Available online at www.ijrp.org

International Journal of Research Publications

The Effects of Nigeria Minimum Wage on Nigeria's Economy

Prof Omotsefe D. Odejimi (PhD, FNES) & Imuetinyan P.J. Ugiagbe (PhD, LLB)*

[1]*Department of Economics, Igbinedion University, Okada, Edo State, Nigeria*
[2]*Department of Business Administration, Igbinedion University, Okada Okada, Edo State, Nigeria*

Abstract
Every society in the world harbours wage inequality and to understand why there is a pay differential it is necessary to understand the problems associated with inequality. Inequality is the mother of poverty and is pervasive in the type of job or profession that is performed by the people of that society. This article brings to the fore some of the associated problems that would emanate in the shorter and longer run in the country with the current covenanted minimum wage payment in Nigeria. Problems such as demand pull and cost push inflation resulting in unemployment were identified. This might exacerbate the problem of poverty and inequality that is already Nigeria's core problem. Minimum wage in Nigeria context is sectarian and not a universal payment. The government mandate is to the public employees and does not cover the informal workers that make up about 70% of the entire work force. It is also envisaged that the free for all demand increase in wages by all sectors of workers that might result from the minimum wage payment could spark off rises in prices of commodities and other items all over the country given the fact that the Nigeria's government's past poor history in macro-economic stability would struggle to deal with the backdrops of inflation and deflation which minimum wage would result. It was vividly posited that Nigeria is amongst the poorest nations of the world as the indices of Nigeria's poverty and development profile indicate. This article is free from complicated economic diagrammatical and equation usage jargon; it's more interpretive than illustrational in nature, therefore making the layman able to comprehend it without much of a problem. It is hoped that this article will serve as a general informative to the general public and the policy makers and by writing this article the Nigeria's policy makers would be in position to equip them-selves better ready to deal with any possible macroeconomic problems ahead. The implementation of the minimum wage rather than being a blessing to Nigeria could actually end up haunting the populace of the country.

* Corresponding author. Tel.: +2348023344879; +447448252698
E-mail address: projectgalore@yahoo.com

Keywords: Instrument, constitution, document, British rule, imperialists, colonialism, native authority, amalgamation, Governor General

Introduction

In Nigeria, like any other poor countries of the world wage inequality is endemic and the gap is getting wider by the day. It did not surprise any sundry; even the government of Buhari did not raise an eye browse when the Lady Prime Minister of Britain Theresa May,(2018) lamentably labeled Nigeria the poverty "Capital City" of the World. There is a convincing evidence that the country belongs to the group of lower income earners countries of the world with GNP per capita of $US269 at pp in 2018 (World bank Report 2018). The incidence of poverty continues to rise at each passing day, for examples poverty incidence that was reported to be 28.1% in 1980 rose to 43.6% in 1985, but dropped minimally to 42% in 1992 only to rise to 67% in 1996 (Alayande and Ande, 2004) and in 2000, rose to 74% and in 2017 to 83% (Abstract of statistics, 2017).

The Nigeria's Government and the Trade Union Congress of Nigeria have recently been embroiled in negotiation over what is a decent minimum wage that a worker should earn per month. This negotiation, nonetheless, albeit did not cover the privately employed workers and the informal workers of Nigeria that constitute about 70% of the Nigerian work force Therefore it is important to stress here that minimum wage payment in Nigeria is a preserve of government employed workers of the federal and state government.

The Trade Union Congress wants to see the ordinary worker treads above the poverty line and to do this they have demanded a minimum wage of thirty thousand Naira (N30,000) per month for the lowest paid government employee. Minimum wage payment has become a syllogism for many advanced countries but it is not all countries of the world that covenanted minimum wage a worker should earn. For example, Indian, China and some Sates in the United States of America do not have a minimum wage law, but a code of conduct that guides against what employers should pay their workers. In Britain and United States of America (USA), minimum wage is statutory, consequently employers are obliged to adhere and comply with a minimum wage payment. In America Minimum wage stands at 7.25USD per hour, although minimum wage varies from state to state and it is higher at the federal level.

In Britain minimum wage is a universal phenomenon apart from London that commands London weighting because of the sumptuous nature of the City. The statutory minimum wage is fixed according to age band and was in 1916 replaced by National Minimum Living wage while the age band payment remains, requiring any employer to pay employees over twenty five years of age a UK living wage of seven pounds eighty three pence (7.83p) per hour and to increase by 4.9% in 2019 to eight pounds twenty one pence (8.21p) per hour, above inflation rate that is less than 2%.The younger worker age 18years-20years, 21-24 years, whose minimum wage currently stands at five pounds ninety pence (5.90p) and seven pounds thirty eight pence (7.38p) per hour respectively will also increase above the inflation and average earnings. (https/www expatica com/uk)There is the different between minimum wage payment and National living wage. Both serve the same purpose to reduce poverty and inequality.

