

The Employment Effects of National Minimum Wage increase on Employment in Nigeria: A Review of Previous Cases

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Abstract

The responsibility of changing the minimum wage is a constitutional issue vested on the federal government as an item under the Exclusive list. This means that it is only the National Assembly and not the state assemblies that could pass laws on matters pertaining to the minimum wage. Nevertheless, the constitutional provision on minimum wage cannot prevent a state or institutions that wish to pay higher wages not to do so but it however prevent them from paying lesser amounts. On the employment effect of the minimum wage, it is important to note that economic theory suggested that an increase in product's price will lead to a decline for the product which could be applicable to supply of labour. The research methodology adopted for this study is the descriptive qualitative research design. This was used to investigate the employment effects of an increase on the National Minimum Wage to the labour market. The reviewed literatures on employment effect generally showed that an increase minimum wage could lead to reduction of demand for employment. This position is not different from that of the Nigerian experience, starting from 1981 when the first minimum wage law was enacted in the country. More so, the findings also showed that as a result of this most states and private sector employers had avoided the implementation of the minimum wage in order not reduce the level of their workforce.

Keywords: Employment, Employee Compensation, Increase, National Minimum Wage, Wage.

Introduction

The federal government has agreed to increase the minimum wage to N70,000 from the previous sum of N30,000, which is an equivalent of 133.33% increase from the previous amount. This new minimum wage according to Iyika (2024) is still among the lowest that employees get globally. More revealing is that the 133.33% increase will not be applicable to all cadres of employees in the various sectors of the economy. This is because it is the duty of the National Salaries Income and Wages Commission (NSIWC) to adjust the new salaries across the salary scales or structures within the different cadres of employment or what is regarded as grade levels. This on the long run might mean that the higher your salary is the lower your rate of increment would be. Nevertheless, salary increase in the country could not be a good omen to workers taking cognisance of the increase of prices of goods and services in the country since the inception of the present government. Little wonder then that Iyika had noted that this increase could only have consequential effect on the Nigerian workers.

It is pertinent to note that this increase was made as a result of pressures from labour union on the government to increase the salaries. The request for this increase of salaries is to address the problems associated with the former minimum wage following the spiral effects of inflation on goods and services. One major challenge in the implementation of minimum wages is that it has the potential negative effect on employment (Doh and Van der Meer, 2023). The past experience

from previous increases has revealed that such increases affect not only labour supply but also all facets of economic activities in the country. This means that the moving of the national minimum wage to N70,000 would not positively impact on the workers unlike the initial demand of the sum of N250,000 by the labour union which it had termed living wage. The reason for this is that gains of the previous increases were eroded by the spiral effect of inflation on the economy. Thus, it is pertinent to note that the Local Governments Councils, private sectors including small and medium scale enterprises are expected to pay this new salary to their workers.

Brief historical account of minimum wage increases in Nigeria

The federal government, even before the country's independence, has been faced of the challenging of agreeing with the workers on what the minimum wage should be. Fawehinmi (2024) quotes the Late Chief Obafemi Awolowo, as a chairman of Action Group and Premier of Western Region in June 1959, complained about "...the refusal of the Federal Government to introduce a policy of 5 pounds Minimum Wage p.1". Fawehimni further quotes the Chief Awolowo as having said that the inability of the federal government to agree on a realistic amount as minimum wage to the workers led to anomalies which was most depressing and shattering to the workers. He added that the federal workers employed in the Western Region, for instance in the Post and Telegraphs and the Moor Planation, on the same grade level with those of the Western Region, live in the same sort of houses and buy from the same markets with Western Region workers, get less in wages than the employees of the Western Region (Fawehinmi, 2024). This means that the federal government's position on minimum wage has remained the same even since the time that the country had not become an independent state up till today.

