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THE MICRO-ECONOMICS OF “SURPLUS LABOR”

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ABSTRACT

This paper examines the apparent conflict between the classical assumption of a bargaining agricultural sector wage and the neo-classical assumption of a competitive wage in the context of a labor surplus developing economy. It concludes that the relatively inelastic supply of labor hours offered by low income small or landless farmers in the static micro-economic leisure/work context is perfectly consistent with the persistence for some time of an institutional real wage offered to the non-agricultural sector of the dual economy. Empirical evidence is brought to bear in support of that position.

Keywords: Institutional vs. Competitive Real Wage, Labor Surplus Economy, Neoclassical vs. Classical Labor Markets

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