceutical Industry | 1986 |
| 33. | Shoe | 1986, 1994 |
| 34. | Tea Garden | 1986 |
| 35. | Petrol Pump | 1987 |
| 36. | Salt Refining Industry | 1987 |
| 37. | Tailoring | 1988 |
| 38. | Fishing Trawler Manufacturing Industry | 1989 |

Source: M.A.S. Talukder Shrama and Shilpa (in Bengali), Nasa Prakashani, Dhaka, 1997 (Appendix Table "Umo", p. 441-442).

As we noticed earlier, minimum wage levels were not adjusted regularly. There was also considerable time gap between consideration for a particular sector and final award and implementation. The 1991 annual report of the Ministry of Labour and Manpower Inspectorate mentions only two investigations under the minimum wage acts. In previous years there had been 411, 518 and 610 incidents of violations in 1988, 1989 and 1990 respectively. (World Bank, 1996, p. 24). In a survey covering 166 industrial enterprises, only 47 per cent stated that they adhere to minimum wage legislation and the rest 53 per cent do not concern themselves with that legislation (World Bank 1994a, p. 156). This has the obvious implication that minimum wage law is by passed. This creates problem to workers and puts the foreign investors who are more likely to follow government rules and regulations at a disadvantageous position. In a country with high rate of open and disguised unemployment, employers may (1) pay the workers minimum wage but make them work extra hours and/or make them go without some fringe benefits (2) pay them less than what they receive on papers. In such a situation it is difficult to monitor minimum wage violations.

Minimum wage only covers private formal sector. So it cannot ensure protection for about 40 million working in informal sectors and as day labourers. The MWB is comprised of three members including the Chairman (a judicial officer of the level of District and Session Judge) and two other members, one representing the employers and another the workers. When the government refers any case to the Board, the latter appoints two additional members. Due to the lack of quorum in board meetings and want of information regarding productivity, profit, prices and wages, the Board can not work in an efficient manner. The MWB solely depends on views and information presented by the parties to the disputes.

During 1990s, the SKOP - the first National Labour Federation Alliance in Bangladesh- demanded a minimum wage for private sectors and necessary action on the part of the government in cases where the minimum wage is not honoured. The 1991 NWPC was charged with the responsibility to examine the justifications and

implications of introducing a national minimum wage which could be applied to private sectors also. The commission recommended a national minimum wage of Taka 900 per month. But this was not implemented.

Sahota (1991) proposed a single minimum wage for each demarcated region (regions are proposed to be demarcated on the basis of prices of essential commodities) to prevent employers from fixing wages below the subsistence level and let the market determine relative differentials above the rate. But this scheme requires frequent change of demarcated regions and flow of sound information regarding prices of essential commodities. The impact of minimum wage on wage level and employment is discussed in section 2 of Chapter 7.

(b) Collective Bargaining

Wages in different units in the private sector are supposed to be determined through collective bargaining between collective bargaining agent (CBA) at the unit level and the unit owner. The private sector entrepreneurs prefer to follow the collective bargaining procedures at the plant level which is provided for in the law. However the nationalized sector is claimed to act as the wage leader in the formal sector as private industries take the government determined wages as a reference point (World Bank, 1994). The wages given by the multinational companies are higher than either the private sector or public sector wages; but this does not provide a reference point for determination of wage level in the rest of the economy.

6.3.2 Wage Determination in the Public Sector

Public sector wages were determined by commissions appointed by the government. Industrial Worker Wage Commission, 1973, Industrial Worker Wage and Productivity Commission, 1977 and National Wage and Productivity Commissions of 1984 and 1992 presented wage structure which became effective from 1973, 1977, 1985 and 1991 respectively. The last three commissions included

representative of workers. The earlier commissions recommended minimum wage for the nationalized industries only, while 1991 commission was also charged with the responsibility to examine the justification and implication of introducing a national minimum wage which could apply to private sectors also.

Though in principle public enterprise wages are to be set independently of civil service salaries, the government has convened a wage commission whenever a pay commission was called to revise civil servants salaries. Since the 1980s, in the period between two successive commissions, the government provided workers with increase in pay in the form of dearness allowance. Pay commissions are called only when inflation erodes the real wage level substantially.

NWPCs include representatives of trade unions, private employers and government. The tri-partite nature of NWPC does not amount to collective bargaining because NWPC submits its report to the government who retains the right to accept, reject or modify the recommendations submitted by NWPC. Inclusion of private sector employers may be justified on the ground that public sector accounts for a significant part of value added in manufacturing sector and labour force having formal employment (although the importance of public sector is declining but it still accounts for 50 per cent of value added and 33 per cent of formal employment). Hence public sector wages policies are believed to have an important impact on the wages and competitiveness of the modern sector including private sector as well as labour market repercussions. Furthermore, the perception that actions regarding wages and other facilities taken in public sector have government approval and reflect government policy, though often not explicitly stated, make those awards reference point in the collective bargaining in the private sector. So whatever is done in the public sector for industrial relations and wage setting is likely to influence related structures and procedures for the whole production sector. The relationship between wages in different sectors has been empirically investigated in section 3 of chapter 7.

All the commissions, it is held, took into consideration, while fixing the wages, certain objective factors such as (1) minimum wage should be adequate to provide the basic needs of a workers family comprising three adult-equivalent consumption units (2) industrial wage should be higher than agricultural or rural wage as well as wage of office workers (3) wages should be linked with productivity and (4) the ability of the enterprises to pay should be considered (Rahman, 1994).

Wage structures awarded by the wage commissions and deflated wage figures have been shown in Table 6.2. It may also be noted here that the last commission recommended a national minimum wage of Taka 900 per month. In view of the longer work hours of industrial workers, well defined obligations of the workers vis-a-vis undefined and simple tasks to be performed by office workers, exposure to greater risk of accident and health hazard, higher remuneration for industrial workers compared to office worker was advocated. The awards of first two commissions maintained a favourable differential of 19-20% between remuneration of office workers and industrial workers whereas the differential declined at first to 12 per cent and later to 5 per cent in the wage structure awarded by the last two commissions in 1985 and 1991 respectively (see Table 6.3).

During 1980-84 daily wage rate of unskilled workers in public sector - dominated jute and cotton textile industries were higher than the agricultural wage rate (daily wage rate in agriculture without food). In most of other years the reverse was found to be true. During adjustment period (1986/87-1990/91), wages in those two sectors were less than agricultural wage by 2-10 per cent in most of the years (see Table 6.4). The per centage difference however, seems to have fallen. A comparison of the initial wage level (on monthly basis) for the lowest scale awarded to be effective in various years and agricultural wage (on daily basis) in those years also supports the above result (see Tables 6.2 and 6.4). While comparing the wages in agricultural sector and industrial sectors we must note that agricultural workers remain unemployed for a significant part of the year in rural Bangladesh.

Table 6.2: Structure of Wage Award for Public Sector Workers (Basic Starting Wage)

| (in taka) | | | | |
|---|----------------|-----------------------------------|------------------------|------------------------|
| <i>Grades</i> | <i>1973-74</i> | <i>1977 (1st July)</i> | <i>1985 (1st June)</i> | <i>1991 (1st July)</i> |
| I | 155 (58) | 270 (64) | 560 (76) | 950 (66) |
| II | 165 (62) | 285- (68) | 590 (88) | 1000 (69) |
| III | 180 (67) | 300 (72) | 620 (84) | 1050 (73) |
| IV | 190 (71) | 310 (74) | 640 (87) | 1100 (76) |
| V | 200 (75) | 335 (80) | 690 (94) | 1175 (81) |
| VI | 210 (78) | 355 (85) | 730 (99) | 1225 (85) |
| VII | 225 (84) | 370 (88) | 760 (104) | 1275 (88) |
| VIII | 250 (93) | 385 (92) | 790 (108) | 1325 (92) |
| IX | 250 (93) | 400 (95) | 820 (112) | 1375 (95) |
| X | 260 (97) | 415 (99) | 850 (116) | 1425 (98) |
| XI | 275- (108) | 440 (105) | 900 (123) | 1500 (104) |
| XII | 300 (112) | 460 (109) | 940 (126) | 1550 (107) |
| XIII | 310 (116) | 480 (115) | 980 (134) | 1600 (110) |
| XIV | 325 (121) | 500 (119) | 1020 (139) | 1650 (114) |
| XV | 350 (131) | 520 (124) | 1060 (144) | 1700 (117) |
| XVI | 400 (149) | 570 (136) | 1160 (158) | 1800 (124) |
| Country Consumer Price Index for Industrial Workers 1970 as base year | 268 | 419 | 734 | 1448 |

Note: Figures in parentheses are wages deflated by country consumer price index for industrial workers.

Source: Nominal wage figures are obtained from M. A. S. Talukder, *ibid.* (P. 27).

Table 6.3: Minimum Wage and Minimum Pay.

| <i>Year</i> | <i>Minimum Wage (taka)</i> | <i>Minimum Pay (taka)</i> | <i>Minimum Wage/ Minimum Pay</i> |
|-------------|--------------------------------|-------------------------------|--------------------------------------|
| 1973 | 155 | 130 | 1.19 |
| 1977 | 270 | 225 | 1.20 |
| 1985 | 560 | 500 | 1.12 |
| 1991 | 950 | 900 | 1.05 |

Source : Masihur Rahman, *Structural Adjustment, Employment and Workers*, University Press Limited, Dhaka, 1994 (Table 13, Page 67).

Adjusting minimum wage to poverty level income (2122 k cal/person/per day) or extreme poverty level income per adult (1805 k cal/per person/per day) put the minimum wage within the range Tk. 1000-1200 at 1991 price (Rahman, 1994 p. 69-70). Hence it appears that labourers who were at initial stages of scales of (at least) the lowest two grades of all 4 wage structures had their households (with 3 adult-equivalent consumption units) even below the extreme poverty line. Labourers at initial stages of scales of the lowest five grades were found to fall below the poverty line.

The gap between the lowest and the highest scales of SOE worker's wages declined over time. Real wages associated with lower scales increased somewhat but real wage associated with higher scales declined over the period 1974-1992. It seems that seniority and efficiency (or at least seniority) were penalized. There was also no room in the uniform wage structure applicable to public sector enterprises for taking into account differences in labour productivity across sectors. It may be noted that wage awards granted by the second and the fourth commission failed to protect the real wage level of workers in different grades. On the other hand

the 1985 wage awards presented significant improvement in real wages of all categories of workers.

6.4 Industrial Relation : Role of Workers, Trade Unions, Employers, Government and Political Parties

6.4.1 Complexity of the Problem

Multiplicity of trade unions as well as federations and their extreme politicisation in Bangladesh have become a major concern. Industrial relations in such circumstances reflect the interaction between political parties and trade unions rather than the interaction between management of different enterprises and trade unions. It is argued that trade unions are unable to pursue their objectives through normal collective bargaining as (1) management in public sector is highly centralized - decisions have to come from various ministries, (2) government participates directly in wage setting procedures and (3) collective bargaining is formally restricted in the public sector. Trade unions, if they have common goal, will either support or oppose the government policy and decisions. In case where trade unions have conflicting goals, they will differ in their responses to governments trade, labour and wage policies. Their responses are dictated by political parties to the extent they are controlled by political parties. Given the poor rate of literacy and lack of education and information, political parties gain influence over trade unions mainly through infiltrating outsiders and partly through providing party membership or indoctrination. They may seek the support of trade unions in different policies, and their participation in political activities. Another feature e.g. indiscipline and militancy among the workers of trade union movement has recently become a matter of grave concern for both entrepreneurs and bureaucrats in charge of public sectors.

Table 6.4: Average Daily Wage Rate of Agricultural Labour and Unskilled Labour in Jute and Cotton Textile Sectors.

(Taka per day)

| <i>Fiscal Year</i> | <i>Agriculture</i> | <i>Cotton</i> | <i>Jute</i> | <i>Cotton/ Agriculture</i> | <i>Jute/s Agriculture</i> |
|--------------------|--------------------|---------------|-------------|--------------------------------|-------------------------------|
| 1974 | 6.69 | 5.80 | 5.71 | 0.87 | 0.85 |
| 1975 | 9.05 | 6.30 | 5.94 | 0.70 | 0.66 |
| 1976 | 8.82 | 6.73 | 6.20 | 0.76 | 0.70 |
| 1977 | 8.93 | 7.82 | 6.89 | 0.88 | 0.77 |
| 1978 | 9.44 | 8.33 | 7.74 | 0.88 | 0.82 |
| 1979 | 10.88 | 11.64 | 10.14 | 1.07 | 0.93 |
| 1980 | 12.46 | 14.61 | 13.37 | 1.17 | 1.07 |
| 1981 | 13.97 | 16.78 | 16.15 | 1.20 | 1.16 |
| 1982 | 15.48 | 18.07 | 17.18 | 1.17 | 1.11 |
| 1983 | 17.05 | 19.47 | 19.46 | 1.14 | 1.14 |
| 1984 | 19.58 | 21.63 | 20.22 | 1.10 | 1.03 |
| 1985 | 24.54 | 24.03 | 21.00 | 0.98 | 0.86 |
| 1986 | 29.54 | 28.86 | 28.63 | 0.98 | 0.97 |
| 1987 | 31.91 | 30.90 | 32.72 | 0.97 | 1.03 |
| 1988 | 31.15 | 35.60 | 33.10 | 1.14 | 1.06 |
| 1989 | 42.87 | 38.95 | 39.12 | 0.91 | 0.91 |
| 1990 | 47.98 | 43.73 | 43.90 | 0.91 | 0.91 |
| 1991 | 49.63 | 46.08 | 45.78 | 0.93 | 0.92 |

Note : It may be noted that Cotton and Jute Textile sectors are dominated by public sector enterprises.

Source : Masihur Rahman, *ibid* (Table 12, Page 65).

6.4.2 Attitude of Employers and Managers

Here we shall examine the attitude of employers - managers towards trade union activities :

- (i) Managers of public sector enterprise are not actually employers as they have no authority to settle the wages of public enterprise workers. They have responsibilities without authority. Very often they fall victim in the hands of militant trade unionists. The management in the public sector wants a system which will clearly define their rights, responsibilities and limits. They also demand that their responsibility should be adequately backed by their authority. The public corporation management would accept any government decision but would plead for due process (Rahman, 1994). The Government, in order to please the agitating workers (or public) in an enterprise (or a locality), often violates its own rules and commitment, passes verbal orders to bureaucracy and blames them for the hardships suffered by workers. This sort of direct contact and intervention makes the bureaucracy indifferent to government policy or labour welfare. The pressure tactics once gainfully employed, provokes the trade unionists to be militant in all situations.
- (ii) The employer-directors of foreign companies dislike trade unions though they are willing to follow the general framework of Industrial Relations Ordinance. They prefer to have only one union at the firm level and hence there are neither outsiders nor federations. They are skillful in negotiation and try to minimize employment in the category that constitutes membership of unions. A very high wage level keeps the workers aloof from strike since a job, if any, obtained outside the company in case of a termination will offer much less wage. Workers in foreign companies have higher productivity too due to the same reason (Mondal 1992, p. 4-6). Such foreign companies are normally multinationals. They enjoy protection and monopoly power. New foreign companies in the present liberalized trade regime should not expect to benefit from such protection and monopoly power. As the number of multinational increase, multiplicity and politicisation problems of trade unions are likely to affect those too.

- (iii) The owner-directors of private indigenous firms, in general, offer lower wages compared to nationalized industries (Mondal 1992; p. 5). Ready made garments and iron and steel rerolling provide examples. They indulge in breaking up of trade unions or floating new trade unions in order to reduce the influence of old ones. They prefer recruitment of labour from relatives and from their own villages so that there is a patron-client relationship between workers and owner-director. Such firms opt for labour-saving technology. Normally they are skilled in negotiation. They have a tendency to confuse rights of labour as gifts to labour (Mondal, 1992).

Both employers and the government tend to respond to workers demand only when they become violently aggressive. Non-adoption of proper fire prevention measures, award of minimum wage only twice in the past 22 years in ready-made garments industry bear testimony to the above comment.

6.4.3 Outsiders in Trade Unions

Very few of the workers have the training, education and information which would enable them to bargain effectively with employers of private sector and bureaucrats in public sector corporations. During pre-liberation period a majority of the trade unions were run by outsiders who were not themselves workers. They included: (1) workers discharged for trade union activities and those who after being active trade unionist did not work in any establishment (2) professional leaders not belonging to the working class but adopted trade unionism as a career (3) other social and political workers who worked in the trade union movement but not whole time paid workers. The workers of political parties joined also the trade unions with the main purpose of establishing their political position through creating their support base among the workers (Ahmed, 1969; p. 44). The outsiders of second and third category, it is argued, may not possess the sympathetic 'feel' for labour problems which the leadership from the rank and file can command. They are often active, as alleged, for reasons of personal aggrandizement and enhancement of the influence of the political party they work for.

An amendment to trade union act of 1956 issued in 1961 debarred any outsider other than those engaged in trade union activities on a

full time basis, from being member of executive committee in basic trade unions. In post-liberation period, outsiders were debarred from being members of executive committee at plant level by an industrial relation regulation issued in 1975. However, there is no such restriction in case of industry-based federations or national federations.

6.4.4 Government, Political Parties and Trade Unions

During Pakistani regime, government used to interfere in trade union activities from time to time. The leftists-led labour organisations suffered most due to such interference though they became very powerful during the late 1960s (Ahmad, K. 1969). After the liberation, the influence of labour leaders supported by political parties significantly increased at the cost of professional labour leaders and trade union movement deviated from the goal of welfare of labour class to goal of aggrandizement of political parties (Talukdar, 1996; p. 137-138). At present all the major political parties have significant influence on labour unions. The minor and splinter left parties have their support base in trade union organization as is evident in Table 6.11. The pertinent question is why this shift of loyalty occurs and whether such shift is beneficial for the workers or not. Managers of private and public enterprises deliberately support unions of ruling political party in order to seek benefits from the government. Labour leaders change unions or form new unions for higher position and financial benefits. Benefits for the workers as a whole can however be provided persistently only through achievement of high rate of economic growth and productivity rise.

Existence of small federations or unions render compromises or consensus tough to achieve and commitments difficult to honour over a long period of time. Large federations with links with major political parties can be more effective in influencing government policy toward labour as well as strategies of labour union movements. Whether or not such federations can adopt policies in the interest of workers and independent of the political parties (if necessary) depend upon the choice of objectives by the insiders and outsiders among the leadership of unions and federations. In critical times and

matters, union members are likely to be subject to the overall policies of the respective political parties with which they are linked.

6.4.5 Industrial Disputes

The frequency of industrial disputes in Bangladesh does not present any clear trend. But compared to the period 1977-1986, the number of industrial disputes and financial losses due to such disputes significantly declined during 1987-1995 (see Table 6.5). This may be due to minimum wage awards for significant number of industries during this period and wage award of 1991. The very low number of disputes in 1975 and 1976 may be attributed to political events. The significant jump in the number of disputes during 1978 through 1981 was probably in part due to the lifting of martial law in 1978. On the other hand, the proportion of political disputes to total disputes was much higher during 1988-1990 (56-100 per cent) than that during 1977-81 (0-22 per cent). For the period 1991-1995, information on total number of labour disputes is available. But we do not know how many of them were caused by political factors. The number of labour disputes during this period in general has been less than the number of labour disputes caused by political reasons during 1983-1989. Political disputes arise due to political reasons, e.g., inter- and intra-union rivalries, political issues and token and sympathy strikes for some political causes. Unfortunately in Table 6.5 political disputes could not be further broken down into union rivalry, political issues etc. Inter union rivalries often cause disruption in public enterprises. Most of the time, the problems start when unions affiliated with one party try to overthrow the existing CBA affiliated with a different party. Enterprise management is rarely neutral and tends to support the union affiliated with whichever political party is in power (World Bank, 1996; p. 30). Intra union hostility occurs due to split of the mentor political party. There is a similarity, in this respect between student and labour organizations in Bangladesh at least during post-liberation period. Sometime private enterprises float new unions to restrain or eliminate the strong union they do not like.

6.5 Resolution of Industrial Disputes

Maintenance of good industrial relation and resolution of industrial disputes involve the following agencies (1) Collective Bargaining Agency of the workers (2) Employers (3) Participation committee (known as worker committee before 1980) (3) Conciliator (4) Arbitrator (5) Labour courts.

If any enterprise has a single workers union, and the membership of such a union comprise at least one third of the workers employed, then the union can serve as the central bargaining agent of the workers. When there are more than one union in an enterprise, the collective agent will be selected through voting by secret ballots. The Workers' Committee later renamed as Participation Committee was provided as far back as in 1947. They have some ambitious objectives like (1) to enhance the mutual trust, understanding and cooperation between workers and employers (2) to foster sense of work discipline among the workers and maintain and improve security, hygiene and work condition (3) to ensure implementation of labour laws (4) to work to the end of meeting production target, reduction of production cost and improve quality of produced products (5) to improve welfare measures taken for workers and their family members and (6) to impart professional training and education, and encourage to attend family welfare training. Participation committee could not contribute much and it is the least heard about element in the bargaining process.