It is important to note that the first National minimum wage law was signed into law by the Late President Shagari in September 1981 (Fawehinmi. 2024). This law was passed as a result of the pressure on the government by the Nigerian Labour Congress led by the late Hassan Sunmonu. The passed minimum wage law applied to all full-time workers except seasonal workers and those who worked in enterprises employing fewer than 50 workers. The wage was one hundred and twenty five naira per month. At the exchange rate of US\$1 to 0.61 naira in 1981, this minimum wage would use the current exchange amount to about US\$204. This means that the minimum wage of 1981 would be equal to 265,000 naira (going by the current exchange rate of about US\$1 = 1,300 naira) (Fawehinmi, 2024). This should be compared to the current national minimum wage of N70,000 (US\$45). This means that the minimum wage in 1981 was over four times more than the current minimum wage. This shows how badly the Nigerian economy has slide down over the years.

At this juncture, it is important to note that the fixing of the minimum wage is a constitutional issues vested on the federal government as an item under the Exclusive list. This means that it is only the National Assembly and not the state assemblies that could pass laws on matters pertaining to the minimum wage. It is imperative to observe that from 1981 to 2019 Nigeria's minimum wage was increased three times. In 2000, it was also increased to the sum of N5500. Thus, in 2011, President Goodluck Jonathan signed a new National Minimum Wage into law thereby increasing the minimum wage from N7,500 to N18,000. This law particular law like that of President Shagari of 1981 applied to public or private sector employers with a workforce of about 50 persons.

Similarly, in 2019, the Buhari's government initiated the process for the review of the National Minimum Wage. The labour unions at that stage demanded a minimum wage of N30,000 per month while the Federal Government had proposed N24,000 and state governors N20,000. Finally, the National Council of State approved the sum of N 27,000.00 as the minimum wage, while the Governors noted that they could only pay the sum of N 22,500 except states like Lagos, Rivers and a few others. The Federal Government concluded the process by the enactment of the National Minimum Wage Act 2019 in March 2019. The proposed national minimum wage was approved and signed into law by former president Muhammadu Buhari, thereby increasing the national minimum wage from N 18,000 to N30,000.

Literature Review

The ILO revealed in their website maintained that minimum wages could be defined as the minimum amount of remuneration an employer is mandated to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract. The Organisation also noted that more than 90 per cent of the International Labour Organisation's (ILO) member States have in place minimum wage scheme since the purpose of minimum wages is to protect workers against unduly low pay (International Labour Organisation Website, 2024). On the other hand, the International Organisation of Employers (2013) noted that the minimum wages represent the lowest levels of pay, established through a minimum wage fixing system, to be paid to workers by virtue of a contract of employment. The Employers' Organisation argued that minimum wages have three aspects, which are: a) the remuneration for work performed by the worker, b) the workers' basic income (and source of purchasing power), c) a production cost. Minimum wages can be set by statute, collective bargaining agreements, decisions of national boards, or arbitration awards. This means that the minimum wage could be differentiated by region, by sector, or according to country-specific criteria.

The payment of wage or salary to employees by the employer, according to Sule, Amuni, Obasan & Banjo (2015), is mandatory by law but not just for the fun of it. Sule et al (2015) added that such wage or salary paid serves as an instrument of motivation or 'driver' for the workforce to keep body and soul together and possibly make them a stakeholder in the organisation. Similarly, Nwachukwu (2000), and Atchison (2003) have observed that wages and salaries constitute a significant part of the overall cost of operations, observing that in some organisations' wages and salaries constitute over 50 percent of their operating costs. This notwithstanding, companies or establishments that lack ability to pay wages and salaries regularly are in danger of disintegration (Sule, et al 2015). This means that poor wage and salary are constant source of frustration which could result in the decline of productivity (Sule, et al 2015). And organisations that pay workers very high salaries must be ready to spend a great deal of time and effort in finding appropriate means of funding the wage and salary expectations of these workers, through enhancing their productivity in order to generate more revenues in their activities.

Abada, Okafor & Omeh (2019) argued that labour remains the most necessary instrument for the growth and development of the institution in the social relations of production. They noted that as a factor of production, labour has continued to boost the productivity of the organization, thereby enhancing the product margin. This entails that labour as a factor of production should be rewarded through either wages or salaries at the end of each working month as part of compensation for its contributions to productivity. This will make the people that provide their

labour for production at all level or stage of production to receive payment for his or her services rendered at the period, usually stated clearly in the contract of employment jointly agreed by the two parties (Abada, Okafor & Omeh, 2019).