The Nigeria's minimum wage did not just come about by accident the fight for minimum wage started long time ago. The federal government established law called the Fair Labour Standards Act, which also marked the first time employers were legally required to pay workers overtime job. Throughout the period of President Jonathan reign as the president of Nigeria minimum wage stood at eighteen thousand naira per month. It was agreed that minimum wage will be reviewed every five years in 2015. Under the past Nigerian Labour Congress President, Comrade Abdulwahed Omar, nothing happened and this gave rise to agitations from organized Labour Congress (LC) in the past three years. The federal government was forced to inaugurate a tripartite Committee on National Minimum Wage led by Ms, Ama Pepple, a former head of Civil Service of the federation. Buhari the Nigeria's President after intensive negotiation with the Trade Union Congress agreed to pass into law a minimum wage of thirty thousand naira a month to be paid by the federal government to its employees while the states were free to negotiate its minimum wage with their workers. The leap from eighteen thousand naira (N18,000) to thirty thousand (N30,000) is huge. Inflation in 2018 is reported to be hovering around 16.5% and the minimum wage recommended is an increase of almost 66.6%.

The implication for Nigeria would be dire if proper macro -economic policy is not cogently put in place to checkmate any likely problem that may emanate from the payment of the recently approved minimum wage.

Effect of Minimum wage

The Labour Congress of Nigeria has successfully negotiated a wage increase from eighteen thousand naira to thirty thousand naira a month for its workers. This is of course a colossus increase as most wage negotiation is usually pegged at just over inflation rate (Paulus 1974). The increase is about 67% which in no doubt would increase the standard of living of the recipient government's workers as any notion of money illusion would have been put behind the recipients as inflation in 2018 runs at 16,5%. The government in a non- shell might be able to assimilate this increase but if the wage increase spills off to the informal employees that constitute almost 70% of the work force, employers would find it difficult to assimilate the increase. In all probability, employer will initially regard concession of wage claim in full as being preferable to a strike but they soon find that they cannot match the increase in wages as they cannot pass on the whole increase through higher prices because their competitive situation is less secure, so they might put up prices by over 67% and permit some distribution out of profits into real wages. Employees only expect prices to rise below their wage increase, and this will cause the Labour congress to once again raise their wage claim over and above their previous claim. In this scenario, wages are measured before taxation. The effect of the tax system is, of course, to widen the differential between a worker's desired improvement in his/her standard of living and that which he/she achieves in practice. This in fact is a simple analogy towards an equilibrium situation in which workers achieve their desired rise in real wage but the path towards equilibrium can, however, be radically disturbed by, for example devaluation of the currency as will be seen later in the article. It is fairly clear to see how the rate of both wage and price inflation can rapidly escalate to unprecedented height.

However, if the informal employees demand for blanket minimum wage is meant, this scenario is likely to result or create an increase in aggregate demand usually inflationary measures in the economy. The effect would be increase in the aggregate demand or a shift in the aggregate demand curve is called demand-pull inflation. An increase in the demand can originate in the real sector, or some combination of these two. We will now examine the increase in demand that

Originate in the real sector. It will be the government that would take the brunt of a shift in aggregate demand— demand- pull inflation, although everyone in the society stands to suffer the consequences of money illusion that would emanate from increase inflation. As explain above the effect of higher levels of demand will make itself felt in the form of higher prices. This is illustrated diagrammatically below:

Although it is possible for this increase in aggregate demand to originate from the household sector or the business sector (rather than in the government sector) this does not usually happen because the private sectors lack the authority to tax and to print money. The money or funds needed to finance huge increase from eighteen thousand naira to thirty thousand naira, a high giant leap of over above 66% would be burdened by the government because the government has the power not only to tax and print money it also has the ability to borrow money from the public, it can often be a source of inflationary pressure. But the private employers sector, that is, household and business firms can increase that aggregate demand only by drawing on accumulated savings and borrowing. Both of these methods are self-limiting and will only produce a minor increase or demand and for this reason we will concentrate on inflation that originates in the government sector.

Already the Nigeria's government is operating a budget deficit of inflationary speculative prospect and when this is added to the new negotiated wage the Nigeria's budget deficit is likely to get bigger. In 2018 budget deficit stands at 73.2 billion USD and to meet the new minimum wage payment the government may have to result to borrowing which will further increase the debt burden of the country. The never concluded uncompleted government's projects which the exclusive legislature bestows on the federal government will be exacerbated because the government would have to meet the minimum wage payment obligation and the effect of this would be less money at the disposal of the government to execute other contracts and functionalities.

