

Minimum wage and unemployment in bahrain economics essay



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Combining the demand and supply curves for labor presents the effect of minimum wage. It was assumed that the supply and demand curve will remain the same after minimum wage is introduced. This assumption has been questioned. If the policy was not placed, workers and employers will remain adjusting the quantity of labor supplied according to price until equilibrium price is reached, when the quantity of labor demanded is equal to the quantity of labor supplied and the curves intersect. Minimum wage is considered as a classical price floor on labor. Standard theory states that, if set above the equilibrium price, more labor is willing to be provided by workers than will be demanded by employers, creating a surplus of labor which is known as unemployment.

In simple economics this is about commodities like labor. If the price of the commodity is increased the supply tends to increase while the demand falls resulting in a surplus of the commodity. Commodities like wheat are bought by the government when surplus occurs. However, the government does not hire surplus labor; the labor surplus takes the form of unemployment. It is argued that unemployment is higher with minimum wage laws than without them. The basic theory suggests that raising the minimum wage does not help workers who suffer from job loss or job opportunities because of companies cutting back on employment. However, it is argued that the outcomes are much more complicated.

Minimum wage Outcomes:

There is an ongoing debate on the issues revolving minimum wage. Different political, financial, ideological groups have a variety of opinions about the benefits and costs of a minimum wage. Supporters of the minimum wage

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suggest that it increases the standard of living of workers and reduces poverty. Opponents state that the high effective value increases unemployment.

The advantages of minimum wages are presented by the supporters of the concept. It is argued that it increases the standard of living for the poorest and most vulnerable class in society and raises average.[1] Minimum wage inspires employees to work efficiently. Resultantly it increases the work ethic of those who earn very little, as employers demand more return from the higher cost of hiring these employees.[1] The economy as a whole also benefits in which minimum wage stimulates consumption, by offering low-income people more money to spend.[1] Also, it decreases the cost of government social welfare programs by increasing incomes for the lowest-paid.[1]

The arguments against minimum wage are presented by the opponents of the concept. It is claimed that minimum wage has a greater negative effect on small businesses rather than large ones. The quantity demand of workers is reduced through reductions in the number of jobs or the number of hours worked by individuals. It could also, cause inflation, since businesses raise prices of goods to compensate for the costs. The enforcement of minimum wage could lead the labor force to exclude specific groups while it benefits workers at the expenses of the least productive. Minimum wage provides less room for businesses and employees to develop through training and research. Plus, it discourages the poor to intake further education and drives them to enter the job market. Overall, the minimum wage method is said to be less effective than other methods like Earned Income Tax Credit method <https://assignbuster.com/minimum-wage-and-unemployment-in-bahrain-economics-essay/>

at minimizing poverty. This method has a great damaging affect on businesses.

Minimum wage in Bahrain:

Minimum wage is set by the Bahraini government for public sector workers which provides a decent standard of living for workers and their families. The minimum wage for the public sector is specified on a contractual basis. The Bahraini government is trying to institute a minimum wage of around BD200 but most jobseekers are shunning this amount. Only the Banking sector has attracted more Bahraini workers. The average wage in this sector is at BD500.

The Labor Minister in Bahrain is against adopting a minimum wage policy for private sector because of the significant damage it can do for the economy. Al Alawi said that Bahraini citizens should not obtain less than BD 300 a month. However, the minimum wage should not be mandatory in which it will result in many companies going bankrupt.

Alawi said “ We cannot accept the article added by the Services Committee to the Labour Law draft, which covers bonuses and salaries by National Salary Council. We do not have such a council, and cannot have one, as its task is to fix a minimum wage, which is unacceptable.”

If we compare Bahrain with Singapore (similar size), there a flexible wage system is placed. All employees are rewarded based on their performance and wages are adjusted by the businesses. It is argued that this system increases employee’s motivation and allows for flexible and quick

adjustments to be made during downturns which avoid retrenchment.
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Minimum wage and unemployment:

Labor market challenges involve the economic cost of high unemployment as a result of lack of competition due to lack of experience and training and citizens' dissatisfaction with wage levels and working conditions resulting in high labor turnover. " The unemployment rate in Bahrain has narrowed down to 3. 7% in February from the 3. 8percent rate recorded in January", revealed Majeed Al Alawi, the Labor Minister in Bahrain.