At present, whenever an industrial dispute is formally raised in conformity with legal provision the employers and collective bargaining agents of workers try to resolve the disputes through discussion and negotiation. If the process fails, then the matter is taken up by the Directorate of Labour. The matter is sent to a conciliator. In the presence of the two disputant parties, the conciliator tries to make them reach an agreement. If this attempt fails, the conciliator may advise the contestants to approach an arbitrator. If any party does not comply then it may call strike (in case of workers' union) or declare lock out (in case of employer).

Table 6.5: Incidence of Industrial Disputes and Their Impact

| Year | Number of incidences of Industrial disputes | | Number of workers involved in work stoppages | | Number of worker days lost | Wage cost at current prices (m Taka) | Production cost at current prices (m Taka) |
|------|---|-----|--|----------|----------------------------|--------------------------------------|--|
| | Total | E | P | (5) | (6) | (7) | (8) |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 1972 | 39 | na | na | 43,615 | 1,26,000 | na | na |
| 1973 | 58 | 51 | 07 | 35,029 | 2,85,177 | na | na |
| 1974 | 32 | na | na | 57,387 | 2,31,736 | na | na |
| 1975 | 2 | na | na | 28,327 | 1,62,000 | na | na |
| 1976 | 5 | na | na | 14,517 | 25,618 | na | na |
| 1977 | 22 | 15 | 07 | 76,675 | 81,715 | na | na |
| 1978 | 89 | 67 | 22 | 1,13,209 | 6,62,332 | na | na |
| 1979 | 96 | 75 | 21 | 1,14,248 | 6,47,629 | na | na |
| 1980 | 104 | 95 | 09 | 1,64,032 | 11,60,436 | 09 | 106 |
| 1981 | 80 | 75 | 05 | 1,17,301 | 11,98,460 | 178 | 143 |
| 1982 | 55 | 55 | 00 | 21,788 | 2,38,658 | 15 | 51 |
| 1983 | 16 | 02 | 14 | 1,75,787 | 3,92,616 | 04 | 15 |
| 1984 | 142 | 15 | 127 | 4,81,004 | 11,44,817 | 21 | 159 |
| 1985 | 95 | 18 | 77 | 1,98,118 | 2,84,920 | 13 | 75 |

Continued

Table 6.5: Continued

| Year | Number of incidences of Industrial disputes | | Number of workers involved in work stoppages | Number of worker days lost | | Wage cost at current prices (m Taka) | Production cost at current prices (m Taka) |
|------|---|----|--|----------------------------|-----------|--------------------------------------|--|
| | Total | E | | P | lost | | |
| 1986 | 46 | 19 | 25 | 1,05,977 | 20,79,671 | 84 | 544 |
| 1987 | 18 | 01 | 17 | 88,795 | 1,75,278 | 11 | 93 |
| 1988 | 9 | 04 | 05 | 28,876 | 49,398 | 11 | 13 |
| 1989 | 16 | 00 | 16 | 60,513 | 85,395 | 04 | 29 |
| 1990 | 5 | 00 | 05 | 14,554 | 28,479 | 02 | 24 |
| 1991 | 3 | 03 | 00 | 454 | 29,811 | 04 | 15 |
| 1992 | 11 | na | na | 6,190 | 29,741 | na | na |
| 1993 | 11 | na | na | 6,101 | 16,029 | na | na |
| 1994 | 2 | na | na | 5,641 | 2,821 | na | na |
| 1995 | 5 | na | na | 24,656 | 75,023 | na | na |

Notes: na=not available. E=Number of incidences of labour disputes caused by economic reasons, P= Number of incidences of labour disputes caused by political reasons.

Sources: Figures in column 2, 5 and 6 come from M.A.S. Talukder, *ibid* (p. 197); figures in remaining columns come from Abdul Hye Mondal, *Trade Unionism, Wages and Labour Productivity in the Manufacturing Sector of Bangladesh*, Research Report No. 133, Bangladesh Institute of Development Studies, Dhaka, 1992 (Table 1).

The Government in the interest of general public may, if it so wishes, can postpone any strike or lock out at any time and send it to the labour court. In practice, in normal circumstance the government does so if the strike or lock out stays for more than 30 days. Either of the following may happen to a case taken up by the Directorate of Labour : (a) the disputes are resolved in accordance with the law and to the satisfaction of concerned parties (b) the parties themselves solve the problem independently while the case remains pending; or the interest in the matter abates - in such a situation the Directorate files or closes the case (c) the Directorate issues a certificate to the effect that efforts of resolution has failed and the certificate enables the parties to look for remedies in the labour court (Talukder, 1996 and Rahman, 1994).

It is observed that the proportion of disputes successfully resolved by the Labour Directorate declined since the late 1980s. The proportion of pending cases has been very low during this period with the exception of year 1991. The proportion of failure cases also rose during 1987-1992. There was in all the years a very high number of filed cases. The cases are filed when the interest in the case is abated as mentioned earlier - this situation is likely to indicate a lack of confidence in the dispute settlement system itself (see Table 6.6).

The performance of labour courts, too is not satisfactory. At present, there are 5 labour courts. The court consists of a Chairman (a judicial officer of the rank of a District and Session Judge) and two members, one each representing the employer and the worker. The proportion of pending cases to total number of cases at the disposal of labour courts in a year was never less than 60 per cent in any year except 1991 between 1985-1995. In 1995 the proportion rose to 78 per cent (see Table 6.7). The proportion of pending cases rose while proportion of disposed cases fell during the adjustment period compared to pre-adjustment period. There are only five labour

courts to deal with more than five thousand cases in a year. Besides, the absence of one of the parties may cause delays in hearing and judgment.

A National Tripartite Committee (NTCC) was set up in 1973 and later reconstituted by the government in 1978. Its task was to discuss and advise the government in all matters relating to the promotion of harmonious labour relations at the enterprise and national levels. In Bangladesh, because of the adversary attitude prevailing between employers' and workers' organization, the right to strike was considered to be the most important instrument of collective bargaining (Mondal, 1992). Following labour policy of 1980, the committee is comprised of 15 workers representatives 15 employers representative and 15 members nominated by government. The Labour Policy of 1980 was deliberated in the forum of NTCC and unanimity was reached in respect of many issues including right to strike and lock out, mode of settlement of disputes, trade union structure and workers participation in management. But three parties could not reach any agreement with respect to the participation of outsiders in trade unions at plant level and extent of workers participation in management. The NTCC could not perform as expected because of the (1) adversary attitude mentioned above (2) lack of communication between union leaders and members (3) lack of adequate relevant information which serves as the basis of sound opinions. Decisions were based on impressions, relative strength of contending parties, or opinions of persons in higher stage of social hierarchy than on facts (ILO, 1980).

Table 6.6: Disposal of Disputes by the Labour Directorate 1971-1992

| Year | Disputes | | Disputes Resolved | | Disputes | | Failure | | Total | | Pending | |
|------|-----------------|------------|---------------------|-----------|---------------------------------|-----------------|-----------|---------------------------------|----------------------------|--------------------|---------------------------------|--|
| | Previous (a) | New (b) | Total a+b (c) | No (d) | Proportion (d/c) x100 (e) | Filed No (f) | No (g) | Proportion (g/c) x100 (h) | disposal (d+f+g) (i) | No (c-i) (j) | Proportion (j/c) x100 (k) | |
| 1971 | 15 | 77 | 92 | 47 | 51 | 43 | 2 | 2 | 92 | 0 | 0 | |
| 1972 | - | 1413 | 1413 | 548 | 39 | 729 | - | - | 1277 | 136 | 10 | |
| 1973 | 136 | 2711 | 2847 | 987 | 35 | 1507 | - | - | 2494 | 353 | 12 | |
| 1974 | 353 | 1634 | 1987 | 255 | 13 | 1487 | - | - | 1742 | 245 | 12 | |
| 1975 | 245 | 85 | 339 | 33 | 10 | 286 | - | - | 319 | 11 | 3 | |
| 1976 | 11 | 372 | 383 | 133 | 35 | 174 | 57 | 15 | 364 | 19 | 5 | |
| 1977 | 19 | 588 | 607 | 114 | 19 | 369 | 107 | 18 | 590 | 17 | 3 | |
| 1978 | 17 | 646 | 663 | 110 | 17 | 218 | 317 | 48 | 645 | 18 | 3 | |
| 1979 | 18 | 778 | 796 | 136 | 17 | 121 | 512 | 64 | 769 | 27 | 3 | |
| 1980 | 27 | 677 | 704 | 261 | 37 | 185 | 235 | 33 | 681 | 23 | 3 | |
| 1981 | 23 | 968 | 991 | 510 | 51 | 216 | 188 | 19 | 914 | 77 | 8 | |
| 1982 | 77 | 563 | 640 | 360 | 56 | 155 | 102 | 16 | 517 | 23 | 4 | |
| 1983 | 37 | 604 | 327 | 282 | 45 | 86 | 222 | 35 | 590 | 37 | 6 | |
| 1984 | 33 | 941 | 978 | 383 | 39 | 144 | 423 | 73 | 950 | 28 | 3 | |
| 1985 | 28 | 924 | 952 | 240 | 25 | 113 | 589 | 62 | 942 | 10 | 1 | |
| 1986 | 10 | 622 | 632 | 282 | 45 | 220 | 104 | 16 | 606 | 26 | 4 | |
| 1987 | 26 | 480 | 506 | 147 | 29 | 108 | 237 | 47 | 492 | 14 | 3 | |
| 1988 | 14 | 602 | 616 | 79 | 13 | 96 | 423 | 69 | 598 | 18 | 3 | |
| 1989 | 18 | 2865 | 2883 | 82 | 3 | 126 | 2615 | 91 | 2823 | 60 | 2 | |
| 1990 | 66 | 518 | 578 | 87 | 15 | 160 | 318 | 55 | 565 | 13 | 2 | |
| 1991 | 13 | 1547 | 1560 | 203 | 13 | 103 | 750 | 48 | 1056 | 504 | 32 | |
| 1992 | 504 | 763 | 1267 | 123 | 10 | 140 | 997 | 79 | 1260 | 7 | 1 | |

Source : Mashhur Rahman, ibid (Table 9, Page 48)

Table 6.7: Disposal of Cases by Labour Court 1971-1995

| Year | Number of cases from previous year | New cases in current year | Total | Number of cases disposed | Number of cases pending | Proportion of pending cases [(Col.5/Col.3) x 100] |
|------|------------------------------------|---------------------------|-------|--------------------------|-------------------------|---|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 1971 | 1775 | 907 | 2682 | 1577 | 1105 | 41 |
| 1972 | 1105 | 2272 | 3377 | 1889 | 1488 | 44 |
| 1973 | 1488 | 2568 | 4056 | 1915 | 2141 | 53 |
| 1974 | 2141 | 2769 | 4910 | 2504 | 2406 | 49 |
| 1975 | 2406 | 2126 | 4532 | 3030 | 1502 | 33 |
| 1976 | 1502 | 2546 | 4048 | 2204 | 1844 | 46 |
| 1977 | 1844 | 2188 | 4032 | 1746 | 2286 | 57 |
| 1978 | 2286 | 1724 | 4010 | 1914 | 2096 | 52 |
| 1979 | 2096 | 1194 | 3290 | 1193 | 2097 | 64 |
| 1980 | 2097 | 1779 | 3876 | 1209 | 2667 | 69 |
| 1981 | 2667 | 1626 | 4293 | 1467 | 2826 | 66 |
| 1982 | 2826 | 3878 | 6704 | 2804 | 3900 | 58 |
| 1983 | 3900 | 3023 | 6923 | 2823 | 4100 | 59 |
| 1984 | 4100 | 1505 | 5605 | 2754 | 2851 | 51 |
| 1985 | 2851 | 1803 | 4654 | 1618 | 3036 | 65 |
| 1986 | 3036 | 2220 | 5256 | 1641 | 3615 | 69 |
| 1987 | 3615 | 2119 | 5732 | 2038 | 3694 | 64 |
| 1988 | 3694 | 1844 | 5538 | 1663 | 3875 | 70 |
| 1989 | 3875 | 1463 | 5338 | 1988 | 3350 | 63 |
| 1990 | 3350 | 2149 | 5499 | 1758 | 3741 | 68 |
| 1991 | 3741 | 1523 | 5264 | 2364 | 2900 | 55 |
| 1992 | 2900 | 1474 | 4374 | 1751 | 2623 | 60 |
| 1993 | 2749 | 1999 | 4748 | 1729 | 2893 | 61 |
| 1994 | 2893 | 1589 | 4482 | 1282 | 3200 | 71 |
| 1995 | 3200 | 2165 | 5365 | 1178 | 4187 | 78 |

Sources : (1) Figures for 1971-1992 come from Masihur Rahman, *ibid* (Table 10, p. 49) and (2) Figures for remaining years come from M.A.S. Talukder, *ibid* (p. 13).

6.6 Trade Unions

6.6.1 Organisational Structure : Present Situation and Past Trends

Few years before liberation, in 1968 there were 401 registered trade unions with a total membership of about 0.35 million in Bangladesh. In 1995 the total membership rose to about 1.63 million and number of unions to 3889 (see Tables 6.8, 6.9a and 6.9b). It is apprehended that many of the unions are not registered and many registered unions are not regular in submitting annual reports to the Registrar of Trade Unions. Besides not all unions recognized by employees are registered.

In 1995, there were 92 sector - based federations with 757 claimed affiliated unions and 0.56 million membership in such unions. The affiliated number of unions and membership are much less than total number of unions (3889) and total membership of such unions (1.63 million) respectively (see Table 6.9a). National federations (which are labour front organizations of different political parties) which may cover more than one sector, numbered 23 and had 887 unions affiliated with them and 0.85 million members (see Table 6.11). On the basis of these, sector-based federations and national federations respectively account for 35 per cent and 52 per cent of the members of workers' unions. At present registered unions represent about 3 per cent of labour force and 33 per cent of formal sector workers. If we take into account the number of non-registered but recognized trade unions the proportions will be somewhat greater. But these proportions are but poor indicators of labour's bargaining strength in different industries and localities.

The unions under discussion are called the basic unions which operate at the factory or the plant level. In cases where one employer or industry has multiple establishments, one union covers all establishments under the same employer or in the same industry. Federations of trade unions can be formed with at least two trade unions affiliated to it. A worker can be a member of only one union

at a time. Membership of at least one third workers in a factory or a multi-plant industry is required for registration of a union. Such a union (if there is only one such union) may serve as the collective bargaining agent for workers in the factory or multi-plant industry. In the event of there being more than one union at this level, as said earlier, election through secret ballots is held for choosing the CBA. As a consequence there cannot be more than 3 registered unions in a factory or a multi-plant industry. This requirement is considered to be inconsistent with the convention on freedom of association (ILO, 1994; p. 108 foot note 2).

Furthermore, to be eligible for the membership a worker has to be a permanent labour. Though collective bargaining agents may speak for the temporary workers - the latter cannot choose their spokesmen in the bargaining process. Proportion of temporary workers among manual workers is not insignificant. For instance, in jute textile mills more than 25 per cent of manual workers were temporary workers during late 1980s and early 1990s. Their proportion may have risen now. For a sectoral federation there is no such restriction. In 1995 there were about 120 thousand members in 333 registered trade unions in cotton textile industry. Five sector-based federations in this industry together had only 32 thousand members (less than 27 per cent of total registered union members which is again less than the total number of workers in this industry) as can be seen from Table 6.9b and Table 6.10.

6.6.2 Distribution of Trade Unions Across Industries and Regions

Trade union activities are not equally spread over different modern sectors. In 1968, plantation, land transport (road, vehicles and railway workers), jute textile and cotton textile accounted for about 29, 22, 10 and 9 per cent of total union membership (excluding autonomous and semi-autonomous but including railway and electricity) respectively (Ahmed K., 1969: Appendix VII). In 1995 they accounted for 5, 31, 11 and 8 per cent of total union membership respectively (see Tables 6.8 and 6.9b).

Table 6.8: Trade Unions of Bangladesh by Sectors, 1968

| <i>Employees basic unions</i> | <i>Number of unions</i> | <i>Membership</i> |
|--|-------------------------|-------------------|
| a. Plantation (Tea) | 3 | 1,00,576 |
| b. Manufacturing Sector | | |
| 1. Cotton Textiles | 47 | 30,080 |
| 2. Jute Textiles | 37 | 35,627 |
| 3. Sugar | 10 | 17,169 |
| 4. Match | 9 | 4,155 |
| 5. Tobacco | 24 | 8,124 |
| 6. Paper Mills | 3 | 4,110 |
| 7. Glasses | 7 | 2,661 |
| 8. Engineering | 19 | 5,481 |
| 9. Printing Press | 19 | 3,112 |
| Total | 175 | 1,10,879 |
| c. Transport and Communication Sector | | |
| 1. Seamen | 2 | 4,147 |
| 2. Port Trust | 6 | 8,563 |
| 3. Dock | 1 | 8,758 |
| 4. Post and Telegraph | 1 | 9 |
| 5. Railway | 4 | 48,106 |
| 6. Other Transport | 36 | 32,602 |
| Total | 50 | 95,610 |
| d. Services | | |
| 1. Municipalities | 7 | 1,893 |
| 2. Commercial | 51 | 8,605 |
| Total | 58 | 10,498 |
| e. Electricity | 9 | 3,641 |
| f. Others | 106 | 23,827 |
| Total | 401 | 3,45,031 |

Source : Adapted from Kamruddin Ahmad, Labour Movement in East Pakistan, December, 1969: Appendix Table VII.

Table 6.9a : Categories and Membership of Registered Trade Unions and Federations in Bangladesh, 1995.

| Category | Number of unions | Membership in the unions | Affiliated unions | |
|------------------------------------|------------------|--------------------------|-------------------|--------------------------|
| | | | Number of unions | Membership in the unions |
| 1. Basic Unions | | | | |
| a. Employees Union | 3,889 | 16,34,176 | NA | NA |
| b. Employers Union | 789 | 86,503 | NA | NA |
| Total | 4,678 | 17,20,679 | NA | NA |
| 2. Sector Based Federations | | | | |
| a. Employees Federation (92) | | | 757 | 5,64,505 |
| b. Employers Federation (3) | | | 16 | 4,381 |
| Total | (95) | | 773 | 5,68,886 |
| 3. National Federation (23) | | | | |
| (Employees) | | | 887 | 8,52,532 |

Notes : NA = Not Applicable

Figures in parentheses stand for number of federations

Source : Adapted from M.A.S. Talukder, *ibid* (p. 149)

Major union presence is felt among transport workers e.g. land transport (29 per cent), jute textiles (11 per cent), cotton textiles (7 per cent), autonomous and semi-autonomous bodies (7 per cent) and banks (4 per cent). press, engineering products and workshop, industrial chemicals, drugs and pharmaceuticals, tobacco, cinema and hotels each contribute 3-4 per cent of total membership (see Table 6.9b). Most of trade unions and sector-based federations are located in greater districts of Dhaka, Chittagong, Sylhet, Khulna and

Rajshahi. In 1968 those districts accounted for 28 per cent, 25 per cent, 29 per cent, 6 per cent and 3 per cent of total union members respectively. Those 5 districts together account for about 76 per cent of union member at present. Relative importance of Sylhet has declined as membership among plantation worker fell from 101,661 in 1968 to 78,887 in 1995. Relative importance of Khulna and Rajshahi also fell over time while that of Jessore, Rangpur and Barisal improved. All the national federations are located in the city of Dhaka. Major industrial units are located at Tejgaon, Tongi and Narayanganj in greater Dhaka city and industrial areas of Chittagong, Rajshahi and Khulna (Ahmad, 1969 and Talukder, 1996).

Average number of members per trade union declined from 860 in 1968 to 278 in 1973 and then rose to 420 in 1995. At present workers in the following have on the average more than 500 members in one union : Sugar (1123), Jute Textile (976), Match (615), Jute Processing and Bailing (505) in the manufacturing sector, Dock and Ports (1515) and Land Water Transport (601) in the Transport sector, Banks (1190), Autonomous and Semi-autonomous bodies (599) and Cinemas (537) in the service sector and Electricity (762) in the energy sector. All of them have (industry based) federations. Jute Textiles, Cotton Textiles, Land and Water Transport and Autonomous and Semi-autonomous bodies respectively have 8, 11 and 15 federations. Size distribution of union membership is highly skewed to the right reflecting the presence of some big unions in some sector corporations and autonomous and semi-autonomous bodies such as railway, power development board, commercial banks etc.

6.6.3 Labour Federations

Sector-based federations have affiliated unions which have workers engaged in same craft or in same industry. On the average such a federation has 6136 affiliated members.

