

The Effects of Minimum Wages on the Labor Market and Income Distribution in Kenya: A CGE Analysis

Tabitha Mwangi¹, **Florence Nelima Simiyu**^{2*}, and Albert Onderi³

¹Kenya National Bureau of Statistics

^{2*}**Department of Economics and Resource Management, Technical University of Kenya**

³Jomo Kenyatta University of Science and Technology

Abstract

In Kenya, there has been increased debate on the impact of minimum wage increases and pay disparities between sectors. Long-term differences in earnings across sectors and different regions (urban and rural) are reflected through higher poverty rates in rural areas, especially among wage earners. This study evaluates the effects of minimum wages on labor and its impact on growth. The study uses the single country static model, the PEP-1-1 model and the Social Accounting Matrix for Kenya for the year 2009. The key research questions are to assess the effects of minimum wages on rural or urban area labor markets, labor migration, and income distribution. To achieve this, the study simulates three scenarios: increases in minimum wages for formal workers in urban and rural areas at the same rate of 5%, different rates (10% rural and 5% urban), and a cut in the minimum wages in both regions. The findings indicate that increases in wage fuel the migration of labor from rural to urban areas, and stifles the expansion of the economy. A rise in minimum wages has an overall negative effect on incomes of rural households while benefiting urban households, which contributes to increased inequality. A fall in real minimum wages on the other hand, is supportive of output and employment growth.

Keywords: Minimum wage, labor market, migration, income distribution, CGE

Partnership for Economic Policy working paper series Vol. 1 pp1-25 (2017)

See more at:

<https://poseidon01.ssrn.com/delivery.php?ID=750066083101071099069079091112096076007056010023061049023085012108095108006124012111041119107107108043037093095116118102114092060086008008061123028085113095031075090084003017083068009080089026004081127121064012003011074088113082025096031025098001067&EXT=pdf>