Bahrain is facing a great deal of pressure to provide jobs to unemployed Bahrainis. Ten to fifteen percent of jobs need to be created by the coming year. Job opportunities are presented through the boom in construction. New business ventures like malls, theme parks and hotels are being developed. However, they seem to be benefiting the foreigners more than Bahraini citizens because of the issue of wages. Bahrainis recoil from the jobs because of low pay.

Bahrain has taken several approaches to handle the unemployment problem. These measures reduced its rate of joblessness from 16 percent in 2002 to 3. 7% in 2010. One of the major arrangements was the foundation of the Unemployment Insurance System, specialized in the Arab World. The system provides financial assistance for six months for unemployed experienced and qualified citizens registered with the Ministry. The members will be assisted by the Ministry to search for a job and could also join a training program. 1, 300 jobseekers benefited from this program and employment was attained.

Bahrainisation is the process to easing Bahraini nationals into jobs held by expatriates. However, this concept is considered to be a distant dream.

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Bahrain's market will always be dominated by expatriates in the coming years. The work sector is now dominated by sixty or seventy percent foreign workers. That is why it is argued that the attempts of localizing the workforce and the excessive spending on training will not change the labor market's structure. Several newspaper articles express the concerns of Bahraini employers regarding this issue. For instance it is stated in the article "The Failure of Bahrainisation policy", "Not unlike the majority of business people in Bahrain, we have been suffering from the Bahrainisation policy adopted and enforced by the government which regulates the labour market and shoves unqualified, unwanted, unproductive and completely useless Bahraini job seekers down our throats and penalises us if we dare fire them. Thus disregarding the basic premise of business which is to make a profit and sustain the economy. The private sector has been used for decades as the scape-goat and the virtual geriatric unit in forcing us to absorb the unqualified labour force."

In order to improve the competitiveness of Bahraini workers, the labor market introduced the concept of labor fees that is only applicable to non-Bahraini workers. It is assumed that this process will bridge the labor cost differentials. Labor fees and other measures are taken to encourage employers of private sectors to hire Bahrainis.

The labor fees initially calculated in the labor reform background document consist of an entry and renewal fee of approximately BD600 for a 2-year work permit and a monthly fee of around BD75 for each non-Bahraini worker engaged by the employer. These fees are inclusive of the current training

levy and work permit fees which will be collected along with the proposed new fees.

The implementation of the labor fees process is going to be gradual according to the LMRA Board of Directors. It will start with an entry fee of BD 300 with a monthly fee of BD 10. This fee will include visa, medical and smart card fees. However it will not include the training levy that is provided by the Ministry of Labor.

(As shown in the following diagram, the impact of labour fees on labour cost varies greatly by branch of economic activity and has a significant relationship with Bahrainisation: the higher the Bahrainisation rate to the lower the impact of the labour fees)

Concerns were raised on the level of the fees and its uniform application in all sectors and all types of foreign labor. It is argued that the fees, being BD 10, does not have a significant effect on large private sector businesses.

The gradual elimination linked with the fees has also raised a serious concern regarding the Bahrainisation approach. (Alawi blamed low wages and hard work conditions for the low Bahrainisation levels in the private sector and cited reforms to the education and training programs, unifying the job market and reforming the economy as key to addressing the issue.)

The Labor Market Regulatory Authority (LMRA) will be working with Tamkeen and other institutions to achieve the objective of increasing prosperity in the kingdom. Tamkeen is an independent authority which creates operational plans to use the fees collected by the LMRA to invest in Bahraini

employability, job creation, and social support. Challenges in the labor market have been pointed out through Human Capital Development and Tamkeen projects. The problems with employability and career progression for Bahraini citizens in the private sector are expected to improve through these programs.

Although the constitution permits workers to organize, the government bans trade unions. With this absence of legitimate trade unions, no collective bargaining entities or collective agreements exist. Workers may express grievances through joint labor-management committees (JLCs). JLCs are generally created at each major company and have an equal number of labor and management representation. As of 2000, there were a total of 20 JLCs. There are no internationally affiliated trade unions, and foreign workers are underrepresented in the General Committee of Bahrain workers which coordinates the JLCs.