Federations for the following has more than the average number of affiliated members (6136) per sectoral federation : Tea (8184) in

the plantation; Sugar (28178), Jute Textile (12019), Jute Pressing and Bailing (6606), Cotton Textile (6455) and Industrial Chemical, Drugs and Pharmaceutical (5096) in the manufacturing sector; Dock and Ports (12063) and Land and Water Transport (5260) in the Transport sector; Banks (11920) in the service sector and Electricity (17691) in the energy sector. So those can exercise significant influence on wage bargaining process. Workers of some of the sectors (e.g. transport workers, PDB personnel and Bank Staff) may in some case jeopardize the civil life and pose a threat to the stability of government.

The so called national federations, now 23 in number, are actually the labour fronts of different political parties with headquarters in the city of Dhaka. In a country where freedom of association is recognized, relationship between politics and trade union movement cannot be prohibited. Workers' right to strike in order to secure their rights is also recognized in a straight forward manner. But strikes by workers for political reasons may not be as appreciated as strikes for economic reasons except in case of national exigences. At present in Bangladesh a federation has on the average 39 affiliating unions and 37,000 members in such unions (see Table 6.11).

6.7 Emergence of SKOP and its Activities

In 1983, some national federations felt the need for workers' unity and a broad association to raise the common demands and organize efforts to realize those. During 1982-1983, a significant number of SOEs were privatized. In the early part of 1984 thirteen national federations united to form a loose confederation called Sramik Karmachari Oikya Parishad (SKOP in short), an alliance of workers and employees. Subsequently, by early 1990s the number of federations who joined the SKOP rose to fifteen. At present, the number of such federations is seventeen. Most of them belongs to 23 registered national federations. The SKOP welcomes any national federation to join it except those who are believed to be

Table 6.9b: Trade Unions of Bangladesh by Sectors, 1995.

| | <i>Number</i> | <i>Membership</i> |
|--|---------------|-------------------|
| A. Employees Basic Unions | | |
| a. Plantation (Tea) | 12 | 78,887 |
| b. Manufacturing Sector | | |
| 1. Jute | 179 | 1,74,664 |
| 2. Jute (Pressing and Baling) | 46 | 23,229 |
| 3. Cotton Textile | 333 | 1,19,633 |
| 4. Sugar | 18 | 20,218 |
| 5. Match | 14 | 8,616 |
| 6. Tobacco | 139 | 43,934 |
| 7. Leather | 12 | 5,229 |
| 8. Aluminium | 38 | 6,372 |
| 9. Industrial Chemicals, Drugs & Pharmaceuticals | 178 | 50,151 |
| 10. Engineering Products and Workshops | 318 | 54,161 |
| 11. Press | 172 | 56,840 |
| c. Transport Sector | | |
| 1. Land and Water Transport | 781 | 4,69,440 |
| 2. Docks and Ports | 27 | 40,892 |
| 3. Civil Aviation | 7 | 3,405 |
| d. Services | | |
| 1. Autonomous and Semi-Autonomous Bodies | 188 | 1,12,673 |
| 2. Banks | 4 | 1,507 |
| 3. Insurance | 50 | 59,515 |
| 4. Newspaper | 4 | 867 |
| 5. Cinemas | 87 | 46,731 |
| 6. Hotels and Restaurants | 251 | 45,339 |
| 7. Shops and Market Complex and Commercial Firms | 625 | 1,10,659 |
| e. Energy Sector | | |
| 1. Electricity | 35 | 26,655 |
| 2. Gas, Minerals, Petroleum, Oil Pressing | 32 | 8,886 |
| f. Others (not specified) | 343 | 65,673 |
| Total | 3889 | 16,34,176 |
| B. Employers Basic Unions (Not specified) | 789 | 86,503 |
| Total | 4678 | 17,20,675 |

Source : Adapted from M.A.S. Talukder, *ibid* (p. 150)

Table 6.10: Number and Membership of Sector Based Trade Union Federations, 1995.

| | <i>Number of Federations</i> | <i>Number of Affiliated Unions</i> | <i>Membership of Affiliated Unions</i> |
|--|------------------------------|------------------------------------|--|
| A. Employees Federations Sectors | | | |
| a. Plantation (Tea) | 1 | 8 | 8,184 |
| b. Manufacturing Sector | | | |
| 1. Jute | 8 | 50 | 96,152 |
| 2. Jute (Pressing and Baling) | 2 | 10 | 13,212 |
| 3. Cotton Textile | 5 | 45 | 32,277 |
| 4. Sugar | 1 | 21 | 28,178 |
| 5. Match | 1 | 4 | 2,393 |
| 6. Tobacco | 1 | 8 | 1,262 |
| 7. Industrial Chemical, Drugs & Pharmaceuticals | 5 | 58 | 25,480 |
| 8. Engineering Products and Workshops | 3 | 20 | 3,097 |
| 9. Press | 1 | 7 | 628 |
| c. Transport Sector | | | |
| 1. Land and Water Transport | 11 | 137 | 57,856 |
| 2. Docks and Ports | 2 | 10 | 24,125 |
| d. Services | | | |
| 1. Autonomous and Semi-Autonomous Bodies | 15 | 129 | 62,165 |
| 2. Banks | 6 | 32 | 71,520 |
| 3. Newspaper | 3 | 31 | 2,175 |
| 4. Shops and Market Complex and Commercial Firms | 18 | 111 | 65,459 |
| 5. Cinema houses | 2 | 50 | 1,889 |
| e. Energy Sector | | | |
| 1. Electricity | 2 | 4 | 21,922 |
| 2. Gas, Minerals, Petroleum, Oil Pressing | 3 | 16 | 11,149 |
| f. Others (not specified) | 2 | 6 | 35,382 |
| Total for A | 92 | 757 | 564,505 |
| B. Employers Federation | 3 | 16 | 4,381 |

Source : Adapted from M.A.S. Talukder, *ibid* (p. 151)

Table 6.11: Employees in National Federations of Bangladesh, 1995.

| <i>Name of the Federation</i> | <i>Number of Affiliated Unions</i> | <i>Membership of Affiliated Unions</i> |
|--|------------------------------------|--|
| 1. Bangladesh Jatiya Sramik League | 90 | 50,693 |
| 2. Jatiya Sramik Federation | 19 | 18,300 |
| 3. Bangladesh Trade Union Kendra (CPB) | 60 | 36,881 |
| 4. Bangladesh Sangjukta Sramik Federation L | 45 | 21,272 |
| 5. Bangladesh Trade Union Sangha L | 12 | 19,303 |
| 6. Jatiya Sramik Jote [JSD (Rob)] | 12 | 2,260 |
| 7. Bangladesh Jatiyabadi Sramik Dal (BNP) | 218 | 2,09,748 |
| 8. Bangladesh Sramik Kalyan Federation (JI) | 20 | 9,570 |
| 9. Bangladesh Ganatantrik Sramik Federation (WP) | 3 | 5,937 |
| 10. Bangla Sramik Federation (L) | 3 | 294 |
| 11. Jatiya Sramik League (AL) | 144 | 1,46,972 |
| 12. Bangladesh Trade Union Federation | 4 | 1,648 |
| 13. Bangladesh Free Trade Union Congress (NGO) | 19 | 60,196 |
| 14. Bangladesh Sramik Federation | 5 | 3,639 |
| 15. Jatiya Sramik Party (JP) | 142 | 1,17,844 |
| 16. Jatiya Sramik Forum | 11 | 4,205 |
| 17. Bangladesh Jatiya Sramik Federation (L) | 5 | 2,235 |
| 18. Samajtantrik Sramik Front BSD | 21 | 2,671 |
| 19. Jatiya Sramik Jote, Bangladesh [JSD (Inu)] | 6 | 1,671 |

Continued

Table 6.11: Continued

| <i>Name of the Federation</i> | <i>Number of Affiliated Unions</i> | <i>Membership of Affiliated Unions</i> |
|-------------------------------------|--|--|
| 20. Jatiya Sramik Karmachari Jote | 26 | 5,019 |
| 21. National Trade Union Federation | 5 | 1,799 |
| 22. National Workers' Federation | 10 | 10,467 |
| 23. Bangladesh Worker's Federation | 7 | 1,19,324 |
| Total | 887 | 8,52,532 |

Note : CPB = Communist Party of Bangladesh L = Splinter Leftist Parties, JSD = Jatiya Samajtantrik Dal, BNP = Bangladesh Nationalist Party (Bangladesh Jatiyatabadi Dal), JI = Jamat-i-Islami, WP = Workers' Party, AL = Awami League, JP = Jatiya Party, BSD = Bangladesh Samajtantrik Dal. These political parties are the mentors of the so-called national federations. JSD (Rob) represent a faction of JSD and JSD (Inu) represents another faction of JSD. NGO = Non-government voluntary development organization.

Source : Adapted from M.A.S. Talukder, *ibid* (p. 152-153)

associated with forces or ideologies that opposed the independence of Bangladesh. The SKOP is not a registered organization. It has a joint command and follows a code of conduct. The code of conduct includes, among others, the following principles : (1) All national federations joining the SKOP will have equal status and right (2) The decision of SKOP will be based on unanimity (3) Principle of rotation applies for selection of the Chairman presiding over SKOP meetings (4) Every constituent national federation will send their representative to attend meeting, conference and other programmes.

Looking at the organizational structure and code of conduct of SKOP few observations can be made. Despite rivalry and hostility among national federations, they could sit together, form a confederation and agree to move forward with a common objective. Big federations did not mind enjoying the same status and right as small federations. Below we present an account of the activities of

SKOP and the impact of such activities. The discussion is mainly based on findings and comments in Hasanuzzaman (1992), Rahman (1994) and Talukdar (1996).

The emergence of SKOP and its activities may be considered as an outcome of workers reaction to suspension of the right to strike in 1982, ban on collective bargaining in SOEs in 1985, privatization in 1980s and redundancy programme in the 1990s. Immediately after coming into existence the SKOP brought forward its 5 point demand which included right to carry out trade union activities, cancellation of privatization programme, provision of dearness allowance to workers in both the public sector and private sector and publication of the report of Industrial Wage and Productivity Commission.

Through hartals and threats to observe hartals SKOP succeeded in making the government negotiate with workers. An agreement between the government and SKOP was signed in May 1984. It contained 29 clauses that covered issues like repeal of Industrial Policy of 1982 and a Martial Law Ordinance (which was issued in 1982 declaring trade union activities illegal), revision of labour legislation, protection of trade unions and the executive members, constitution of a new wage and productivity commission, fixation of minimum wage at Tk 460, constitution of an enquiry committee to look into alleged corruption in public enterprises, reopening of closed factories, award of various facilities for workers in privatized industries and increase of dearness allowance. The Government was slow in implementing the agreements and its privatization programme lost its vigour partly due to labour's resistance. Towards the end of 1987, SKOP started agitation demanding, among others, implementation of 1984 agreement with the government, sixty per cent rise in dearness allowance, cancellation of the programme of setting up of public holding companies, withdrawal of lay off and lockout and opening up of closed mills. These demands were repeated in 1988. This time a new demand of fixing minimum wage for industrial worker at Tk. 1400 per month was put forth (Hasanuzzaman, 1992). In 1990 SKOP extended its support for the mass movement against the government.

After the general election in 1991, the government and SKOP engaged in consultations on six occasions. There was almost a stalemate in the privatization programme due to SKOP's stiff resistance. In the first consultation in November 1991, the major points of agreement included that (1) the government would set up a wage commission within two months - the recommended wages structure should be related with increase in cost of standard living and level of pay awarded to those in civil services. The commission would include representatives of SKOP. Twenty per cent of basic wage would be paid to the workers on an ad hoc basis pending the finalisation and implementation of the commission's wage award (2) a minimum wage will be fixed for the private sector and the government would take appropriate action in case of the violation of such minimum wages. (3) discussion on privatization and other trade union related issues will continue. The Government will not go for further disinvestment in the public sector jute and textile industries unless the trade unions and the government reach a consensus on this issue. (4) the Government would set up a commission which will include representatives of SKOP to review and recommend amendments to labour laws and ordinances (Rahman, 1994).

The Government set up National Wage and Productivity Commission in January, 1992. The owners of closed jute and textile mills were put under pressure and the government promised financing for opening these mills. These moves encouraged the unions in other sector corporations like BCIC, BSEC and BSFIC to have a dialogue over possible privatization of 40 public enterprises in those three corporations. The unions did not accept the option of buying some of the shares of the enterprises offered by the government rather they suggested management contracts (Humphrey, 1992).

It was also agreed that the government would not undertake a general programme for privatization of the state owned enterprises. However, the government might privatize nonviable and unprofitable enterprises but would, in such a situation, ensure that the right of the workers were protected. The closure of privatized companies and non-payment of liability of service benefits by the privatized companies to the workers made the unions persistent in hammering

this issue. It was also resolved that the government would announce a minimum wage within two months and would implement the award fully within three months pending which an additional amount of Tk. 250 per month would be paid to all workers. It was also agreed that the minimum wage should be applicable to agricultural workers. The labour laws would be reformed in conformity with democratic principles and ILO conventions. Reasonable protection would be provided for survival or development of domestic industries. Actions would be initiated within three months to determine the causes for closure of a number of plants and make arrangements to reopen them. It was agreed that discussion of the problems of specific sectors and demand of workers of those sectors should continue (Rahman, 1994).

In the third agreement reached between the government and SKOP in November 1992, the award of National Wage and Productivity Commission was decided to be implemented within December 1992. It may be noted here that the new wage scheme formulated by NWPC was announced in October 1993. However to keep harmony with civil service pay award, increase in basic wage was given effect from July 1991 and increase in fringe benefits from June 1992 (Rahman, 1994). The fourth agreement reached on November 1992 reviewed the situation pertaining to industrial relation in Jute and Textile Mills and it was agreed that problems would be resolved in the light of the third agreement.

The fifth agreement in July 1993 decided that the Minimum Wage Board would consider cases of more than 14 sectors which were then pending before the Board and its award would be promptly disposed within six months. The need for setting up committees as agreed upon in November 1992, for looking into problems of industries under different sector corporations and providing solutions was reiterated. As NWPC did not yet officially declare the wage awards, it was decided that payment of Tk. 250 per month on an ad hoc basis would continue until final wages were awarded (Rahman, 1994).

The SKOP leaders presented their 8 point demand in January 1995 which involved, among others, demands for (1) implementation of

all the past agreements (2) higher wages, allowances and financial benefits (3) better accommodation, transport, work condition, hygienic environment (4) reform of labour law (5) stoppage of purposeful transfer of labour leaders and illegal harassment of CBAs. Considering the increase in cost of living, the government increased the wages of the workers by 10 per cent of the basic wage as was previously done for government officers and staff (Talukdar, 1996; p. 172).

In view of the above, a few observations can be made.

- The SKOP was accepted as the effective bargaining agent by the unions having loyalty to different political parties which was able to transform the interest group of workers to an effective pressure group. During the period, the SKOP was successful in slowing down the pace of privatization and influenced decisions regarding payment of compensation due to retrenchment.
- The SKOP in order to mould public opinion in its favour and impose effective pressure on government, decided to put the demand for minimum wage for agriculture and other sectors where there was no worker's unions and arranged meetings, and campaigns in favour of their demand.
- The stubborn attitude of SKOP in relation to privatization seems to have softened somewhat in course of time. They appear to have understood the reality and have accepted privatization of nonviable and unprofitable enterprises. What they seek in such cases is the protection of employees interest in public enterprises. The option that workers can buy the shares of public enterprises created some enthusiasm among workers and might have contributed to the change of the attitude. They demanded the government to reach agreements with SKOP, regarding alternative employment opportunities and severance benefits for the retrenched workers.

- The SKOP initially demanded setting up of national minimum wage, especially minimum wage for agricultural sector. But later on accepted existing institutional procedure to set minimum wage through Minimum Wage Board for industries where collective bargaining is ineffective. The emergence of SKOP and the specific response of government to SKOP's activities during the past decade seems to have further diminished the effectiveness of NTCC.
- The pertinent question is how much effort will be put by organized labour, especially SKOP in resisting the government's future scheme of privatization. There seems to exist a difference of opinion about terms and conditions of workers buy-out programme. There are groups who oppose privatization and advocate for increasing efficiency of public sector enterprises and impose pressure on government not to transfer ownership of profit making public enterprises. Under the circumstances, it may safely be assumed that the retrenchment and privatisation programme of the government will continue to face stiff resistance from industrial workers. In an accord between the government and SKOP in January 1998 it was decided that (1) a National Wage and Productivity Commission would be set up, (2) the commission would include the representatives of workers, (3) the commission would prepare its report within 6 months following its formation, and (4) so long the wage award is not implemented, each permanent worker would receive Tk. 1000 and each temporary/hired worker would receive Tk. 500 as advances which would be adjusted later. In a meeting with Privatization Board the SKOP has placed the condition that the Board should discuss and reach an agreement with them before transferring any industrial unit to private hands.

Wage-Productivity Relation and Issues of Retrenchment and Bargaining

7.1 Introduction

The labour market should be flexible in order to accommodate the required shift in composition of employment and decline in wages in the contracting sectors. The market must ensure a proper link between real wages and productivity of labour and enable firms and industries to restructure easily if the situation so warrants, in order to remain competitive as well as efficient. In Bangladesh, the public sector is likely to dominate the modern sector for a considerable period of time as the pace of privatisation has become slower. In certain activities private entrepreneurs would not participate for economic reasons. In such a situation the method of wage settlement in public sector, and level of public sector wage may be expected to continue to influence the system of bargaining and wage level in the private sector.

In Bangladesh workers have been retrenched in jute industry, railway and the BADC. Retrenchment costs can be reduced and retrenched worker's conditions can be improved through provision of appropriate training. Such retrenchment of redundant workers in the public sector enterprises is not independent of the objective of privatisation. If such enterprises can be relieved of redundant workers, they may appear to be potentially profitable in the eyes of the probable buyers. On the other hand, privatisation is expected to reduce the degree of politicisation of trade unions through reduction of role of the government in wage determination, and pave the way for decentralised bargaining. A system of decentralised bargaining, on the other hand, is expected to bring wages in line with productivity (World Bank, 1994a p. 154 and 1996 p. 27). It is necessary at this juncture to examine whether such decentralised bargaining can be effectively used by industrial workers.

In the following section, we have examined the trends of wage and factor productivity and their relationship. Impact of trade unionism on wage and employment have also been discussed. This section also contains a study of the impact of minimum wage on employment and wage level. In Section 7.3 we have examined wage differential among industries differentiated by ownership, sectors, and regions, and wage-productivity relation in public sector enterprises. The relationship between public sector wages and private sector wages has also been studied in this section. In section 7.4, we have discussed the rationale for restructuring the public sector. The cost of labour retrenchment and its impact on employment have been examined in this section. Some measures for rehabilitation of retrenched workers have also been discussed. In section 7.5, the rationale and conditions for success of decentralised bargaining and experience of several countries with different types of bargaining have been critically discussed. Prospect of introducing decentralised bargaining in Bangladesh has also been studied.

7.2 Wage-Productivity-Employment Relation and Role of Unions

7.2.1 Background

In this section we examine the wage trends and relationship of wage with labour productivity and employment over time in the manufacturing sector as a whole as well as individual industries and industry-groups. The impact of trade unionism on wages and employment in the manufacturing sector has also been assessed. Certain dimensions of wage-productivity-employment situation in Bangladesh must always be kept in view in the treatment of these issues. As mentioned in Chapter 3, Bangladesh has a very high rate of unemployment and underemployment. It has a very small industrial base as mentioned in Chapter 2. At the prevailing wage levels, workers in general cannot maintain a reasonable state of health and efficiency. A minimum level of wage is necessary for ensuring the bare subsistence of the workers and preservation of their efficiency. Wage level in manufacturing sector must also be high enough to

attract disguisedly or openly unemployed people from rural areas. Whenever, there is an increase in output per labour a claim for upward wage revision may appear. But the change in output per labour cannot always be accounted for by change in labour's productivity. Unanticipated fall in demand for the product or rise of input prices, obsolescence of technology, management problems and wrong entrepreneurial decision may also be responsible for low labour productivity. An industry's ability to pay workers depend upon its profitability. Entrepreneurs know very well that discontented labour force yield low output. Higher profitability depends upon prices of inputs and final products, technology and management.

An improvement in real wage implies betterment of economic conditions of workers. It does not necessarily mean that workers' economic condition improve at the cost of entrepreneur's profit even when productivity of labour remains stagnant or falls. But when productivity of labour falls but wage goes up (either due to a fall in output price or a rise in wage) the employers bear the burden of excess wage if prices of inputs other than labour remain constant or goes up and productivity of other factors of production remains constant or falls.