On the Nigerian situation, Abada et al (2019) had noted that in his maiden address in the International Workers' Day 2017, the President of Trade Union Congress (TUC), Bobboi Bala Kaigama reiterated the poor living conditions of Nigerian workers through saying that high inflationary rate has adverse effects on the agreed minimum wage of eighteen thousand naira (N18,000) at that time. It is significant to recall that, in 2017, the labour submitted a proposal of fifty-six thousand naira and ninety thousand naira (N90,000) to the federal government as new minimum wages, describing the eighteen thousand naira as poor and cannot take a worker from his place of pay point to the gate (Abada, et al 2019). According to Alade Lawal, the secretary-general of Association of Senior Civil Servants of Nigeria (ASCSN), the federal and states government have over the years neglected the payment of the agreed national minimum wage. Lawal, as quoted by Abada et al (2019) argued that, in some countries like Argentina, workers received as minimum, \$6,370 per month; Algeria, \$2,145; Botswana, \$652; Brazil, \$3,660, Chad \$1,217, Republic of Congo; \$1,826; Ecuador, \$5,124, Equatorial Guinea, \$2,618; Estonia, \$6,534; Gabon, \$3,043 while Nigeria's minimum wage of N18,000 translated to \$59 which is the lowest among the comity of nations.

According to Abada et al (2019) in 1814 the minimum wage was first recognised by New Zealand Industrial Conciliation and Arbitration Act. Abada et al (2019) observed that it was following the May 1886 killings of striking workers in Chicago that the issue surrounding labour and wages determination took a paradigm shift. The court has since then, charged with fixing the minimum wage and settling any industrial conflicts that might emerge (Kester & Adeyeye, 2002, Onyeché & Edet, 2017 & Starr, 1981).

On the employment effect of the minimum wage, it is important to note that economic theory as was posited by Doh and Van der Meer (2023), suggested that an increase in product's price will lead to a decline for the product. For this same reason, Doh & Van der Meer (2023) maintained that an increase in minimum wage can decrease demand for labour of workers who are subject to the minimum wage. Doh & Van der Meer argued that in practice, however, all else is not equal hence labour demand might be influenced by several offsetting factors. They gave the example of imperfectly competitive labour markets employers have power and may set their wages below their competitive level because they are not scared of losing employees to their competitors. This is exactly what prevails in the Nigerian economy where some labour providers are treated as casuals.

The Employment Effect of Minimum Wages – A look at some Advance markets

Looking at this effect in a holistic manner, Card and Krueger (1995) found a small, positive effect on employment for fast food workers in Pennsylvania, USA. Still in the USA, contrary to the finds of Card and Krueger, Meer and West (2016) found that a minimum wage increase has a negative effect on the employment of teenagers (age 16-19), a group of workers disproportionately likely to be employed at the minimum wage. This lack of agreement on the effect from the USA market for example has made Manning (2021) to reveal the supposed negative effect of increase of a minimum wage on employment is rather “elusive”.

Doh & Van der Meer (2023) observed that in Hungary, the national minimum wage increased rapidly and substantially in the early 2000s, approximately doubling from 25,500 Hungarian forints (HUF) annually to 50,000 HUF annually over a two-year period. Doh & Van der Meer found that this change exposed many firms to reduce employment. On the other hand the South Koreans introduced minimum wage for the first time in 1988. However studies on the effect of increase of minimum wage on employment (Harasztosi and Lindner, 2019 and Doh et al, 2022) have revealed that there was larger negative employment effect in South Korea than what was found in Hungary. This study showed an estimated employment elasticity of -0.21, which is statistically significant given the standard error of 0.03.

Brazil increased its national minimum wage substantially in the early 2000s although in a gradual phases. In analysing the effect on the Brazilian economy, Engbom and Moser (2022) found a negligible effect on employment; they calculated the Brazilian employment elasticity based on a household survey from 1996 to 2012 and found a small positive elasticity of 0.0014. This means that a worker affected by the minimum wage lose is 1.4% likely to be employed after the policy change than a worker not affected by the minimum wage movement. In Germany, there was no significant negative employment effect with an increase of minimum wage in that country in 2015. In an empirical study on the German experience, Dustmann et al (2022) found a small but positive elasticity of 0.008, which was statistically significant given the small standard error of 0,0005.

