

Urban Labour Markets in LDCs: Segmented or Competitive? - A Note

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In a competitive labour market, demand and supply forces determine an equilibrium wage which clears the market. Wage movements in the short run and labour movements plus technology changes (facilitating factor substitution) in the long run bring about an equilibrium which reflects an efficient allocation of labour. Wage and labour movements are automatic and equalising and there is no scope for increasing total output just by shifting labour from one part of the market to another. Usually in this analysis, heterogeneity of labour is assumed away. Once it is introduced, there appears a schedule of equilibrium wage rates. Wage differentials reflect differences in the quality of labour and labour allocation remains efficient.

The existence of considerable wage differences across regions, occupations, industries, genders and individuals raises doubts about the efficiency with which the labour market performs its allocative role. Inter-personal wage differences generally depend upon the following factors : I) Product market factors : 1) demand-supply conditions, 2) market structure, and II) Labour market factors : 1) availability of information, 2) mobility of labour, 3) productivity difference reflecting human capital endowment and acquisition.

It has been suggested that insider's rent^{1/} can also be a contributory factor. Insiders with secure jobs prevent outsiders from competing and bidding the wages down. Outsiders will be employed only if they are willing to work at a wage which is low enough to compensate for the loss of efficiency following the resentment and non-cooperation of outsiders. By eliminating competition from outsiders, insiders manage to get rent. Specificity of skills and employers' desire to reduce turnover costs also contribute to the emergence of rent. Certain institutional, non-market influences operation through labour immobility and job discrimination on the basis of race, gender, religion, etc., can also contribute to the inter-personal wage differential. The latter could be assumed to reflect non-economic factors^{2/}. The position of segmented labour market theories is that wage differences cannot be fully explained unless a locational variable is introduced in category II above. In other words, workers in one segment of the market earn higher wages as compared to other workers simply by virtue of being in that segment. These usually deal with two segment of the market : one, open segment with competitively determined wage rate and the other, a protected segment with a higher wage. The higher wage is rigid and does not come down in the face of