In order to examine the issues, we computed and compared real wage, product wage, labour and capital productivity indices for different industries. Attempts were made to associate those with trade union activities and public sector enterprises. Unfortunately appropriate and sufficiently long time series data are available only for a few industries. The Census of Manufacturing Industries (CMI) provides information necessary for our purpose. Due to change of base years and weights, redefining of industry groups and change of industry coverage, long time series data cannot be developed for most of the industries by using the source. This also renders the assessment of impact of privatisation and structural adjustment on wage, productivity and employment relationship considerably difficult.

7.2.2 Trend of and Relations between Wages and Factor Productivity

a. Wages in Different Sectors and Level of Real Wages

As mentioned in section 3 of Chapter 6, National Wage and Productivity Commissions in the process of fixing the wages of public sector workers considered a few objective constraints and requirements. They include (i) minimum wages must be sufficient enough to provide the basic needs of a worker's family comprising three adult-equivalent consumption units, (ii) industrial wage should be higher than agricultural or rural wage as well as wage of office workers, (iii) wage movement should be positively linked with productivity changes and (iv) ability of the enterprises to pay higher wages should also be considered. Wage-productivity relation and loss and profit situation in the public sector enterprises have been discussed in Section 3 of the present chapter. We present here observations with regard to first two objective factors mentioned above.

It was earlier observed that during 1974-1991, average daily wage rate of agricultural labour was higher than that for unskilled labour in ten out of eighteen years under consideration in jute and cotton textiles - industries in which public sector dominates. We must note here that in Bangladesh, agricultural workers remain unemployed for a significant part of the year.

It was also observed that public sector workers with at least 3 adult-equivalent consumption units who received salaries in the scales of lower two grades of the wage structure were found to stay below the extreme poverty line. Besides, the very structure of wage awards contributed to discrimination against experienced (hence skilled in most of the cases) workers.

b. Changes in Wage and Factor Productivity in Selected Industries

In the following discussion the trend of and relation between real wage, product wage and labour productivity in some major industries

like jute and cotton textiles, match, engineering work and edible oil have been examined. Those industries are the ones for which longer time series data are available. Tables on which discussion in this part of the section is based cover overlapping time spans and use different base years. Due to lack of knowledge about proportion of skilled (or unskilled) labour to total labour and relative weights assigned to different products produced by firms, and those assigned to different consumers goods and services consumed by the workers, we could not present, in a single table, indices of real wage, product wage and average labour productivity for a longer period of time.

It was found that real wage of both skilled and unskilled workers fell during 1972-1978. Since early 1980s real wages, in general, kept rising both for skilled and unskilled labour. The rise is found to be more pronounced for fitters in engineering work industries. Real wage of unskilled labour rose at a relatively higher rate (Table 7.1).

Real wage of all type of workers (skilled and unskilled) almost steadily rose during 1977-1990 in jute textiles. Real wage of all types of workers in cotton textiles almost steadily rose during 1977-1986 but declined during 1987-1990 (Table 7.2). On the other hand real wage of unskilled labour in both cotton and jute textiles had a clear upward trend but that for skilled labour in both industries first fell and then rose during 1987-1995 (Table 7.3). It may be observed that during 1977-1990 real wage of both cotton and jute textile workers grew at a higher rate than corresponding labour productivity in most of the years (Table 7.2). On the other hand, during 1987-1995 real wage indices of unskilled workers in jute textile exceeded corresponding indices of the average labour productivity in most of the years. A stronger but opposite relationship is found between real wage indices of all types (skilled and unskilled) of labour and corresponding indices of their productivity in cotton textiles in most of the years during the same period (Table 7.3).

Product wage in both industries rose, albeit, with some fluctuations during 1977-1990. In the last 4-5 years (5 year for cotton textiles and 4 years for jute textiles), product wage indices were very high compared to those of earlier years (by 20 per cent to more than 100 per cent). The same was not true for labour productivity indices

Table 7.1: Indices of Real Wage Rates of Industrial Workers by Types of Industry, 1972-94.

| Year | Cotton Textile | | Jute Textile | | Match | | Engineering | | Edible Oil ~ (Mustard) | | | |
|------|----------------|-----|--------------|-----|-------|-----|-------------|--------|------------------------|-----|----|-----|
| | S | U | S | U | S | U | Fitter | Turner | S | U | | |
| 1972 | 100 | 105 | 98 | 108 | 105 | 102 | 125 | 105 | 112 | 102 | 96 | 105 |
| 1973 | 59 | 64 | 57 | 65 | 60 | 60 | 77 | 64 | 70 | 65 | 62 | 67 |
| 1974 | 46 | 53 | 45 | 54 | 51 | 54 | 65 | 62 | 57 | 70 | 53 | 60 |
| 1975 | 29 | 35 | 28 | 34 | 33 | 36 | 48 | 45 | 41 | 47 | 37 | 46 |
| 1976 | 41 | 45 | 38 | 43 | 43 | 45 | 65 | 58 | 55 | 62 | 51 | 61 |
| 1977 | 52 | 55 | 46 | 47 | 50 | 51 | 70 | 60 | 55 | 63 | 52 | 64 |
| 1978 | 52 | 49 | 45 | 47 | 40 | 44 | 67 | 53 | 48 | 57 | 47 | 57 |
| 1979 | 57 | 63 | 54 | 56 | 53 | 54 | 73 | 61 | 45 | 56 | 53 | 63 |
| 1980 | 63 | 69 | 58 | 64 | 51 | 53 | 69 | 51 | 40 | 53 | 68 | 71 |
| 1981 | 67 | 73 | 62 | 72 | 51 | 54 | 74 | 65 | 60 | 67 | 65 | 64 |
| 1982 | 65 | 68 | 59 | 69 | 57 | 57 | 73 | 67 | 56 | 63 | 57 | 65 |
| 1983 | 64 | 70 | 66 | 72 | 69 | 62 | 75 | 71 | 60 | 68 | 60 | 73 |
| 1984 | 68 | 70 | 66 | 67 | 62 | 59 | 78 | 71 | 57 | 62 | 60 | 62 |
| 1985 | 64 | 69 | 57 | 62 | 56 | 54 | 74 | 69 | 57 | 64 | 56 | 61 |

Continued

Table 7.1: Continued

| Year | Cotton Textile | | Jute Textile | | Match | | Engineering | | | | Edible Oil (Mustard) | |
|------|----------------|----|--------------|----|-------|----|-------------|-----|--------|----|----------------------|----|
| | S | U | S | U | S | U | Fitter | | Turner | | S | U |
| | | | | | | | S | U | S | U | | |
| 1986 | 85 | 76 | 74 | 77 | 57 | 54 | 81 | 70 | 71 | 73 | 63 | 66 |
| 1987 | 78 | 72 | 81 | 78 | 57 | 51 | 93 | 73 | 80 | 76 | 72 | 69 |
| 1988 | 78 | 78 | 80 | 74 | 65 | 61 | 77 | 65 | 64 | 69 | 71 | 67 |
| 1989 | 77 | 80 | 78 | 82 | 68 | 66 | 79 | 61 | 68 | 63 | 71 | 73 |
| 1990 | 77 | 83 | 78 | 86 | 72 | 70 | 79 | 88 | 71 | 66 | 74 | 80 |
| 1991 | 75 | 82 | 76 | 84 | 73 | 73 | 86 | 92 | 67 | 66 | 72 | 81 |
| 1992 | 74 | 82 | 76 | 84 | 76 | 75 | 88 | 97 | 62 | 62 | 74 | 86 |
| 1993 | 77 | 85 | 80 | 88 | 84 | 83 | 92 | 109 | 61 | 65 | 80 | 96 |
| 1994 | 81 | 93 | 83 | 96 | 84 | 88 | 88 | 110 | 58 | 62 | 81 | 98 |

Base Year 1970

S = Skilled labour U = Unskilled labour.

Source : Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh, Various Issues.

Table 7.2: Indices of Real Wage, Product Wage and Labour Productivity in Cotton Textile and Jute Textile, 1977-90

| Year | Cotton textile | | | Jute textile | | |
|------|----------------|--------------|-----------------------------|--------------|--------------|-----------------------------|
| | Real wage | Product wage | Average labour productivity | Real wage | Product wage | Average labour productivity |
| 1977 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1978 | 100 | 96 | 110 | 98 | 76 | 105 |
| 1979 | 110 | 117 | 110 | 117 | 99 | 93 |
| 1980 | 121 | 153 | 98 | 126 | 82 | 94 |
| 1981 | 129 | 143 | 106 | 135 | 93 | 91 |
| 1982 | 125 | 143 | 111 | 128 | 102 | 88 |
| 1983 | 123 | 129 | 126 | 143 | 112 | 90 |
| 1984 | 131 | 137 | 133 | 143 | 122 | 87 |
| 1985 | 123 | 132 | 125 | 124 | 99 | 84 |
| 1986 | 163 | 186 | 116 | 161 | 139 | 85 |
| 1987 | 150 | 202 | 128 | 176 | 197 | 93 |
| 1988 | 150 | 214 | 130 | 174 | 202 | 90 |
| 1989 | 148 | 201 | 117 | 170 | 163 | 90 |
| 1990 | 148 | 208 | 114 | 170 | 169 | 90 |

* Base Year 1977

Source : Abdull Hye Mondal, *ibid* (Table 9, p. 39).

(Table 7.2). During 1987-1995, product wage indices of unskilled labour in jute and cotton textiles are found to exceed the corresponding average labour productivity indices in most of the years. The relationship between product wage and labour productivity indices is, however, found to be opposite for skilled labour in cotton textiles (in 7 out of 9 years) and jute textiles (in 5 out of 9 years) under consideration.

The above findings imply that (1) increase in real wage and product wage was non-commensurate with change in labour productivity. This means that it is highly probable that the enterprises had to bear the burden of excess wages and (2) the skilled labourers were discriminated.

c. Changes in Wage and Productivity in the Manufacturing Sector

Let us now consider the situation in the manufacturing sector as a whole (Table 7.4a and 7.4b for pre-structural adjustment era and adjustment era respectively). In the pre-adjustment era (1974-1986) there was no definite trend in labour productivity. But during the adjustment era (1987-1992) labour productivity fell continuously. Capital productivity first fell then rose in 1989 to fall again during the subsequent years. Capital productivity also declined in the early 1980s. Real wage of production workers outpaced the growth of their productivity during 1975-1986. Almost the same can be said about non-production workers for the period 1974-1982. Large fall in real wages of those workers during 1983-1985 however remains unexplained (Table 7.4a). Neither do we have any valid reason to accept 110 per cent and 103 per cent rise in the number of production workers and all workers respectively as against a rise of 30 per cent in fixed capital asset value (deflated) during 1989 over 1988 (Table 7.4b).

Table 7.3 Indices of Wage and Labour Productivity in Cotton Textiles and Jute Textiles

| Year | Real wage index | | | | Product wage index | | | | Average labour productivity index (all workers) | |
|------|-----------------|---------|--------------|---------|--------------------|---------|--------------|---------|--|-----|
| | Cotton textile | | Jute textile | | Cotton textile | | Jute textile | | | |
| | Unskilled | Skilled | Unskilled | Skilled | Unskilled | Skilled | Unskilled | Skilled | | |
| 1987 | 96 | 93 | 103 | 110 | 110 | 106 | 113 | 123 | 106 | 111 |
| 1988 | 103 | 92 | 96 | 109 | 123 | 110 | 113 | 127 | 112 | 106 |
| 1989 | 105 | 90 | 106 | 105 | 116 | 100 | 117 | 115 | 137 | 109 |
| 1990 | 110 | 90 | 111 | 106 | 127 | 105 | 117 | 111 | 110 | 109 |
| 1991 | 108 | 88 | 109 | 103 | 139 | 112 | 96 | 90 | 116 | 98 |
| 1992 | 108 | 87 | 109 | 103 | 134 | 108 | 102 | 96 | 124 | 99 |
| 1993 | 113 | 91 | 114 | 108 | 137 | 111 | 107 | 101 | 119 | 110 |
| 1994 | 123 | 95 | 125 | 113 | 153 | 118 | 119 | 108 | 131 | 111 |
| 1995 | 128 | 94 | 129 | 112 | 163 | 120 | 134 | 117 | 120 | 115 |

Base Year 1986

Source : Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh, Various Issues.

7.2.3 Trade Unionism and Wage Productivity Relationship

Anderson, Hossain and Sahota (1991) made an attempt to examine the impact of trade union activities on wage and employment in the manufacturing sector of Bangladesh. Their findings are based on data collected in 1988 through an Industrial Survey carried out under Employment and Small Enterprises Policy Planning Project of the Planning Commission, Government of Bangladesh, by the Harvard Institute for International Development. They took in view different motivations for union activity. If the union is primarily an economic organisation, then, as they hold, union activities should be associated with increase in wage and decline in employment. Whereas, if the unions are primarily political organisations, then the union activities should lead to decline in employment because of the output effects of work stoppages, while wages may not be affected. They found statistically insignificant impact of unions on wage. Unions were found to have statistically significant (at 1 per cent level) negative impact on total employment as well as employment of skilled labour and insignificant impact on employment of semi-unskilled or unskilled labour. The authors concluded that their empirical findings weakly support the political model.

At this point, we will deal only with their findings on impact of unionism on wage and the view that unions are primarily political organisations. These findings are claimed to contradict findings of other studies (Mondal, 1992 and WPC, 1992) which maintain that wage increases in the formal manufacturing sector of Bangladesh have always taken place due to the presence of trade unions (Ahmed and Mondal, 1993).

Mondal, (1992), considering the period 1977-1990, found a significant negative wage-labour productivity relation for jute textile and a significant positive wage-labour productivity relation for cotton textiles. Both the industries are well known for strong trade union presence. Besides, it was observed that in the case of cotton textile labour enjoyed positive gains even in periods of decline in productivity implying rise in labour earnings relative to product prices.

Table 7.4a: Indices of Real Wage, Labour Productivity and Capital Productivity in Manufacturing Sector, 1974-1986

| Year | Real Wage | | Labour Productivity | | Capital Productivity | | |
|------|-----------|-----|---------------------|-----|----------------------|--------------------|-----|
| | AW | PW | AW | PW | CP of fixed assets | CP of depreciation | |
| 1974 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1975 | 74 | 72 | 81 | 82 | 98 | 101 | 101 |
| 1976 | 99 | 96 | 80 | 82 | 119 | 78 | 78 |
| 1977 | 103 | 97 | 76 | 79 | 94 | 77 | 77 |
| 1978 | 117 | 107 | 85 | 91 | 103 | 92 | 92 |
| 1979 | 146 | 139 | 80 | 86 | 103 | 93 | 93 |
| 1980 | 157 | 147 | 85 | 91 | 106 | 97 | 97 |
| 1981 | 170 | 150 | 74 | 80 | 86 | 80 | 80 |
| 1982 | 158 | 138 | 69 | 75 | 75 | 52 | 52 |
| 1983 | 59 | 138 | 76 | 83 | 72 | 72 | 72 |
| 1984 | 63 | 144 | 88 | 97 | 65 | 63 | 63 |
| 1985 | 69 | 148 | 81 | 88 | 52 | 50 | 50 |
| 1986 | 193 | 172 | 93 | 99 | 57 | 36 | 36 |

Base Year 1974

AW = All Workers, PW = Production Workers, CP = Capital Productivity

Source : Adapted from Masihur Rahman, *ibid* [Tables 18 (p. 81), 21 (p. 90) and 22 (p. 91)]

A study by NWPC (NWPC, 1992) examined labour productivity in jute and cotton textiles, cement, sugar, fertiliser and pulp and paper industries during 1986-1991. Considering the growth of labour productivity, rate of inflation and rate of interest payable on capital and net profit per enterprise, wages could be increased to a limited extent only in the case of cement. But NWPC, 1992 recommended increases in nominal wages to the extent necessary for protecting the real wage of workers, for all the industries (Ahmed and Mondal, 1993; p. 42-46). In our discussion of activities of SKOP and public sector wage settlement procedure in Chapter 6, we have discussed how under union pressure the government had to convene national wage and productivity commissions, declare wage award and provide dearness allowance pending the finalization and implementation of the wage award. Under pressure of SKOP, the government had to include representatives of SKOP in the commission and bilateral negotiation replaced tripartite consultation. One may also apprehend that the pressure exerted by sector-based federations and unit level unions might have forced the MWB to declare minimum wage for workers in the industries (e.g. cotton textile, jute pressing and baling and cinema houses) well known for strong trade union presence (Table 6.1 and early part of discussion in 6.3.1). It may be recalled here that under the pressure of SKOP in November, 1992 the government agreed that the MWB would take necessary measures to set minimum wage for 14 sectors.

We worked out real wage, product wage and labour productivity indices for 23 major industries in the manufacturing sector. As shown in Tables 7.5a and 7.5b, during 1986-1992 (we could not consider pre-adjustment years due to the fact that the base year and the coverage of industry- groups were changed by the BBS) real wage of industrial workers rose at statistically significant rates in the following five industries - food manufacturing industries, paper and paper products, drugs and pharmaceutical products, petroleum refining and non-electrical machinery. Sugar industry is the most important industry among the food manufacturing industries and

Table 7.4b : Indices of Labour and Capital Productivity in Manufacturing Sector* 1986-1992.

| Year | Gross Value added (in m. Takas) (a) | Price Index of manufactured goods (b) | Deflated gross value added (c) | Fixed assets (in m. Takas) (d) | Price index of capital goods (e) | Deflated fixed asset (f) | Number of employees | Capital productivity index & (c) (g) | Labour Productivity workers based on (g), (h) and (c) (i) |
|------|-------------------------------------|---------------------------------------|--------------------------------|--------------------------------|----------------------------------|--------------------------|------------------------|--------------------------------------|---|
| 1986 | 29567 | 100 | 29567 | 30293 | 100 | 30293 | 46636 | 100 | 100 |
| 1987 | 31954 | 101 | 31638 | 35520 | 100 | 35520 | 478670 | 91 | 104 |
| 1988 | 32549 | 111 | 29323 | 36137 | 102 | 35428 | 489500 | 85 | 94 |
| 1989 | 60663 | 115 | 52750 | 54173 | 118 | 45909 | 991686 | 118 | 84 |
| 1990 | 65813 | 125 | 52650 | 83392 | 138 | 60428 | 1084580 | 89 | 76 |
| 1991 | 66412 | 144 | 46119 | 87758 | 137 | 64057 | 1110852 | 74 | 65 |
| 1992 | 73249 | 154 | 47564 | 102415 | 146 | 70147 | 1156204 | 69 | 65 |
| | | | | | | | <u>All workers</u> (g) | <u>Production</u> (h) | <u>workers</u> (i) |
| | | | | | | | | | <u>workers</u> (k) |

Base Year 1986

* Includes food manufacturing, beverage, tobacco, textile (jute and cotton), wearing apparel, leather and leather products, processing of fibres, wood and cork products. Furniture, paper and paper products, printing and publishing, chemical, drugs and pharmaceuticals, petroleum refinery, rubber and plastic products, pottery and china ware, glass products, metal products, electrical machinery, transport equipment, non-electrical machinery, measuring instruments, photographic and optical goods, sports and athletic goods, non-metallic mineral products.

Sources : Figures in columns (a)-(h) are obtained from Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh. Various issues. The remaining columns are based on own calculation.

is known for strong trade union presence. Workers' unions in this industry have vehemently protested and resisted privatization of sugar mills in the recent past. Trade unions exist and are quite active in the remaining industries too. There are workers federations for gas, minerals, petroleum, drugs and pharmaceuticals and engineering workshops (Table 6.10). Among the five industries mentioned above, only drugs and pharmaceuticals experienced a positive and statistically significant growth rate of labour productivity. Petroleum refining did experience a very high and statistically significant negative growth rate of labour productivity. In the remaining three industries, growth rates of labour productivity were negative though not statistically significant. Product wage rose at statistically significant rates in food manufacturing, paper and paper products, drugs and pharmaceuticals and petroleum refining. The growth rate, though positive, was not statistically significant in case of non-electrical machinery. Rise of product wages in the present context means that growth of nominal money wage rates exceeded those of product prices during 1986-1992. It thus appears that the industries had to absorb the pressures exerted by falling labour productivity and rising real wage during that period.

On the other hand, the following industries experienced statistically significant negative growth rates of real wage : beverage industries, furniture and fixture, industrial chemicals, other chemical products, rubber products, iron and steel basic industries, electrical machinery and transport equipment. In furniture and fixture and electrical machinery industries, labour productivity declined at statistically significant rates. But in transport equipment, rubber products and other chemical products, labour productivity increased at statistically significant rates. The remaining three industries - beverage industries, industrial chemicals and iron and steel basic industries - did have positive growth rates of labour productivity but those rates were not statistically significant. In all those industries except rubber products (which experienced a positive and significant growth rate of product wage), product wage declined during 1986-1992. Growth rate of product wage is statistically significant for all industries except industrial chemicals. Industries like transport and other chemical

products [those with clear rising trend of labour productivity] and beverage industries, industrial chemicals and iron and steel basic industries [with positive but statistically insignificant growth rate of labour productivity] known to have workers unions did experience clearly negative trend of real wage. All of these industries experienced negative growth rates of product wage which implies that product prices rose relative to nominal wages in such industries.