The Employment Effect of Increase in Minimum wages in Nigeria

The Nigerian political history shows that there is also a demand for an increase of the minimum wage with the inception of a new government. The request for this 2024 increase of the minimum wage could be regarded as part of our political tradition. For instance between 1981 and 2017, there were three increase of wage by different administrations. Since the above increase, the Buhari's government increased it from N18,000 to N30,000 which has now also been increased by the Tinubu's government to N70,000.

Patrick (2024) quoting findings from a study by Akinyemi and Keseina (2020) based on an empirical inquiry on the influence of minimum wage and inflationary pressure on youth unemployment in Nigeria from 1991 to 2019 found a significant employment effect of minimum wage increase in Nigeria. Patrick (2024) deduced from this study that the minimum wage increase usually increases the rate of youth unemployment in Nigeria. In an empirical study on the effect of increase of minimum wage on youth unemployment in Nigeria, Ozoze (2021) found that youth unemployment responds to changes in national minimum wages using data from 1991 to 1998. This study noted that when the average minimum wage was minimal, the youth unemployment rate was at its lowest level; which implied that a low minimum wage will prompt a low unemployment rate in the economy (Ozoze, 2021).

Ozoze argued that raises in national minimum wage between 1999 and 2003 hiked the youth unemployment rate which indicated that employment of youths falls as the national minimum wage increases in Nigeria. Ozoze also found that the increases of the national minimum wage had a positive and significant effect on national youth unemployment with a coefficient of 1.488571. This indicated a 1 percent increase in the national minimum wage in the previous year will lead to a 1.47% increase in youth unemployment in the current year. This result confirmed that any increase in national minimum wage might lead to downsizing of labour and the inability

of firms to employ new youth, thereby leading to an increase in youth unemployment (Ozoeze, 2021).

Methodology

Descriptive qualitative research design was used for this study to investigate the employment effects of an increase on the National Minimum Wage. Descriptive research operation focuses on the explanation of the characteristics of individuals or groups (Loeb, Morris, Dynarki, Reardon, McFarland & Reber, 2017). The sources of data are published articles on the subject matter on research from Nigeria and the advanced countries like South Korea, USA, Germany, etc. The essence of this method is that through deductive inferences are adopted to reach a conclusion on the subject matter of the study. The data for the study was collected from published works on the subjects which are mainly journal articles from different countries.

As a qualitative approach, relevant literatures were collected and reviewed and inferences were taken from the findings by the authors on the countries as stated above. This method is to determine whether there is employment effect of increase of minimum wage or not.

Result of the Findings

The results from the reviewed literatures on employment effect showed that there were significant relationship between the increase in minimum wage and reduction of workforce (Doh & Van der Meer, 2023; Card & Krueger, 1995; Engbom & Moser, 2022) among others. This situation is not different from what is obtainable in Nigeria too, taking into consideration of such increase right from 1981 when the first minimum wage law was enacted in the country (Ozoeze, 2021; Akinyemi & Keseina, 2020). More so, the findings also showed that as a result most states and private sector employers had avoided the implementation of the minimum wage (Ozoeze, 2021). This no doubt showed that an increase in minimum wage would drive other costs which could make employers to reduce the staff strength in order to remain marginally profitable in their operations.

Conclusion

The above findings showed that irrespective of the employment effect of increase in minimum wages of workers labour remains the vital machine and essential tool for production and development of the society. This means that the employers of labour should work out means through which they could mitigate the negative impact of increase in minimum wage in their operations. Also contained in the study is the thrust of the paper that investigated and appreciated states' viability to the payment of the proposed minimum wage irrespective of the negative impact. The paper reviewed available extant literature based on the themes. The study identified that each increase has subsequently led to downsizing of the labour forces most especially among the private sector of the economy.

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