

Abstract

This study is based on the premise that some non-mandated wage increases occur when the government increases its statutory minimum wages. Using a difference-in-difference approach to estimation of wage functions and cross-sectional wage data on unionisable employees in Kenya, the study established that: (i) There is a positive and statistically significant ripple effect of minimum wages on negotiated wages; (ii) The 11.5 percent average minimum wage increase effected by the government in 2006 led to a ripple effect of 2.6 percent-6.2 percent. This benefited up to 60 percent of the unionisable employees; (iii) Firms in the municipalities and cities bear the greatest burden of the ripple effects; and (iv) Unionisable workers in the service sectors benefit from ripple effects of larger magnitudes than their counterparts in other industries. There is no evidence, however, that policy makers, wage guideline enforcers, and parties to collective bargaining consider the non-mandated wage increases during minimum wage reviews or collective bargaining negotiations. This underestimates the full impact of the minimum wage policy. It is important that future reviews of minimum wages and collective bargaining negotiations take cognizance of the unintended effects of the minimum wages to moderate their likely negative effects.