In industries such as cotton and jute textiles, leather and leather products, ginning and processing of fibres, nonmetallic mineral products, very well known for strong union presence, significantly high negative growth rates of labour productivity are found to occur along with statistically insignificant rates of growth of real wage.

The above findings based on CMI data which cover a short period do not either falsify or support the view that trade union activities, in general, give rise to increase in wage independent of labour productivity. But the view that trade unions in some industries might have been able to push the wage up quite independent of labour productivity is not inconsistent with our findings. We may note, at this point, that the public sector enterprises borrow money from nationalized commercial banks to continue their operation in a situation when they incur losses as real and product wages rise and labour productivity falls (Section 7.3.3). It is necessary to generate further information about distribution of labour unions across industries, relative strength of such unions and relevant production data covering longer period of time in order to correctly assess the impact of trade unions on real wage.

Table 7.5a : Indices of Real Wages, Product Wages and Labour Productivity of Industrial Workers in Selected Major Industry Groups, 1987-92

| <i>BSIC 1986 Code</i> | | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|-----------------------|----|------|------|------|------|------|------|
| 311-312 | RW | 116 | 117 | 128 | 180 | 153 | 152 |
| | PW | 118 | 119 | 123 | 172 | 160 | 155 |
| | LP | 108 | 107 | 104 | 105 | 96 | 99 |
| 313 | RW | 116 | 84 | 85 | 60 | 52 | 65 |
| | PW | 118 | 97 | 105 | 80 | 73 | 82 |
| | LP | 147 | 155 | 394 | 109 | 141 | 179 |
| 321-322 | RW | 102 | 101 | 96 | 123 | 100 | 96 |
| | PW | 116 | 119 | 105 | 133 | 103 | 99 |
| | LP | 105 | 107 | 89 | 66 | 56 | 55 |
| 323 | RW | 92 | 78 | 88 | 88 | 79 | 85 |
| | PW | 117 | 107 | 110 | 81 | 69 | 67 |
| | LP | 120 | 157 | 156 | 113 | 100 | 89 |
| 324 | RW | 93 | 101 | 126 | 96 | 90 | 97 |
| | PW | 87 | 85 | 104 | 88 | 67 | 67 |
| | LP | 62 | 55 | 57 | 59 | 38 | 47 |
| 326 | RW | 89 | 101 | 102 | 100 | 94 | 85 |
| | PW | 100 | 111 | 118 | 99 | 111 | 74 |
| | LP | 97 | 167 | 92 | 71 | 97 | 46 |
| 331 | RW | 111 | 43 | 96 | 102 | 93 | 108 |
| | PW | 102 | 125 | 110 | 107 | 98 | 120 |
| | LP | 105 | 134 | 27 | 22 | 18 | 22 |
| 332 | RW | 112 | 94 | 81 | 51 | 53 | 57 |
| | PW | 98 | 111 | 100 | 63 | 60 | 64 |
| | LP | 126 | 92 | 34 | 58 | 41 | 40 |
| 341 | RW | 94 | 93 | 95 | 108 | 98 | 126 |
| | PW | 102 | 101 | 104 | 110 | 106 | 135 |
| | LP | 70 | 81 | 94 | 99 | 62 | 91 |

Continued

Table 7.5a: Continued

| <i>BSIC 1986 Code</i> | | <i>1987</i> | <i>1988</i> | <i>1989</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> |
|-----------------------|----|-------------|-------------|-------------|-------------|-------------|-------------|
| | RW | 88 | 108 | 133 | 126 | 104 | 116 |
| 342 | PW | 103 | 115 | 135 | 135 | 108 | 89 |
| | LP | 104 | 112 | 157 | 141 | 109 | 99 |
| | RW | 80 | 96 | 120 | 98 | 116 | 118 |
| 351 | PW | 104 | 110 | 133 | 117 | 146 | 135 |
| | LP | 103 | 99 | 118 | 138 | 154 | 162 |
| | RW | 115 | 90 | 75 | 87 | 64 | 82 |
| 352 | PW | 143 | 103 | 85 | 105 | 88 | 95 |
| | LP | 94 | 85 | 165 | 129 | 131 | 87 |
| | RW | 100 | 96 | 111 | 88 | 37 | 42 |
| 353 | PW | 109 | 115 | 129 | 102 | 46 | 49 |
| | LP | 112 | 120 | 128 | 114 | 107 | 156 |
| | RW | 122 | 133 | 138 | 150 | 162 | 187 |
| 354 | PW | 156 | 128 | 199 | 244 | 193 | 188 |
| | LP | 120 | 74 | 16 | 16 | 18 | 07 |
| | RW | 96 | 88 | 83 | 82 | 80 | 86 |
| 356 | PW | 91 | 104 | 105 | 113 | 121 | 122 |
| | LP | 108 | 133 | 225 | 140 | 130 | 203 |
| | RW | 96 | 103 | 124 | 122 | 115 | 82 |
| 361 | PW | 91 | 123 | 137 | 137 | 136 | 96 |
| | LP | 637 | 100 | 91 | 108 | 104 | 139 |
| | RW | 103 | 104 | 72 | 98 | 79 | 112 |
| 362 | PW | 95 | 119 | 87 | 103 | 89 | 122 |
| | LP | 175 | 179 | 123 | 283 | 195 | 212 |
| | RW | 108 | 92 | 79 | 88 | 71 | 96 |
| 369 | PW | 107 | 106 | 96 | 83 | 62 | 75 |
| | LP | 145 | 146 | 74 | 42 | 26 | 33 |
| | RW | 103 | 91 | 91 | 92 | 84 | 78 |
| 371-372 | PW | 112 | 97 | 101 | 89 | 83 | 74 |
| | LP | 156 | 130 | 105 | 110 | 114 | 172 |

Continued

Table 7.5a: Continued

| BSIC 1986 Code | | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|----------------|----|------|------|------|------|------|------|
| 381-382 | RW | 81 | 97 | 107 | 85 | 80 | 89 |
| | PW | 97 | 97 | 99 | 92 | 89 | 104 |
| | LP | 93 | 91 | 78 | 104 | 93 | 74 |
| 383 | RW | 90 | 88 | 83 | 116 | 132 | 114 |
| | PW | 102 | 94 | 75 | 85 | 120 | 105 |
| | LP | 131 | 77 | 63 | 56 | 47 | 51 |
| 384 | RW | 101 | 89 | 88 | 83 | 72 | 72 |
| | PW | 91 | 96 | 89 | 85 | 76 | 76 |
| | LP | 77 | 93 | 81 | 79 | 65 | 64 |
| 385 | RW | 95 | 98 | 61 | 76 | 63 | 71 |
| | PW | 77 | 87 | 52 | 71 | 60 | 59 |
| | LP | 137 | 116 | 81 | 141 | 180 | 260 |

Base Year 1986

RW = Real Wage, PW = Product Wage and LP = Labour Productivity, 311-312 = Food Manufacturing Industries, 313 = Beverage Industries, 321-322 = Cotton and Jute Textile, 323 = Wearing Apparels Excluding Foot Wear), 324 = eather and Leather Product, 326 = Ginning and Processing of Fibres, 331 = Wood and Cork Product, 332 = Furniture and Fixtures, 341 = Paper and Paper Products, 342 = Printing and Publishing Industries, 351 = Drugs and Pharmaceutical Products, 352 = Industrial Chemicals, 353 = Other Chemicals Products, 354 = Petroleum Refining, 356 = Rubber Products, 361 = Pottery and China Ware, 362 = Glass and Glass Products, 369 = Non-metallic Mineral Products, 371-372 = Iron and Steel Basic Industries, 381-382 = Fabricated Metal Products, 383 = Non-electrical Machinery, 384 = Electrical Machinery and 385 = Transport Equipment.

Notes : 1) Real wages are obtained by deflating nominal wage by country consumer price index of industrial workers, 2) Product wages are obtained by dividing nominal wage in an industry or industry-group by the corresponding index of price of industrial goods, and 3) Gross value added in an industry or industry-group has been deflated by the relevant index of price of industrial goods. The deflated figure has been divided by the number of workers to obtain labour productivity in that industry or industry-group.

Source : Own calculations based on data obtained from BBS. Statistical Yearbook of Bangladesh. Various Issues.

Table 7.5b: Growth Rates of Wages and Labour Productivity in Selected Industries and Industry Groups, 1986-92

| <i>Industry/Industry Group</i> | <i>Real Wage</i> | <i>Product Wage</i> | <i>Labour Productivity</i> |
|-------------------------------------|------------------|---------------------|----------------------------|
| Food Manufacturing Industries | 8.00** | 8.19** | - 1.02 |
| Beverage Industries | -11.55** | - 6.24** | 4.68 |
| Cotton and Jute Textiles | 0.12 | -0.56 | -12.62** |
| Wearing Apparels | - 2.40 | - 9.06** | - 3.73 |
| Leather and Leather Products | - 0.74 | - 6.03** | -11.34** |
| Ginning and Processing of Fibres | - 1.39 | - 2.89 | - 11.37* |
| Wood and Cork Products | 2.65 | 1.11 | -35.27** |
| Furniture and Fixture | -13.55** | -10.30** | -19.48** |
| Paper and Paper Products | 3.31* | 3.80** | - 1.16 |
| Printing and Publishing Industries | 3.33 | - 0.34 | 1.05 |
| Drugs and Pharmaceutical Industries | 4.50* | 5.85** | 9.23** |
| Industrial Chemicals | - 6.43** | - 3.95 | 2.37 |
| Other Chemical Products | -16.70** | -14.23** | 4.26* |
| Petroleum Refining | 9.16** | 10.58** | -47.51** |
| Rubber Products | - 3.17** | 4.46** | 9.09** |
| Pottery and China Ware | - 0.23 | 2.82 | 1.83 |
| Glass and Glass Products | - 0.89 | 1.15 | 10.46* |
| Non-metallic Mineral Products | - 3.59 | - 7.85** | -28.60** |
| Iron and Steel Basic Industries | - 4.08** | - 5.67** | 2.97 |
| Fabricated Metal Products | 1.81 | - 0.38 | - 2.75 |
| Non-electrical Machinery | 5.13** | 1.32 | -15.67** |
| Electrical Machinery | - 6.19** | - 4.66** | - 6.57** |
| Transport Equipment | - 7.51** | - 8.16** | 12.88** |

Notes : 1. Growth rates are annual compound growth rates. The rates are obtained by fitting the following regression equation : $\log_e Y = a + bT$ where $Y =$ real wage, product wage or labour productivity and $T =$ time to data.

2. ** Significant at 5per cent level; * significant at 10per cent level.

Source : Own calculation based on figures in Table 7.5a.

7.2.4 Impact of Trade Unionism on Employment

As mentioned earlier, Anderson, Hossain and Sahota (1991) found statistically significant negative impact of unions on total employment and employment of skilled labour but insignificant impact on employment of semi-skilled or unskilled labour. The authors however expected stronger negative employment effects given the frequency of work stoppages due to strikes, hartals, and other union activities which were supposed to have negative impact on employment via reduction in output. Anderson et. al. (1991) speculated that firms may have avoided the potentially negative effects of having unionised labour by substituting casual labour for permanent labour in unionised firms since casual labour cannot become a member of a union.

The above suggestion put forth by Anderson et al. (1991) is supported by a study by Bhaskar and Khan (1995). The primary aim of the latter study was to examine the impact of privatisation on output and employment in jute textile industries well known for strong trade union presence. The study tried to explain the difference in output and employment between 1983 and 1988 in terms of firm specific effect, real wage, period effect and nature of ownership of firms. It may be noted that privatisation of those jute mills was initiated in 1982, and at that time the government enforced a one year ban on lay off of the workers. So employment figures for 1983 represented the employment situation at the time of privatisation. It was found that privatisation had no significant impact on aggregate output though it had significant impact on composition of output. Privatisation also appeared to have significant negative impact on white collar employment as well as employment of permanent manual labour but significant positive impact on casual manual labour so that the over all impact on employment of manual labour was not statistically significant. It may be mentioned here that the trade unions and SKOP have repeatedly expressed their concern about the possible loss of jobs, increase of the number of casual labour at the cost of permanent labour, and employment of people hailing from the same village or district as the employer under the privatisation programme. They expressed their concern about both sick public as well as privatised industries mainly because such situations might eventually lead to loss of employment in the near future.

Employment in Selected Industries During Pre-Adjustment and Adjustment Periods

Information pertaining to employment and productivity of workers for a considerably long period of time (1978-1995) are available for industries e.g. jute textile, cotton textile, paper, steel, cement, fertilisers, petroleum products and paints and varnish. All these industries, excepting the last one and cement, are dominated by public sector enterprises. Among these industries, jute and cotton textile and petroleum product industries are known for strong trade union presence (Table 6.9b and 6.10). Trade unions also exist in the remaining industries.

We have presented indices of employment and labour productivity of these industries for different years during the period 1977-1995 (Table 7.6a). Growth rates of labour employment and labour productivity of these industries during the same period were also computed and have been presented in Table 7.6.b. In Tables 7.6a and 7.6b, the period 1977-1995 has been shown to contain the pre-adjustment era (1977-1986) and the adjustment era (1986-1995). The year 1977 has been treated as the base year for the pre-adjustment era while the year 1986 has served as the base year for the entire period, 1977-1995.

As shown in Table 7.6b in the pre-adjustment era, employment of production workers as well as number of all employees had positive and statistically significant growth rates in jute textiles and petroleum products, although those industries experienced negative and statistically significant growth rates of labour productivity. Cement industries experienced similar decline in labour productivity and had positive growth rates for all employees (statistically significant) and production workers (statistically insignificant). In paints and varnish industry, productivity of production workers as well as all types of workers had positive and statistically significant growth rate, though the number of production workers and all workers had opposite trend. In cotton textile labour productivity rose at a significant rate but growth of employment was statistically insignificant. In fertilizer industry productivity rose significantly, but only the number of non-production workers rose significantly.

In steel and paper industry, employment did have negative but (statistically significant) growth rates. Productivity of production workers had insignificant growth rates in these two industries.

During the adjustment era growth rate of employment for all types of workers was either very low (if positive) or negative in cotton and jute textiles, paper, steel and paints and varnish. None of these industries experienced negative growth rates of labour productivity. Cotton textiles, paper and paints and varnish did have positive and statistically significant growth rates of labour productivity. Both employment and labour productivity improved in petroleum product and fertilizer industry. It means that during the adjustment era the tendency of employment to rise even when productivity of labour keeps on falling has waned.

The fall in employment in major industries like jute and cotton textiles in the past decade or so was accompanied by reduction of permanent workers by about 14 per cent in jute textiles and increase of unused capacity in both the industries. In 1985/86, 16 per cent of installed looms in jute textiles and 17 per cent of installed looms and 27 per cent of installed spindles in cotton textiles were left unused. In 1994/95, 30 - 33 per cent of installed looms were left unused in both the industries while 77 per cent of spindles were left unused in cotton textiles (BBS, 1996; Tables 5.14 and 5.16).

The pertinent question is whether the incidence of increase in employment or downward rigidity of level of employment during a period characterized by falling labour productivity can be accounted for, fully or partly, by trade unionism. We have already mentioned the concern of trade unions and SKOP about the apprehension as well as actual loss of jobs and reduction of the ratio of permanent labour to total labour employed due to implementation of privatization and restructuring programmes. Over employment in public sector enterprises may be accounted for, at least partially, by political motives and narrow self interest of managers of those enterprises. In public sector enterprises, 'ghost workers' are reported to exist. Such workers either do not exist or do not work. Dishonest managers and officers, on their own or in collusion with some influential labour leaders carry on such malpractices [ILO-ARTEP 1993, Report of Technical Session (IV) and Hemphrey (1992)].

7.2.5 Impact of Minimum Wage

A very limited number of studies examined the impact of minimum wage on employment and wage level. Anderson, Hossain and Sahota (1991) found negative impact of minimum wage on employment of both skilled and unskilled labour. The impact on skilled labour was, however, found to be stronger. They found positive impact on wage which implied that wages are higher in minimum wage industries. But these results, they admitted, were based on very inaccurate measure of monthly wage. Azam (1994) found insignificant impact of minimum wage on wage level in private sector industries like match and automobile workshop. He, however, found statistically significant positive impact on wage level in public sector-dominated industries - cotton textile and jute press and baling. But this does not necessarily imply that minimum wage awards caused a rise in wage level in those two industries. Azam admitted the possibility that dummy variables supposed to capture the effect of minimum wage award, in fact, captured the effect of public sector wage award by NWPC.

7.3 Public Sector Wages and the Linkages

7.3.1 Settlement of Public Sector Wage

As stated in Chapter 6, public enterprises are covered by a single set of uniform wage scales and allowances recommended by NWPC and approved by the government. The NWPC is comprised of representatives of workers, private employers and the government. They meet at irregular intervals (4-8 years). Collective bargaining on wages and allowances is forbidden in SOEs. At least from the legal point of view, the tri-partite nature of NWPC does not imply collective bargaining as government retains the right to reject, modify or accept the recommendation put forward by the commission. In practice, the government responds to industrial and political pressure exerted by trade unions. Discussions about wage setting in public enterprises take place between the central government and trade union federations who according to Bangladesh's labour law, are not allowed to represent workers in collective bargaining. In

fact, SKOP the single trade union federation alliance of Bangladesh set up in 1984, made the government agree to its demand for immediate constitution of a new wage and productivity commission. Similar demand was put forward by SKOP in 1991 and subsequently the demand was met by the government. This time the commission had to include representatives of SKOP, an unregistered organisation.

7.3.2 Wage Differential Across Sectors, Regions and Industries under Private and Public Ownership

A casual look at Tables 6.4 and Table 7.7 may create the impression that daily wages of unskilled labour (at national level) in agriculture, cotton textile and jute textile are fairly integrated and proportional difference between those wages have declined over time and coefficient of variation of wages of unskilled labour across different industries is quite low but has risen over time. The coefficient of variation of wages of skilled labour was quite high but has reduced by a significant extent over time so that the two coefficients of variation do not differ much. But when we differentiate the workers on the basis of (a) whether workers are in the public or private sector or (b) whether they work in urban or rural areas a very different picture emerges.

In 1996, at the national level daily wage rate of unskilled workers in public sector dominated- cotton and jute textile industries was higher than daily wage rate of unskilled workers in edible oil industries, small and cottage industries, construction work and agriculture by 5.1 per cent, 36.6 per cent, 8.6 per cent and 47 per cent respectively. Fitters (unskilled) in the engineering industries, on the other hand earned 11.7 per cent more than unskilled workers in cotton and jute textile industries. Unskilled workers in match industries earned at the same rate as those in cotton and jute textile industries. Unskilled workers in cotton and jute textile industries earned 30 per cent, 69 per cent and 141 per cent higher than agricultural labour in Dhaka, Faridpur and Rangpur respectively. Agricultural workers of only one district (Chittagong) received higher wage rate than unskilled workers in cotton and jute textiles and match industry (Table 7.8).

