THE ROLE OF COMPETITIVE FORCES IN THE DETERMINATION OF WAGE INCREASES IN LESS DEVELOPED ECONOMIES: THE CASE OF KENYA

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ABSTRACT

The theoretical literature concerned with rural-urban migration in LDCs has almost always assumed that the real wage differential between these sectors is fixed by the institutionally determined modern sector urban money wage and the relatively constant average product of labour in agriculture. An equilibrium flow of migrants is then determined by the "expected" wage differential, defined as some function of the money wage differential and the urban employment rate.

Little attention has been given to an empirical estimate of the role played by the rate of unemployment in the determination of modern sector wages in LDCs. The major hypothesis tested here is that competitive forces are at work and that increases in the supply of labour tend to dampen the other institutional forces that serve to increase wages in the modern sector.

The model is tested with data for 34 districts of Kenya and the major hypothesis is rejected.