

ABSTRACTTHE WAGE-GAP HYPOTHESIS OF UNEMPLOYMENT:
THE CASE OF TRINIDAD AND TOBAGO

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This dissertation examines the applicability of a modified wage-gap model to the economy of Trinidad and Tobago during the period 1965 to 1985.

The economy is divided into high and low-wage sectors, whose average wages are separated by a "wage-gap". The phenomena of voluntary unemployment, labour migration between sectors, wage-spillover, and the existence of a sharing mechanism are assumed to exist. The primary diversion from the precepts of the "pure" Lewis/Tidrick wage-gap model is in the definition of the sectors.

The thesis argues that an industry falls into the low-or high-wage sector depending on whether its average wage level falls below or above the average reserve price of labour of the voluntarily unemployed.

On the basis of this modification, the thesis departs in theory from the traditional petroleum/non petroleum dichotomy, and adopts a disaggregation along agriculture/non agriculture lines.

To test the theory, the thesis specifies and estimates a static macro-econometric model over the relevant period. The model is estimated using Ordinary Least Squares and Two Stage Least Squares Regression Procedures. It is evaluated for its explanatory power via historical simulation, sensitivity analysis and impact multiplier analysis.

The results of testing and evaluation indicate that Trinidad and Tobago is a wage gap economy, and that the agriculture/non-agriculture dichotomy based on the new method of sectoral definition is plausible.

The thesis concludes that, in the case of Trinidad and Tobago, the unemployment problem can be most effectively addressed by concentrating on the expansion of the agricultural sector and by increasing the opportunity for self employment. In the absence of such a broad policy, unemployment would fall only if the price of oil increases to such an extent that the government sector is able to absorb the voluntarily unemployed, despite labour migration from the agricultural sector - a situation that exists only in economic "boom".