Table 7.6a : Employment and Labour Productivity Indices of Workers of Some Industries, 1978-95

| Year | Jute | | Cotton | | Paper | | Steel | | Cements | | Fertiliser | | Petroleum Products | | Paints and Varnish | |
|------|------|-----|--------|-----|-------|-----|-------|-----|---------|-----|------------|-----|--------------------|-----|--------------------|-----|
| | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE |
| 1978 | E | 105 | 107 | 108 | 109 | 113 | 106 | 106 | 129 | 130 | 86 | 107 | 109 | 110 | 97 | 89 |
| | P | 105 | 110 | 109 | 120 | 116 | 101 | 101 | 84 | 83 | 88 | 70 | 89 | 88 | 143 | 153 |
| 1979 | E | 110 | 113 | 114 | 110 | 111 | 113 | 113 | 135 | 135 | 98 | 115 | 59 | 98 | 98 | 88 |
| | P | 93 | 92 | 110 | 109 | 120 | 119 | 120 | 75 | 75 | 106 | 90 | 187 | 112 | 156 | 173 |
| 1980 | E | 113 | 113 | 123 | 121 | 111 | 117 | 109 | 138 | 151 | 92 | 120 | 74 | 104 | 89 | 82 |
| | P | 94 | 94 | 98 | 99 | 127 | 120 | 113 | 78 | 71 | 138 | 105 | 151 | 107 | 209 | 227 |
| 1981 | E | 128 | 127 | 125 | 122 | 110 | 114 | 113 | 171 | 186 | 99 | 120 | 83 | 109 | 81 | 77 |
| | P | 91 | 92 | 106 | 108 | 117 | 114 | 119 | 64 | 59 | 124 | 102 | 134 | 102 | 212 | 223 |
| 1982 | E | 132 | 131 | 110 | 108 | 105 | 108 | 115 | 139 | 161 | 97 | 119 | 83 | 113 | 86 | 80 |
| | P | 88 | 88 | 111 | 113 | 136 | 133 | 100 | 75 | 65 | 124 | 101 | 125 | 91 | 203 | 218 |
| 1983 | E | 127 | 127 | 122 | 102 | 107 | 107 | 109 | 136 | 160 | 92 | 115 | 104 | 124 | 86 | 82 |
| | P | 90 | 90 | 126 | 126 | 97 | 97 | 41 | 71 | 69 | 143 | 115 | 73 | 61 | 174 | 182 |
| 1984 | E | 128 | 127 | 99 | 100 | 112 | 110 | 96 | 139 | 157 | 105 | 136 | 110 | 129 | 84 | 81 |
| | P | 87 | 87 | 133 | 131 | 106 | 109 | 94 | 63 | 56 | 182 | 139 | 78 | 67 | 204 | 210 |
| 1985 | E | 128 | 125 | 106 | 107 | 106 | 108 | 101 | 133 | 155 | 108 | 153 | 108 | 130 | 85 | 84 |
| | P | 84 | 83 | 125 | 124 | 126 | 125 | 106 | 58 | 50 | 218 | 154 | 83 | 68 | 225 | 228 |
| 1986 | E | 113 | 116 | 112 | 112 | 102 | 106 | 101 | 133 | 147 | 96 | 155 | 159 | 139 | 87 | 83 |
| | P | 85 | 82 | 116 | 116 | 159 | 154 | 96 | 69 | 58 | 288 | 178 | 55 | 64 | 199 | 208 |
| 1987 | E | 121 | 123 | 110 | 110 | 103 | 107 | 103 | 133 | 146 | 116 | 175 | 157 | 140 | 85 | 85 |
| | P | 95 | 93 | 129 | 128 | 159 | 154 | 97 | 73 | 62 | 245 | 162 | 63 | 72 | 229 | 231 |

Continued

Table 7.6a : Continued

| Year | Jute | | Cotton | | Paper | | Steel | | Cements | | Fertiliser | | Petroleum Products | | Paints and Varnish | | |
|------|------|-----|--------|-----|-------|-----|-------|-----|---------|-----|------------|-----|--------------------|-----|--------------------|-----|-----|
| | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE | PW | AE | |
| 1988 | E | 123 | 124 | 109 | 110 | 107 | 116 | 101 | 104 | 138 | 153 | 125 | 175 | 157 | 143 | 82 | 84 |
| | P | 91 | 89 | 131 | 130 | 153 | 142 | 84 | 81 | 70 | 59 | 328 | 214 | 54 | 61 | 225 | 218 |
| 1989 | E | 118 | 119 | 110 | 110 | 103 | 122 | 102 | 105 | 137 | 154 | 141 | 217 | 154 | 146 | 75 | 80 |
| | P | 91 | 89 | 118 | 118 | 134 | 129 | 87 | 86 | 79 | 65 | 328 | 214 | 62 | 67 | 271 | 256 |
| 1990 | E | 121 | 122 | 118 | 116 | 113 | 124 | 102 | 105 | 133 | 151 | 150 | 225 | 153 | 147 | 74 | 79 |
| | P | 78 | 77 | 114 | 114 | 151 | 140 | 73 | 71 | 79 | 66 | 219 | 146 | 48 | 51 | 247 | 231 |
| 1991 | E | 111 | 113 | 119 | 119 | 114 | 126 | 101 | 104 | 129 | 148 | 150 | 226 | 154 | 150 | 76 | 80 |
| | P | 83 | 80 | 123 | 123 | 178 | 182 | 96 | 93 | 67 | 59 | 449 | 260 | 53 | 69 | 173 | 200 |
| 1992 | E | 105 | 108 | 119 | 119 | 113 | 125 | 100 | 103 | 128 | 151 | 153 | 233 | 157 | 153 | 70 | 69 |
| | P | 84 | 81 | 123 | 123 | 189 | 174 | 76 | 73 | 67 | 54 | 276 | 198 | 62 | 65 | 316 | 297 |
| 1993 | E | 102 | 103 | 120 | 119 | 110 | 121 | 97 | 100 | 129 | 150 | 160 | 243 | 164 | 156 | 77 | 73 |
| | P | 94 | 91 | 133 | 135 | 262 | 240 | 66 | 64 | 51 | 41 | 374 | 246 | 70 | 75 | 354 | 372 |
| 1994 | E | 95 | 96 | 101 | 100 | 99 | 112 | 89 | 93 | 130 | 143 | 156 | 240 | 176 | 165 | 81 | 76 |
| | P | 94 | 93 | 139 | 139 | 297 | 263 | 123 | 119 | 81 | 69 | 444 | 288 | 63 | 68 | 366 | 391 |
| 1995 | E | 93 | 93 | 91 | 88 | 93 | 108 | 70 | 72 | 141 | 238 | 155 | 242 | 178 | 167 | 85 | 81 |
| | P | 98 | 97 | 138 | 140 | 393 | 417 | 260 | 252 | 77 | 67 | 406 | 260 | 70 | 76 | 498 | 520 |

Base Year 1977

Notes : PW = Production Workers, AE = All Employees, E = Employment indices, P = Labour productivity indices

Source : Adapted from BBS, Statistical Yearbook of Bangladesh, Various Issues.

Table 7.6b: Growth Rates of Employment and Productivity in Selected Industries During Pre-Adjustment and Adjustment Era.

| Industries | | Pre-adjustment era 1977-1986 | | Adjustment era 1986-1995 | |
|-----------------------|----|---------------------------------|--------------|-----------------------------|--------------|
| | | Employment | Productivity | Employment | Productivity |
| Jute Textiles | PW | 2.20** | -2.13** | -2.95** | 0.73 |
| | AE | 2.21** | -2.36** | -3.05** | 0.85 |
| Cotton Textiles | PW | 0.09 | 2.41** | -1.06 | 1.45** |
| | AE | -0.20 | 2.38** | -1.30 | 1.63** |
| Paper | PW | -0.05 | 1.96 | -0.42 | 9.96** |
| | AE | -0.01 | 2.11* | 0.51 | 10.01** |
| Steel | PW | -0.63 | -2.71 | -2.82** | 5.61* |
| | AE | -0.19 | -3.18 | -2.81** | 5.63* |
| Cement | PW | 1.62 | -4.20** | -0.13 | -0.31 |
| | AE | 3.32** | -6.00** | 2.44* | -0.29 |
| Fertilizer | PW | 0.94 | 11.32** | 4.74* | 4.92** |
| | AE | 4.33** | -7.97** | 4.89** | 5.14** |
| Petroleum Products | PW | 5.00** | -7.57** | 1.27** | 2.12* |
| | AE | 3.68** | -6.18** | 2.04** | 1.48 |
| Paints and Varnish | PW | -1.81** | 6.13** | -0.65 | 8.44** |
| | AE | -1.49** | 5.86** | -1.27** | 9.04** |

- Notes : 1) PW = Production Workers, AE - All employees
 2) ** Significant at 5per cent level, * Significant at 10per cent level
 3) Growth rates are annual compound growth rates. The rates are obtained by fitting the regression equation $\log_e Y = a + bT$ where Y = employment or productivity and T =(time) to the data.

Source : Own calculation based on figures presented in Table 7.6a.

The difference between public sector wage on the one hand and wage of construction workers and workers in cottage industries in urban areas and wage of workers in rural areas on the other will be greater if we consider the seasonal unemployment faced by the latter categories of workers. These figures may be contrasted with about 20 per cent wage differentials enjoyed by unskilled labour in manufacturing sector in South East Asian countries over unskilled labour in agriculture in the same region. The difference will be much greater if we consider allowances and other facilities enjoyed by public sector workers.

7.3.3 Wage Productivity Relation in Public Sector Enterprises

During past few years (1985-1992) wage bills steadily rose at a much faster rate than productivity in most SOEs under different public sector corporations. As Table 7.9 shows growth rate of labour productivity fell short of growth rate of average labour cost during 1985-1992 in the public enterprises under BTMC, BJMC, BSEC, and TSP production under BCIC. In case of urea production under BCIC and enterprises under BSFIC the situation was reverse.

Table 7.7: Daily Wage Rates of Industrial Workers in Different Regions, 1978 and 1990.

| Industry | Dhaka Region | | Chittagong Region | | Khulna Region | | Rajshahi Region | | National | |
|------------------------------------|--------------|-------|-------------------|-------|---------------|-------|-----------------|-------|----------|-------|
| | 1978 | 1990 | 1978 | 1990 | 1978 | 1990 | 1978 | 1990 | 1978 | 1990 |
| 1. Cotton Textiles | | | | | | | | | | |
| Type of Labour | | | | | | | | | | |
| Skilled | 15.03 | 57.31 | 14.85 | 54.07 | 11.25 | 50.75 | - | 49.64 | 12.42 | 52.94 |
| Unskilled | 9.88 | 46.36 | 10.44 | 40.17 | 8.99 | 42.33 | - | 38.03 | 8.33 | 41.72 |
| 2. Jute Textiles | | | | | | | | | | |
| Skilled | 15.00 | 56.08 | 11.70 | 54.81 | 11.68 | 57.17 | 9.72 | 52.15 | 10.41 | 55.05 |
| Unskilled | 9.86 | 45.41 | 9.96 | 41.60 | 9.58 | 42.25 | 8.21 | 38.65 | 7.74 | 41.98 |
| 3. Match | | | | | | | | | | |
| Skilled | 14.73 | 56.40 | 11.69 | 46.84 | 13.08 | 55.96 | 11.71 | 48.96 | 9.66 | 52.04 |
| Unskilled | 9.86 | 47.82 | 9.56 | 32.98 | 9.81 | 40.75 | 7.77 | 37.13 | 8.22 | 39.67 |
| 4. Mustard Oil | | | | | | | | | | |
| Skilled | 12.88 | 51.62 | 13.80 | 49.15 | 8.19 | 45.83 | 8.56 | 49.10 | 10.30 | 48.93 |
| Unskilled | 9.81 | 38.21 | 11.36 | 32.04 | 5.92 | 32.87 | 7.96 | 34.32 | 8.33 | 34.36 |
| 5. Engineering (Fitter) | | | | | | | | | | |
| Skilled | 23.19 | 70.30 | 17.86 | 61.47 | 13.21 | 67.91 | 20.48 | 57.40 | 17.89 | 64.27 |
| Unskilled | 14.50 | 48.83 | 10.94 | 39.36 | 6.00 | 45.45 | 8.86 | 39.89 | 9.41 | 43.38 |
| 6. Coefficient of Variation | | | | | | | | | | |
| Skilled | 22.27 | 10.79 | 16.40 | 9.52 | 15.81 | 13.31 | 37.06 | 6.20 | 24.89 | 9.51 |
| Unskilled | 17.18 | 8.29 | 6.20 | 10.56 | 21.53 | 10.35 | 5.02 | 4.98 | 6.51 | 7.86 |

Source : Abdul Hye Mondal, *ibid.*, Table 6, p. 31.

Table 7.8 : Daily Wage Rate of Unskilled Labourers in Different Sectors and Agricultural Labourers 1996.

| | Cotton Textile | Jute Textile | Match | Engineering (Fitter) | Edible Oil | Small Cottage Industry | Construction ^a | Agriculture ^b |
|------------|-------------------|-----------------|-------|-------------------------|---------------|------------------------------|---------------------------|--------------------------|
| National | 67.60 | 67.60 | 67.60 | 75.48 | 64.30 | 49.49 | 62.25 | 46 |
| Dhaka | 67.60 | 67.60 | 67.60 | 78.25 | 67.88 | | 68.25 | 52 |
| Rajshahi | 67.60 | 67.60 | 67.60 | 71.17 | 62.50 | | 43.00 | 39 |
| Khulna | 67.60 | 67.60 | 67.60 | 76.17 | 63.13 | | 54.33 | 51 |
| Chittagong | 67.60 | 67.60 | 67.60 | 76.33 | 63.92 | | 68.00 | 71 |
| Faridpur | - | - | - | - | - | | NA | 40 |
| Rangpur | - | - | - | - | - | | 30.75 | 28 |
| Sylhet | - | - | - | - | - | | 51.67 | 52 |

Notes : 1) * Wage figures represent wage of helpers to masons

2) ** Wage figures represent wage for male without food in agriculture of November, 1996.

Source : BBS, Monthly Statistical Bulletin, October 1996 (Tables 2.1-2.4).

Table 7.9: Average Labour Costs (ALC) and Value of Output/Worker (O/W) in Selected Public Enterprises (Tk. 1000/Year)

| Corporations | 1985 | 1986 | 1989 | 1990 | 1992 | Annual Compound Growth rate 1985-1992 | |
|---------------------|------|------|------|------|------|---------------------------------------|-------|
| BTMC | O/W | 81 | 86 | 125 | 151 | 7.2 | |
| | ALC | 13 | 17 | 20 | 25 | 26 | 10.6 |
| BJMC | O/W | 71 | 58 | 70 | 82 | 97 | 4.6 |
| | ALC | 14 | 19 | 25 | 30 | 40 | 16.0 |
| BSFIC | O/W | NA | 59 | 81 | 189 | 162 | 18.3 |
| | ALC | NA | 18 | 25 | 44 | 45 | 16.4 |
| BSEC (Wires) | O/W | 516 | 574 | 707 | 521 | 693 | 4.3 |
| | ALC | 18 | 37 | 47 | 26 | 31 | 8.6 |
| BSEC (Billet/Plate) | O/W | 536 | 494 | 519 | 378 | 436 | - 2.9 |
| | ALC | 29 | 37 | 56 | 59 | 45 | 6.5 |
| BCIC (Urea) | O/W | 326 | 710 | 1642 | 1941 | 2209 | 31.4 |
| | ALC | 24 | 50 | 82 | 94 | 118 | 25.8 |
| BCIC (TSP) | O/W | 813 | 1605 | 2074 | 1674 | 2072 | 14.3 |
| | ALC | 25 | 70 | 61 | 77 | 91 | 17.1 |

Source : Adapted from World Bank, Bangladesh Labour Market Policies for Higher Employment. Report No. 13799-BD. April, 1996 (Table 14, p. 26).

Table 7.10 : Profits and Losses of Public Sector Enterprises 1984/85-1992/93(in Million Taka).

| Sector Corporations | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|
| BSEC | - 135 | - 85 | - 49 | - 62 | - 78 | - 365 | - 861 | - 1069 | - 1000 |
| BSFIC | - 234 | + 336 | - 315 | - 95 | - 255 | + 164 | - 129 | - 692 | - 924 |
| BCIC | + 131 | + 105 | - 86 | + 198 | + 374 | + 455 | + 343 | - 548 | - 661 |
| BTMC | + 42 | - 566 | - 245 | - 364 | - 22 | - 175 | - 574 | - 434 | - 959 |
| BJMC | - 1462 | - 1583 | - 420 | - 1431 | - 1882 | - 3709 | - 2473 | - 3122 | - 3679 |
| BPC | + 1817 | + 1051 | + 1473 | + 938 | + 1273 | + 369 | + 2492 | + 3512 | + 3134 |
| BOGMC | + 101 | - 29 | - 71 | + 95 | - 191 | - 272 | + 302 | + 533 | + 648 |
| BSC | + 6 | - 117 | - 101 | + 37 | - 245 | - 244 | - 527 | - 383 | + 38 |
| Bangladesh Biman | - 23 | - 57 | - 352 | - 266 | + 33 | + 117 | - 400 | + 263 | + 194 |
| PDB | + 199 | - 285 | + 172 | - 89 | + 652 | - 3375 | - 2802 | - 4449 | - 7848 |
| Total | 442 | - 1902 | + 7 | - 1027 | - 341 | - 7035 | - 4700 | - 9690 | - 10462 |
| Total excluding BPC | - 1375 | - 2953 | - 1467 | - 1965 | - 1614 | - 7074 | - 7192 | - 13202 | - 13596 |

Note : Totals may not add due to rounding.

Source : Adapted from World Bank, *Besarkarikan O Samanaya (in Bengali)*, Report No. 12318-BD, March 10, 1994 (Table 5, Appendix 6).

During 1985-1993, BSEC and BJMC incurred losses every year. BSFIC, BTMC incurred loss in 7 out of 8 years. BCIC incurred profit in 6 out of 8 years. But BCICs operating surplus represents a very small per cent (1.5 per cent in 1992) of the value of total assets (Table 7.10).

In the major group of industries where public sector enterprises dominated in terms of fixed assets and value added and/or employment such as food and manufacturing industry [which is dominated by sugar industry], cotton textile, jute textile, paper and paper product, petroleum refining and non-electric machinery, indices of real wage and product wage always exceeded labour productivity indices during 1987-1992 (Table 7.5a). The reverse situation has been found in some of the industries (such as beverage industries, wearing apparels, printing and publishing industries, drugs and pharmaceutical and non-industrial chemicals, rubber products and glass products) where private enterprises dominate. But there are few industries where, despite the dominance of private enterprises, indices of real wage and product wage were greater than those for labour productivity. Trade union activities may be responsible for this in certain industries like leather and leather products and non-metallic mineral products.

7.3.4 Relationship Between Public Sector and Private Sector Wages

One study (Azam 1994) examined the relationship between public and private sector wages in Bangladesh. The study considered cotton, jute, match, engineering workshop, vegetable oil, cottage industry and construction. Wages of unskilled labour in jute and cotton textiles are cointegrated with all wages except that of match industry. Wages in jute and cotton textile seem to Granger-cause wages in cottage industries and construction in informal sector. On the other hand, vegetable oil and engineering wage Granger-cause wages in cotton and jute textile industries. The last result, as the study presumes, may be due to the fact that private sector representatives in the NWPC ensure that labour market conditions

are at least partly taken into account when wage awards are decided.

We made an attempt to find out the direction of causal relationship between public sector wages and private sector wages. Ideally we should regress private sector wage of an industry on the lagged public sector wage of the same industry. But unavailability of data on the relevant variables prevented us from undertaking such an exercise. As second best alternative we examined the relationship between wage of an industry which is dominated by the public sector and that of an industry which is dominated by the private sector. We considered wages of unskilled workers in jute and cotton textiles (where public sector dominates) match industry, engineering industry (turners and fitters), edible oil industry; workers in primary industries such as agriculture and fishing and informal sector such as construction. Our time series data covering the period 1976-1994 include more recent observations than Azam's study (Azam 1994). In order to find the direction of causality for wages of workers in two industries or sectors, we tried current as well as lagged wages and incorporated time as explanatory variables. Our findings, in general, do not lend support to the hypothesis that public sector wages lead to changes in private sector wages either in the same period or with a time lag (Table 7.11). In the manufacturing sector, wage in jute textiles is found to Granger-cause wage (equations 3 and 4 of Table 7.11) in match industry. But wage in match industry is observed to Granger-cause wage (equations 1 and 2) in cotton textiles. Wages in edible oil industry, and engineering industry are found to Granger-cause wages (equations 5-16) in jute and cotton textile industries. Average wage of unskilled workers in manufacturing sector (which includes, among others, both cotton and jute textiles) is found to Granger-cause wage (equations 17-18) in cotton textile but to be Granger-caused by wage (equations 19-20) in jute textile. Cotton and jute textiles wages are not found to Granger-cause wages (equations 21-24) in construction sector. Wage in agricultural sector is found to Granger-cause wage in jute textile - the opposite relationship is found between agricultural wage and wage in cotton textiles (equations 25-28). On the other hand, wage in jute and cotton textiles are found to Granger-cause wages in fishery (equations

Table 7.11: Relationship Between Public Sector and Private Sector Wages.

| Equation No. | Regression Equations | R^2 | \bar{R}^2 | F |
|--------------|---|--------|-------------|------|
| 1. | $W_{cot} = 0.73 + 0.477 W_{mat} + 1.537 t$ (1.18) (6.27) (7.43)*** | 0.9943 | 0.9936 | 1388 |
| 2. | $W_{mat} = -1.71 + 1.59 W_{cot} - 1.63 t$ (-1.49) (6.27) (-2.29)*** | 0.9808 | 0.9692 | 408 |
| 3. | $W_{mat} = 3.51 + 0.642 W_{jut} + 0.024 W_{jut}^{-1} + 1.059 W_{jut}^{-2} - 1.857 t$ (2.71)*** (3.13)*** (0.09) (5.28)*** (-3.31)*** | 0.9935 | 0.9913 | 455 |
| 4. | $W_{jut} = -1.65 + 0.582 W_{mat} + 0.123 W_{mat}^{-1} - 0.370 W_{mat}^{-2} + 1.82 t$ (-1.27) (1.60) (0.23) (-0.98) (4.71)*** | 0.9892 | 0.9857 | 276 |
| 5. | $W_{cot} = 0.19 + 0.50 W_{mus} + 1.58 t$ (0.30) (5.81) (7.29)*** | 0.9936 | 0.9928 | 1248 |
| 6. | $W_{mus} = -0.46 + 1.36 W_{cot} - 1.36 t$ (-0.43) (5.81) (-2.07)*** | 0.9783 | 0.9756 | 360 |

Continued

Table 7.11: Continued

| Equation No. | Regression Equations | R^2 | R^2 | F |
|--------------|---|--------|--------|-----|
| 7. | $W_{\text{jut}} = -0.92 + 0.59 W_{\text{mus}} + 1.42 t$ (-1.23) (5.89) ^{***} (5.65) ^{***} | 0.9918 | 0.9908 | 967 |
| 8. | $W_{\text{mus}} = 0.87 + 1.16 W_{\text{jut}} - 0.88 t$ (0.81) (5.89) ^{***} (-1.55) | 0.9787 | 0.9760 | 367 |
| 9. | $W_{\text{cot}} = -0.95 + 0.118 W_{\text{fit}} - 0.111 W_{\text{fit}}^{-1} + 0.118 W_{\text{fit}}^{-2} + 2.26 t$ (-0.78) (1.90) ^{**} (-0.16) (1.40) (5.69) ^{***} | 0.9899 | 0.9865 | 294 |
| 10. | $W_{\text{fit}} = 0.292 + 2.19 W_{\text{cot}} - 0.52 W_{\text{cot}}^{-1} + 0.252 W_{\text{cot}}^{-2} - 2.53 t$ (0.05) (1.54) (-0.26) (0.16) (-0.81) | 0.8633 | 0.8174 | 19 |
| 11. | $W_{\text{jut}} = -2.073 + 0.16 W_{\text{fit}} + 0.030 W_{\text{fit}}^{-1} + 2.37 t$ (-1.66) (2.06) ^{**} (0.30) (5.98) ^{***} | 0.9827 | 0.9790 | 266 |
| 12. | $W_{\text{fit}} = 2.08 + 1.23 W_{\text{jut}} + 0.37 W_{\text{jut}}^{-1} - 1.64 t$ (-0.73) (0.40) (1.27) (-0.73) | 0.8672 | 0.8378 | 30 |

Continued

Table 7.11: Continued

| Equation No. | Regression Equations | R^2 | \bar{R}^2 | F |
|--------------|---|--------|-------------|------|
| 13. | $W_{cot} = -1.81 + 0.342 W_{tur} + 0.047 W_{tur}^1 + 1.809 t$ (-1.395) (2.61)*** (1.26) (4.533)*** | 0.989 | 0.987 | 342 |
| 14. | $W_{tur} = 13.97 + 2.53 W_{cot} - 1.142 W_{cot}^1 - 4.77 t$ (1.55) (1.04) (-0.06) (-1.04) | 0.550 | 0.438 | 4.9 |
| 15. | $W_{jut} = -2.64 + 0.49 W_{tur} + 0.045 W_{tur}^1 + 1.435 t$ (-1.87)** (3.43)*** (1.12) (3.313)*** | 0.988 | 0.985 | 306 |
| 16. | $W_{tur} = 14.77 + 2.11 W_{jut} - 0.395 W_{jut}^1 - 2.98 t$ (1.54) (1.23) (-0.24) (-0.72) | 0.54 | 0.42 | 4.6 |
| 17. | $W_{cot} = 2.298 + 0.016 W_{man} + 1.34 t$ (3.31)*** (6.55)*** (5.88)*** | 0.9946 | 0.9937 | 1477 |
| 18. | $W_{man} = -142.98 + 44.75 W_{cot} - 35.69 t$ (-4.62)*** (6.55)*** (-1.85)** | 0.9860 | 0.9842 | 562 |

Continued

Table 7.11: Continued

| Equation No. | Regression Equations | R^2 | \bar{R}^2 | F |
|--------------|---|--------|-------------|-----|
| 19. | $W_{\text{man}} = -58.51 + 18.93 W_{\text{jut}} - 2.27 W_{\text{jut}}^{-1} + 25.37 W_{\text{jut}}^{-2} - 22.157 t$ $(1.93)^{**} (3.94)^{***} (-0.37) (5.384)^{***} (-1.68)$ | 0.9964 | 0.9952 | 832 |
| 20. | $W_{\text{jut}} = 1.24 + 0.009 W_{\text{man}} - 0.010 W_{\text{man}}^{-1} - 0.0025 W_{\text{man}}^{-2} + 1.35 t$ $(0.73) (0.87) (0.81) (-0.25) (2.651)^{***}$ | 0.9899 | 0.9865 | 293 |
| 21. | $W_{\text{cot}} = 0.27 + 0.016 W_{\text{con}} + 1.495 t$ $(0.35) (4.46) (5.02)^{***}$ | 0.9912 | 0.9901 | 897 |
| 22. | $W_{\text{con}} = -19.83 + 34.81 W_{\text{cot}} - 15.82 t$ $(-0.56) (4.46) (-0.72)$ | 0.9780 | 0.9752 | 355 |
| 23. | $W_{\text{jut}} = -0.87 + 0.017 W_{\text{con}} + 1.451 t$ $(0.89) (3.77) (3.81)^{***}$ | 0.9862 | 0.9845 | 573 |
| 24. | $W_{\text{con}} = 11.18 + 27.33 W_{\text{jut}} + 3.41 t$ $(0.28) (3.77) (0.16)^{***}$ | 0.9738 | 0.9705 | 297 |

Continued

Table 7.11: Continued

| Equation No. | Regression Equations | R^2 | \bar{R}^2 | F |
|--------------|---|--------|-------------|-----|
| 25. | $W_{agr} = 95.81 + 7.32 W_{cot} + 4.23 W_{cot}^{-1} + 31.22 W_{cot}^{-2} - 43.56 t$ (3.25)*** (1.095) (0.450) (4.19)*** (-2.95)*** | 0.9937 | 0.9916 | 475 |
| 26. | $W_{cot} = -0.67 + 0.021 W_{agr} - 0.01 W_{agr}^{-1} + 0.0085 W_{agr}^{-2} - 1.75 t$ (0.67) (1.93)** (-0.84) (0.84) (5.07)*** | 0.9923 | 0.9898 | 388 |
| 27. | $W_{jut} = -1.97 + 0.024 W_{agr} - 0.008 W_{agr}^{-1} + 1.75 t$ (-1.87)** (2.09)** (-0.669) (4.91)*** | 0.9882 | 0.9857 | 390 |
| 28. | $W_{agr} = 7.124 + 10.38 W_{jut} + 23.79 W_{jut}^{-1} - 26.06 t$ (1.89)** (1.28) (3.04)*** (-1.39) | 0.9808 | 0.9767 | 238 |
| 29. | $W_{fis} = -8.15 + 0.42 W_{cot} - 2.12 W_{cot}^{-1} + 35.72 W_{cot}^{-2} - 4.26 t$ (-0.22) (0.05) (-0.182) (3.88) (-0.23) | 0.993 | 0.991 | 423 |
| 30. | $W_{cot} = 0.77 + 0.013 W_{fis} - 0.009 W_{fis}^{-1} + 0.011 W_{fis}^{-2} + 1.67 t$ (0.54) (1.47) (-0.75) (1.39) (3.55)*** | 0.991 | 0.988 | 319 |

Continued

Table 7.11: Continued

| Equation No. | Regression Equations | R^2 | \bar{R}^2 | F |
|--------------|--|--------|-------------|-----|
| 31. | $W_{fis} = 4.55 + 5.60 W_{jut} - 0.543 W^{-1} + 26.82 W_{jut}^2 - 1.67 t$ (0.13) (0.98) (-0.08) (4.77) ^{***} (-0.11) | 0.9935 | 0.9914 | 461 |
| 32. | $W_{jut} = -0.61 + 0.013 W_{fis} - 0.008 W^{-1} + 0.011 W_{fis}^2 + 1.74 t$ (-0.32) (1.11) (0.54) (1.004) (2.78) ^{***} | 0.9845 | 0.9793 | 191 |

Notes : 1. W = Wage in current year, t ; W^{-1} = Wage in year, (t-1) and W^2 = Wage in year, (t-2)

2. t = time, cot = cotton, jut = jute, con = construction, agr = agriculture, fis = fishery.

3. Figures in parentheses represent t values

4. *** means significant at more than 95per cent confidence level

** means significant at more than 90per cent but less than 95per cent confidence level.

Source : Own calculation based on relevant wage data from BBS, Statistical Yearbook of Bangladesh, Various Issues.

29-32). The above findings, however, do not nullify the contention that in industries where both SOEs and private firms operate, public sector wage award leads to change in wages of workers in the private firms. It is reported that in jute and cotton textile, public wage increases have led to demands for higher wages in private firms in those industries. Deficits in public sector enterprises were automatically financed by nationalised commercial banks. Privatised jute mills received similar treatment. This facilitated the rise of wage in privatised mills. During 1987-1993, wages paid by private mills and public mills in jute textiles were highly positively correlated (World Bank, 1996). Following the last agreement between the government and SKOP in January, 1998 workers in some private mills in jute and cotton textile industry demanded payment of advance for permanent as well as for temporary/hired workers.

7.4 Issue of Restructuring of Public Sector Enterprises

7.4.1 Rationale of Restructuring of Public Sector

It is alleged that public sector including the SOEs is overmanned. Restructuring of public sector enterprises may be proposed for three reasons (1) it will help to reduce the losses incurred by such enterprises in the long run, (2) it will pave the way for privatisation and (3) it will reduce the level of borrowing from the NCBs. There is actually redundancy in the bureaucracy proper and in all public institutions including promotional agencies not run on commercial basis at least for certain classes of employees. The divestiture programme did not relieve the public enterprises of the employment burden proportionately. The programme has so far covered BJMC, BTMC, BSEC, BSFC and BCIC and the banking sector. At present, salaries of personnel in completed projects, are being given from the development budget as revenue budget fails to provide much surplus to contribute to development effort.

7.4.2 Redundancy in Civil Services

The issue of redundancy in the bureaucracy was raised but not

pursued. A committee (known as Enam Committee) set-up by the government in 1982 recommended reorganisation of employment in various public services. The Committee recommended for reduction of sanctioned posts in the corporations and autonomous and semi-autonomous bodies by about 6 per cent. This reduced number of vacancies from 79 thousand to 51 thousand which is about 12 per cent of actual employment. In case of departments, the number of sanctioned posts was increased by 3 per cent raising unfilled vacancies to 17 per cent of actual employment. As a consequence of the axing of vacancies as recommended by the Committee, category III and IV jobs were affected more than any other categories. On the other hand, there was a much heavier emphasis on job creation in the upper employment categories. In a society with semi-feudal culture, narrow regionalism and trade union pressure the over-manning in the last two categories are not a matter of surprise. Similarly the pressure of educated unemployment might have led to the recommendation of job creation in the upper categories. From time to time there has been ban on public service recruitment which has been eased gradually, ostensibly, under the pressure of the educated unemployed group. At present, excepting some private enterprises (such as those in RMG) others are not contributing significantly to job creation. Aid financed public expenditure remained the principal catalyst for employment activity and employment generation. For all its declaration of 'surplus' employees, the Committee did not succeed in reducing the public work force. All so-called surplus employees were either relocated in other agencies of the government or were retained on the salary rosters of their original employer until the impact of the original order was eroded by a process of attrition (Murshid and Sobhan, 1987).

7.4.3 Redundancy and Retrenchment in Public Sector Enterprises

During 1991-96, a number of studies were conducted to estimate the surplus manpower in different enterprises under public sector

corporations. The need was emphasised for downsizing the government and the public sector to avoid colossal losses. The redundancy was estimated for BJMC, Bangladesh Railway, BTMC, BCIC, BFIDC, BSEC and BSFIC. Redundancy rate is found to be greater among the staff and officers than among the workers. Redundancy rate for workers appears to be the highest in BSEC (46 per cent) followed by BJMC (38-42 per cent). Redundancy among staff and workers taken together was found to be the highest for BSFIC (68 per cent) followed by BSEC (46 per cent) and BJMC (39-51 per cent). All the estimates except those for railway and jute were tentative. Reduction of manpower in the railway, the jute sector and Bangladesh Agricultural Development Corporation (BADC) was a part of credit conditionalities. Reduction of manpower in BADC and food department was necessary as their roles were redefined. For manufacturing enterprises, manpower reduction is aimed at making them viable and thus facilitate future privatisation. For jute industry, Tk. 320 crore was earmarked for the separation programme while cost of implementation for the separation programme for railway was estimated to be Tk. 260 crore to be spread over 1993-1994. It is estimated that cost of separation programme for BCIC, BFIDC, BSEC, BSFIC and BTMC would be in the order of Tk. 900-1000 crore (Rahman, 1994).

The separation benefits under Voluntary Departure Scheme (VDS) was quite generous. During 1990-1994, about 9,000 employees of public sector jute mills applied for separation under VDS. About 70,000 employees were expected to apply for such separation in BJMC where target was set at 47,000 (World Bank, 1994b). Favourable response also came from workers in Railway and BTMC. Around 20 thousand public sector employees were separated in 1993 and a similar number in 1994. Railways and jute sector together accounted for 15 thousand workers retrenched in 1994. Bangladesh Railway's goal was to eliminate 15 thousand workers between 1992-1995 - one thousand by retrenchment and five thousand by attrition. This was supposed to be done at a cost of Taka 2.75.000 per separated worker which is around 6 times the normal

retrenchment gratuity prescribed by law. For jute, separation benefit was Tk. 2,00,000 (for a worker with 25 years of service and Tk. 4000/month basic wage) and an average separated worker received about Tk. 55,000 (World Bank, 1996). Jute mills programme is expected to affect 16,000 workers and includes retraining of workers for alternative employment. Until now, SKOP leaders did not show any adverse reaction toward compensation package which was quite generous. SKOP leaders, however apprehended a possible shortage of skilled and young workers due to careless implementation of the compensation project. Among the workers who left under VDS, 65 per cent were skilled and 30 per cent were semi-skilled in jute mills. At present skilled labour constitute only 15 per cent of the workers. A similar situation also happened in BTMC. On the other hand, among workers who opted for voluntary separation during 1991-93, workers in the age group '30 or below' comprised only 5 per cent of such workers (World Bank, 1994b; p. 54). For them the separation benefit is significantly low. So VDS has the potential to reduce labour productivity in different public enterprises. But such an effect is contrary to the objective of the VDS. Restructuring of VDS may be necessary to reverse the process.

7.4.4 Rehabilitation of Retrenched Workers

Retrenchment of a large number of workers (about 0.1 million for BJMC, BJC, BTMC, BSEC, BSFIC, BCIC, BFIDC, TCB, BRTC, BADC and Bangladesh Railway and Food Department) within a short period will create open unemployment. Payment of separation benefits in the form of bonds or vouchers issued out by the government may, however, spread the burden over many years and reduce inflationary pressure.

Retrenched workers may be retrained to find new jobs, or set up small industries or business. In the second case they may be provided with credit. Training is especially necessary because in most cases they will have to find jobs in other industries or services. Training a younger worker generates more social benefit. But

redundancy programme displaces relatively older workers. They are less likely to take rigorous training and take risk associated with entrepreneurial activities. The second problem is that facilities as provided by the vocational and technical institutes is inadequate and not so useful. At present there are 11 technical training centres under labour and manpower ministry, 51 vocational training institutes under Ministry of Education, one institute of marine technology (BIMT), one survey institute (BSI) and two NGOs, 54 institutes under other ministries - in total 119 training institutes. These can impart training, skill and technological knowledge to a maximum of 14,000 persons annually. Technical training centres under Bureau of Manpower, Employment and Training (BMET) provides in job-training for workers in 60 enterprises under BTMC, BSEC, BSCIC, BSFIC. Private sector employees and corporations provide training through their training centres and sometimes training is provided by the agents of the companies supplying machine and equipment. Management of most of the enterprises hold the view that trainees do not acquire appropriate skill. As for jute industry, workers, mainly depend upon JTRCs located in Khulna and Chittagong and set up by joint collaboration between a non-profit NGO and the Ministry of Jute. They utilise existing government and NGO training facilities. The worker has to contribute Tk. 4000 which however does not fully cover the costs of the training programme. Separated workers have a number of options (1) They may not participate in training programme but leave with full separation benefit (2) They may take the benefit and training in a specific field and look for job, and (3) They may take the benefit, training and apply for a loan to run a business (World Bank, 1994b).

Training centres like JTRC can be set up for workers in other sectors or with different background. Generous separation benefits may be supported on the ground that it gives a quick remedy and prevents future drainage of public money and foreign aid. But such a generosity cannot be maintained in the future as there are many manufacturing enterprises on the privatisation list. Larger funds will be required in the future for privatisation of PDB, BTTB etc. with strong unions.

7.5 Issue of Centralised and Decentralised Bargaining

7.5.1 Problems of Minimum Wage

At present a centralised system of wage determination prevails for public enterprises. As discussed earlier, in recent times public sector wages are recommended on the basis of discussion between government and trade union federations' alliance SKOP. Managers of individual public sector enterprises do not have any role in wage setting procedures. The last NWPC argued for replacement of prevailing system of fixing sectoral minimum wages from time to time and recommended a national minimum wage of Tk. 900 per month which covered private sector too. The national minimum wage was however not implemented. It is apprehended that national minimum wage may be set again under SKOP's pressure in the new wage award.

There are a few problems with national minimum wage : (1) It cannot be monitored and enforced in a country where there is massive unemployment and underemployment and the government administrative machinery is inefficient, inadequate and corrupt. (2) It does not cover workers (e.g. agricultural workers, and workers in informal sector) who actually need protection. (3) Instead of intervening in a few situations where collective bargaining does not function or is weak such a minimum will imply government intervention in all sectors, regardless of the efficiency of collective bargaining in specific arenas. This will make wage determination even more politicised. Political parties in such a situation will try to raise national minimum wage from time to time in order to serve their own interest rather than the interest of the working class as a whole and the economy. Under prevailing system of minimum wage fixation, minimum wages for two or three skill class of workers of an industry are applied throughout the country. Interindustry variation of minimum wage is allowed to take into account industry-specific conditions. Minimum wages for different skill classes of workers of an industry may also vary across regions on the basis of area-specific condition. Sahota (1991, p. 194-195) argues for a simple minimum

wage rate for each region. This will prevent employers from fixing wage below the subsistence rate. The market may determine relative differentials above the rate. This proposal has the merit of lower administrative involvement in the implementation and enforcement tasks and resistance from unions will be dispersed. On the other hand, this type of wage setting may give rise to regionalism.

7.5.2 Rationale of Decentralised Bargaining

In order to reduce degree of politicisation among the workers' union two complementary measures are suggested : (1) to reduce the role of government in different sectors (2) to decentralise the system of wage setting in the remaining public domain. Such measures are expected to ensure that wages set will reflect enterprise performance rather than political considerations (World Bank, 1996).

In considering the prospect of applying decentralised wage setting procedure we must be clear about the extent of decentralisation. Will wages be set at unit enterprise level, industry level or sector level? Is collective bargaining at those levels recognised by law ? Can labourers/employers arrange to effectively bargain at such levels ? The second and related issue is whether public enterprise managers have the autonomy to bargain at unit level or whether they can collude to bargain at industry or sectoral level. For efficient wage and employment decision, public enterprises should have the following characteristics (1) managers of public enterprises have the autonomy to take part in bargaining (2) the enterprise should be profit making and self-reliant, and should not receive government subsidies. Public sector managers must receive reward for making profit and will be accountable and penalised for making loss caused by inappropriate decisions (3) They are able to borrow to finance investment and repay their loans in the prescribed way (4) The enterprise faces domestic or international competition on the product market and does not unilaterally set the price high (or low) to hide its inefficiency (World Bank, 1994a: p. 154).

The above conditions are not met in Bangladesh. Managers of SOEs do not have adequate autonomy nor are the enterprises run on

profit motive. Some of the SOEs enjoy monopoly power in their respective field (electricity, water supply, gas, domestic air travel etc.). SOEs actually face a soft budget constraint and finance losses through government subsidies or borrowing from the Nationalised Commercial Banks. Some of the privatised industries (such as those in jute industry) are granted to enjoy similar facility. Loans taken from nationalised commercial banks are not timely repaid. Besides SOEs owe lot of money to PDB, DESA and state owned operating companies in the natural gas sector. Many SOEs still operate under high tariff protection. Thus the logic of decentralised bargaining is weakened.

7.5.3 Experience of Different Countries with Centralised and Decentralised Bargaining

Decentralised collective bargaining is practised in developed countries like Canada, the USA and Japan, and South East Asian countries like Hongkong, Singapore and Republic of Korea. USA has three types of bargaining with different degree of decentralisation (or centralisation). At one extreme, there is Master Agreement which incorporates bargaining between unions and employers with several plants or factories. Workers of some plants negotiate the standard conditions of contract which are then applied to other plants with necessary variations appropriate for location-specific conditions. At the other extreme, there is Patent Bargaining. Under this system a union negotiates with one firm or a small group of firms in an industry which then becomes standard contract for the remaining firms in the industry. Lying in between is the Multi-Employer bargaining system. Under this system bargaining is done at the industry level or at the level of an activity under an industry. The bargaining takes place between employers and unions in the same industry or activity of an industry as the case may be (Rahman, 1994, p. 54). A federation or confederation may have the monopoly in the representation of workers interest and demand and can play its role for the industry as a whole in Patent Bargaining which is basically a bargaining at enterprise level. Similarly

few strong federations of labour work for effective bargaining under Multi-Employer Bargaining systems which stand for bargaining at industry level.

In Japan collective bargaining takes place at the enterprise level, but confederations of labour unions play an important co-ordinating role during annual bargaining process. Such co-ordination is also present in Switzerland. In fact, holding of frequent routine formal bargaining is a prerequisite for congenial industrial relation.

In Hongkong, unions are organised along enterprise lines. The rate of unionisation, however, remains low. Hongkong has an open economy. Besides, labourers migrate to Hongkong from China. These seem to have weakened the bargaining position of the workers. Most of the unions are found to be engaged in providing insurance and social assistance to their members, rather than fighting for higher wages. The government does not appear to interfere with labour policies. Singapore imposed restrictions on wage increase during 1972-79, but gave it up when chronic labour supply emerged subsequently. In Republic of Korea, most of the bargaining takes place at enterprise level but in a few cases bargaining takes place at the industry level. The attachment of the workers to their enterprises has been far weak all along. Employers have little incentive to promote a permanent work force or to hoard labour. The high rate growth of employment and real wage promote mobility of labour between enterprises and industries (Khan, 1995, p. 89). In general, organisation of trade union is more restricted in South East Asia. The government organised trade unions alone could negotiate wage settlement. High growth rate of the economy and increase of labour demand, slow growth of labour force, good training programmes were conducive to maintenance of industrial peace in the country (Rahman, 1994, p. 55-56).

The OECD and North European countries (with highly centralised bargaining system), and countries like USA, Japan and Switzerland (with decentralised bargaining) performed equally well in terms of maintaining employment after the supply side shocks of the 1970s. Countries with intermediate level bargaining system associated

with fixing of wage at industry level appear to have the worst record (Rahman, 1994, p. 54). Rahman (1994) argues that centralised system produces a tendency towards convergence between interest of groups and the more general public interest, and decentralised bargaining among autonomous and particularistic groups tend to heighten conflict and inflict higher aggregate social cost through failure to establish condition for social co-operation.

7.5.4 Bargaining System for Bangladesh

It may be noted here that in Bangladesh (i) a sort of centralised bargaining was practised keeping a small formal private sector and a large informal sector in urban areas as well as agricultural sector outside the process and (ii) co-ordination and interest aggregations take place as in countries like Japan and USA.

A pertinent question is whether workers unions can effectively bargain at the enterprise level in Bangladesh? The private sector entrepreneurs, however, prefer to follow the collective bargaining at the plant level which is provided for in the law. Given the level of education, information at disposal, sense of insecurity and level of skill in bargaining the answer to the question is in the negative. A tripartite consultation between private or public employer, workers and national trade union alliance may be helpful to ensure co-ordination and compensate for the weakness of workers union in bargaining at enterprise level. The SKOP may play the role of such trade union alliance. The role of such trade union alliance in tripartite consultation in developing sound industrial relation is recognised in South East Asian countries. In Bangladesh, both private and public employers have to recognise the SKOP in this particular role, SKOP may also participate in formulation of industrial and labour policies along with employers and the central government. The four conditions mentioned earlier need also to be met before decentralised bargaining is adopted for public enterprises.

Conclusions and Policy Recommendations

8.1 Conclusions

The foregoing chapters analyze the structural adjustment programmes and their impact on the economy and the labour market in Bangladesh. The response of the labour market and the labour market institutions to the programmes are also analyzed. This chapter presents the major findings and conclusions of the study and makes some policy recommendations to facilitate the effective working of the labour market.

Driven by poor economic performance - slow growth, rapid and variable inflation, unsustainable balance of payments, increasing budget deficits and endemic poverty - Bangladesh chose to adopt structural adjustment programmes with support from the IMF and the World Bank. The adjustment policies which were pursued hesitantly and intermittently in the beginning became the main body of policies in the economy since 1987. The structural adjustment programmes brought sharp changes in policies embracing all major spheres of the economy which marked a shift from a government controlled to a more market oriented economy. Withdrawal of subsidies on foodgrains and agricultural inputs and distribution of fertilizers and irrigation equipment by private sector replacing the monopoly of BADC characterized the agricultural sector programmes. Trade liberalization involving sharp reduction of tariff rates and number of operating tariff rates, virtual elimination of quantitative restrictions, simplification of import procedures, unification of exchange market, frequent mini-devaluations with greater role of market in determining the exchange rate, privatization of state owned enterprises, opening up the economy for private investment including foreign direct investment, simplification of investment sanctioning procedures, staff rationalization programmes etc. ensued a turn around in the trade and industrialization policies.

The fiscal sector reforms included introduction of uniform rate VAT, replacing differentiated sales tax on imports and excise taxes on domestic production, reduction of high income and corporation tax rates and the number of tax brackets, and strengthening of tax administration on the revenue side. On the expenditure side of the budget, the reforms aimed at containing public consumption expenditure and curtailing expenditures related to subsidies, wages and salaries, thus changing the composition of government expenditure. Project implementation capacity and budget making capacity of the respective government machinery were to be strengthened and budget deficit contained. The financial sector reforms aimed at greater role of the private sector and enhancement of the efficiency through interest rate liberalization and other appropriate policies relating to loan disbursement and recovery.

The impact of these policies on the macroeconomic performance of the economy has been varied. The growth performance of the economy has improved in the adjustment period though performance was discouraging in the initial years implying possibly a lagged response of the economy to the policies. A notable change has occurred in large scale manufacturing which has registered double digit growth rate in the last four years. On the other hand, the growth rate of the tradables sector has lagged behind that of non-tradables sector resulting in a continuous decline in its share in GDP. Thus the expectation of faster growth through rapid expansion of the more efficient tradables sector did not fully realize.

Domestic (national) savings performance has likewise improved in the adjustment period though the rate is still very low. The contribution of foreign savings in financing gross domestic investment has declined. The economy suffered from a long period of investment stagnation following the abortive investment boom in the early 1980s. Investment rate, however, began to rise since 1993.

There has been marked decline in the average inflation rate as well as in its dispersion in the adjustment period though high inflation rate prevailed in the early years of the adjustment period. The most significant change has been observed in the external sector which recorded high rates of export growth, lower trade and current

account deficits and high foreign exchange reserve growth. High export growth has, however, been accompanied by increasing commodity and geographic concentration of exports. No significant trend in the composition of imports has been found.

The structure of the labour market in the country is characterized by a very high rate of labour force growth (8 percent per annum), low employment growth rate and declining absorption in the industrial/manufacturing sector. Agriculture is still the major source of employment (63 percent in 1996) followed by the service sector (27 percent in 1996). Though the rate of open unemployment is low, a high degree of underemployment exists in the economy. The rural-urban distribution of the labour force is such that about 82 percent of the labour force is engaged in the rural sector of whom more than 33 percent are women. Modern urban sector lagged far behind the rural sector in generating employment opportunities.

The success of structural adjustment policies in achieving higher rate of growth through more efficient utilization of resources depends on the outcomes of the labour market. Higher growth requires shifts in resources from the declining to the expanding sectors. The reallocation of resources is facilitated by a well functioning labour market. A cut in aggregate demand is expected to lead to an increase in unemployment rate unless real wage declines. The movement of real wages in Bangladesh is characterized by a slight upward trend of general as well as sectoral wage rates with short run fluctuation around the trend. This behaviour of real wages which shows some downward stickiness is a result of the wage setting behaviour in the economy. The rise in real wage in the face of increasing unemployment and somewhat declining labour productivity implies something less than a well functioning labour market.

There has been some changes in the employment patterns in the adjustment period. Both agricultural and manufacturing sectors' share of employment suffered a decline. As development proceeds the percentage of labour engaged in agriculture declines. The experience of Bangladesh is also consistent with such phenomenon. However, the decline in the relative share of agricultural employment is not matched by increase in manufacturing employment. Rather, the share of non-tradables sector employment has increased.

Educated unemployment situation has worsened in the adjustment period. Among the educated the highest rate of unemployment exists for people with SSC and HSC levels of education. Male unemployment rate is lower than that experienced by women. Women unemployment rate has a tendency to rise with the level of education. The growing incidence of unemployment among the educated indicates serious mismatches in the labour market.

Growing informalization of the labour under the structural adjustment programmes have been observed in some developing countries. Such trends could not be confirmed in the case of Bangladesh because of lack of time series data. Available evidence suggests that about 87 percent of the labour force work in the informal labour market. Informal labour market employment dominates all sectors of the economy except electricity, gas and water sector and finance and business services sector. Even in the manufacturing sector informal employment accounts for 51.5 percent of total employment. Available evidence suggests some changes in the structural characteristics of the urban informal labour market.

Structural adjustment programmes have implications for women, income distribution and poverty and long run economic growth. It is observed that there has been an increase in women's labour force participation rate and a decrease in their unemployment rate. There is a marked rise in share of women's employment in total employment though it is still low. Apart from the household sector where women employment traditionally predominates, the important providers of women employment include manufacturing, community and personal services and agriculture. Female employment tends to be concentrated in a few sectors. There seems to exist discrimination in the labour market against women. They get paid less for the same job and are offered such specific tasks that are less remunerative.

The impact of structural adjustment on poverty through the operation of the labour market is not unambiguous. Empirical assessment of the impact is difficult due to a lack of coherent time series data. Whatever data exist, they seem to suggest redistribution of income whereby the bottom 40 percent has lost with the gains accruing to all other income classes. On the whole the distribution of income has become more unequal in the adjustment period.

The incidence of poverty as measured by head-count index, poverty gap index and squared poverty gap index, has decreased though there exists annual variations in the progress towards poverty reduction. There also exists regional variation in the extent of poverty reduction as between rural and urban areas. The modest to imperceptible gain in poverty reduction can be attributed to a number of factors like the nature and magnitude of growth of income, extent of direct development assistance to the poor, provision of various risk insurance mechanisms and social safety nets.

Investment hovered around 12 percent of GDP in the period from 1984 to 1990 showing no response to the SA programmes. Investment rate has accelerated in the 1990s. Public allocation for education has increased over the years reflecting growing emphasis on human capital formation. The expansion of the education system has not kept pace with the demand for education resulting in rationing of available capacities in academic institutions of certain quality. However, there is concern over the deteriorating quality of the students graduating from academic institutions stricken by political violence, session jams and general apathy to serious learning.

High degree of politicization of trade unions and centralized bargaining are held to be the main reasons behind frequent industrial disputes and adverse or poor link between labour productivity and real wage in the manufacturing sector of Bangladesh. There is a long tradition of government intervention and consequent involvement of political parties in labour union activities. The massive nationalization programme following liberation and centralized administration of public sector enterprises resulted in increased government interference. Though not legally recognized, some sort of centralized bargaining between government and nationwide labour federations has been in practice in public sector enterprises.

Privatization programme was launched to ensure efficiency, avoid losses and reduce degree of politicization. The public sector was found to be overmanaged. Public sector wages were found to have poor link with productivity and also with wages in private formal and informal sectors. Declaration of labour redundancy and the programme of retrenchment of labour was taken in public sector

enterprises ostensibly for increasing efficiency in public sector enterprises and ultimately for paving the way for selling out those to the private sector in the future. Reduction of the size of public sector, it was expected, would lead to depoliticisation of trade unions to a great extent and a congenial environment for emergence of decentralized bargaining which in turn would bring wages in line with productivity.

The government's privatization and retrenchment programmes forged an unprecedented unity among national level federation of workers and gave birth to SKOP, a single nation wide alliance of federation of workers unions. The constituent federations moved with the common objective of safeguarding their interest which, they thought, were endangered by the adjustment programmes. The SKOP seems to have achieved some success in slowing down the pace of privatization and influenced decisions regarding payment of compensation due to retrenchment, and nature of privatization. The emergence of SKOP also weakened the role of the National Tripartite Consultative Committee and the tripartite nature of public sector wage settlement under NWPC.

It should, however, be noted that privatization and restructuring programmes were not well publicized. The rationale and long term benefits of those programmes were also not effectively communicated to those who would be directly affected by these programmes and to those who mattered. The political parties with strong labour fronts are opposed to the programmes and incited the workers to embarrass the government when they did not hold the state power. Besides there is a vested interest group in charge of public enterprises who want to maintain the status quo. The issue of ameliorating the plight of displaced workers was not given proper weight at the beginning. Irregularities in payment and failure to honour the commitment regarding the payment of compensation or worker's benefits by the government as well as the new owners of privatized industries made the workers averse to those programmes. There are but poor training facilities - poor both in terms of capacity as well as utility for displaced workers. SKOP's activities have led to quite high separation benefits for displaced workers. Such generous benefits may be supported on the ground that they give a quick remedy and prevent

future drainage of public money and foreign aid. But such generosity cannot be maintained in the future without straining the government budget as there are many enterprises on the privatization list some with very strong unions.

A positive association between trade union presence and wages and employment at industry level is usually expected. But the positive impact of trade unions on employment seems to have been somewhat weakened during the adjustment period. Empirical studies reveal insignificant impact of privatization on employment in privatized jute industry and provide no conclusive evidence regarding impact of fixing minimum wage on the determination of industry level wages. Public sector wages were, in general, not found to lead to changes in private sector wages. The view that public sector enterprises are generally characterized by poor link between wage and labour productivity is, however, generally vindicated.

Given the level of knowledge and information at the disposal of union leaders in the country, the study does not share the enthusiasm with respect to decentralized collective bargaining. Despite the fact that wages in manufacturing sector do not reflect productivity it must be admitted that wages are too low for workers for maintaining physical energy and acquiring skills. More important task at present is the creation of an environment congenial to investment and transfer of new technologies.

8.2 Policy Implications

Lack of gainful employment is a major problem pervading the labour market in Bangladesh, which manifests itself in low rate of open unemployment with very high rate of underemployment and disguised unemployment. The solution of the unemployment problem through creation of adequate employment opportunities for all types of labour is essentially long run in character. The structural adjustment programmes which involve reallocation of resources from the less efficient to the more efficient sectors of the economy leading to higher growth rate perturb the labour market. The reallocation of resources affects different sectors/industries differently. The less

efficient sectors/industries suffer a decline in output and thus release resources to be employed in the expanding efficient sectors. Labour is one important resource involved in the allocation process. This reallocation can take place fully if the labour market works flexibly and competitively. The failure of the labour market to respond to the economic changes in an appropriate manner will not only worsen the unemployment situation but also may threaten the progress of the adjustment programmes. Appropriate policies are, therefore, needed to address the problems related to the working of the labour market in particular and to the SA programme in general.

8.2.1 Policy Concerns

- While employment generation through economic growth remains as the viable long run development objective, the nature of development and distribution of its benefits among the large masses of the population should not be overlooked. The process of growth should be broad based involving participation of larger number of individuals yielding them employment and income. Development policies should not lead to lopsided growth rather they should aim at broad based growth.
- Under the new development philosophy of the market economy, private sector will play a dominant role in the development process. The nature and magnitude of employment generation will depend on the private entrepreneur's choice of input mix based on relative prices. The price of labour cannot be allowed to be so high as to discourage labour use. Besides labour unrest and union militancy impose costs on producers which might prompt them to choose a less labour intensive technology thus constricting employment opportunities. Policies should, therefore, aim at promoting good management - union relationship.
- Agriculture, though claims a lower share of employment than before, is still the major provider of jobs. Acceleration of

growth of agriculture through innovation of new high yielding labour intensive crops should be pursued. To take advantage of the liberal trading environment, crops and activities with export potential should be encouraged (for example, vegetables, horticultural products, fisheries, etc.).

- Rural non-farm activities offer great potentials for employment creation. Here identification of new activities with emerging demand will be necessary (for example, agro-processing) rather than relying only on traditional (and declining) activities. Such activities should be encouraged through the government and NGO interventions. Expansion of farm and non-farm rural activities is also necessary for slowing the rate of rural-urban migration.
- The performance of the manufacturing sector in generating employment has not been encouraging in the past especially as the manufacturing sector involves both employment losses in certain firms/industries and gains in other firms/industries. This process of industrialization will continue in the near future as the structural adjustment programmes continue to shift the trade and industrial regime of the country. It thus becomes imperative to increase incentives for higher private investment and foreign direct investment so that job opportunities are expanded at a faster rate.
- The displaced workers who cannot find jobs should be retrained and sufficient social safety nets should be devised to make the adjustment less burdensome. These steps are also necessary to reduce workers' resistance to the structural adjustment programmes.
- Market intervention by the government and NGOs to encourage women employment should continue and should be strengthened. Income generating opportunities made available through the micro credit, skill development, and market access programmes hold high promise of enhancing income and employment of women.

- The possibility of expanding income and employment opportunities for women through wage employment (outside the household sector) should receive proper weight. The potential of this policy has already been demonstrated in the economy, especially in the export-oriented ready-made garments industry where women have provided a dependable and disciplined labour force. In this context, care should be taken to see that women do not face any discrimination in terms of wage or types of jobs.
- Adjustment programmes has not worsened the poverty situation in Bangladesh which has been observed in case of other countries. This is primarily because of the pro-poor growth process and the myriads of poverty alleviation programmes implemented in the country. Such pro-poor growth strategy emphasizing participation of the poor in the growth process and special programmes targeted to the poor should be further strengthened.
- Investment in education and social sectors are necessary for promoting long run growth. To reduce the mismatch between demand for and supply of educated skilled labour, the education system should be reorganized so that it can better respond to the market signals. Deterioration in the quality of education at all levels has attracted broad attention which requires effective measures to arrest the trend. Commitment of the government and the political parties would be necessary to bring required changes in the education system.
- The Government should make an all out effort to have a nationwide broad political consensus on privatization of public enterprises, retrenchment of redundant workers in these enterprises and their rehabilitation. Free flow of information regarding assets, liabilities and profitability of public enterprises on privatization list, alternative methods of privatization, and appropriate terms and conditions of purchase of public enterprises should be ensured. The provisions and options for labourers in firms to be privatized and labourers declared redundant there in should be set out clearly.

- In Bangladesh, where labour market is characterized by a high rate of underemployment and disguised unemployment, labour is mostly unorganized and illiterate and unaware of their rights, it is almost impossible to monitor minimum wage violations. A single minimum wage for each region, demarcated on the basis of price of essential commodities, seems worth trying.
- The situation in the modern sector holds out little prospect for introducing decentralized bargaining. Autonomy of the managers of public sector enterprises, acceptance of profit maximizing objective by such managers and ability of leaders of workers at enterprise level to bargain effectively are prerequisites for the success of decentralized bargaining. A tripartite consultation between (1) private or public entrepreneurs (2) workers at the enterprise level and (3) national trade union alliance may prove helpful, at least for the time being, in ensuring coordination. Such a move will compensate for the weakness of local workers in terms of security, information and bargaining skill.
- Privatization policy of the public sector enterprises may incorporate and encourage 'buy-out' options for the workers and other employees of the concerned industry on probably, a cooperative basis. The Government may facilitate this type of privatization with technical and financial support (such as bank loans).
- The development of agro-based and agro-support micro-industries having strong backward and forward linkage effects should receive proper encouragement from the government through technical, financial and marketing support. The expansion of these labour-intensive industries will create job opportunities for workers retrenched from the public sector.

8.2.2 Legal and Institutional Steps

- A parliamentary committee consisting of members from all political parties may be formed to oversee the execution of the adjustment programmes. Such a committee representing different shades of opinion would facilitate the implementation of the adjustment programmes.

- In order to maintain good industrial relation, it is necessary to guard against developments which give rise to industrial disputes. Measures should be taken to resolve industrial disputes quickly if they emerge. Both personnel in directorate of labour and management should keep themselves aloof from inter and intra-union rivalries. The number of labour courts should be increased and absence of concerned parties in court hearing should be regarded as punishable offense in order to reduce delay in settling industrial disputes.
- The participation of SKOP in the process of collective bargaining has become almost a regular phenomenon, though it is not yet a registered organisation. Under the present circumstances the government should accord legal status to SKOP and try to make the best use of its presence. The SKOP may play fruitful role in ensuring security and supplying information to the unions, needed in bargaining. It can also play a role, along with employers and the government, in the formulation of wage, labour and industrial policies.
- Multiplicity of trade unions creates difficulties in bargaining and often leads to violation of the agreements reached. Laws and regulations regarding formation of new unions and collective bargaining agent at the enterprise level should be strictly observed.

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