Nigeria is just coming out of recession and is running at 1.7% growth rate (Abstract of statistics 2018) which is comparatively to proper and real growth rate is hardly an appropriate growth. It could be argued that if the extra money the civil servants and the informal workers will earn is spent or injected into the economy will no doubt help the economy to recovery but this can only happen if the households and firms decide to spend the income instead of saving it. As stipulated by Keynes (1964) one man's income is another man's expenditure. This is normally the case if the confidence on the economy is shaking or doubtful and with less than 2% growth rate in 2019, 25% unemployment rate in 2018 and inflation at 15% in 2019 confidence in Nigeria's economy cannot be said to be high. Incomes (employment) are the result of expenditure and this income must be spent in order to maintain income level and employment. On the other side of the coin is that the private employers (firms) may be forced to lay off some of their workers as they would struggle to pay the minimum wage. This will be the case if their employees were to demand that they are paid the government recommended minimum wage. This wage spiral could come to haunt the country as the informal workers, such as the self employed workers: 'legbukes', market traders, transporters, would by design demand a comparable increase in whatever they do to have any chance of comparable welfare with their peers in the society. This is likely to have a knock off effect on everything and anything being transacted in the country. The consequences of the spiral effect of wage demand would be increase in unemployment that is currently at more than 25% level (Knoema Corporation 2018). There would also be less money to spend in the hands of the society as fewer people would be employed and prices of commodities and other activities would go up as manufactures and traders raise their sales prices to assimilate the increase in cost of production. Firms will struggle and cannot produce to their full productive capacity because they now have fewer workers to perform that which the previous workers spiral did before. This `excess capacity would result in fewer products being produce in the economy and this yet again can exacerbate price increase of the produce in the society. With increase inflation, rising unemployment, fewer goods produced in the economy and little or no money in many peoples' hand, and only fewer people in the society having the money to spend the country will be forced yet again into deflationary economy, leading yet again into a recession. The government again as the agent of policy in the country would attempt to bring the country from this dismal economic situation of deflationary state. It may wish to bring or stimulate the economy back to equilibrium by lower taxation, lowering of interest rate, increase investment, the overall effect of the policy may stimulate the economy but imports and the value of the naira against other baskets of currency might suffer as a result. The government in a bid to bringing the economy to normalcy might even desperately resorts in devaluing the naira. Devaluation can be harmful for a country like Nigeria, that is a renter country, and instead of the intended intention of boosting the employment and raising the standard of living of the populace could lead to a further deepening of the recession subsequently exacerbating unemployment and reducing further the standard of living of the people.

Depreciation of the naira may well boost Nigeria's export sales but the volume of sales is only secondary to the foreign currency revenue from those sales. The balance of payments problem is one of matching the revenue in terms of foreign currency per unit sold abroad will fall. If therefore devaluation is to help the export side of the balance of payments, with less revenue forthcoming from each unit of overseas sales, the volume of sales must be increased.. Therefore 20% drop in Naira value currency exchange must attract more than 20% increase in export trade. Nigeria has not the expertise or knowhow to accompany a determined export promotion drive on behalf of both government and businessmen/women.

Summary

Nigeria has been going through hard times and is just about coming out from recession and with 1.7% economic growth in 2018 and not expecting to do better in 2019, the future does not read well for the country. Unemployment stands at 16.5% in 2017, youth unemployment 38%, inflation at 11.1% , consumer price index 214.2 index, inflation rate (GDP deflation) 11.1% price of diesel fuel 0.64usdollars/liter, price for gasoline 0.46% us dollars/liter, purchasing power parity 102.7lcuper international dollars, ppp for private consumption 123.6 lcu per international dollars (Knoema corporation 2019). Over 50% Nigerians population live in poverty (quartz Africa 2018) death rate 15year old -60yrs 31.83% per 100 population, mortality rate 25.54% death per 100, morbidity rate12.46 in 2018, death rate in 2016 12.5 (Knoema.com 2016). According to the federal government of Nigeria News Bulletin (2019) domestic debt now stands at N15.6 trillion rises by N811.77 billion in three years (punch 4/8/2018). For sure this not a picture of a healthy country where people enjoy a fairly good standard of living, the picture so depicts is a struggling economy with struggling people.

According to the Debt management Office (DMO) the country's debt stock as of June 30th 2018 stands at about N22.4 trillion or $73.2 billion. This represents a progressive increase from $62 billion recorded in fiscal year 2014. The debt portfolio rose 30% to $62 billion in 2014, up from $47.6 billion as at 2013. The current debt stock according to Oniha (2018) is made up of domestic and external debt stocks of the federal government, thirty six states, and the federal Capital Territory (FCT). These statistics may be a tip on the ice berg of Nigeria's problems. That Nigerians workers deserve a statutory minimum wage is an understatement because the profile of Nigeria as a country depicts a very deplorable state of affair. But setting a minimum wage over 700% above inflation rate of the country is inviting all the economic disaster that can be associated with such decision. Minimum wage demand may have come at the least expected and most uncomfortable time for the government of Buhari administration, at a time when Nigeria's General election was looming (3 months to election).The government had no choice but to yield to the whims and caprices of the organized Labour Congress because any prolong resentment to their demand could brew problem to the ruling government losing the 2019 election. But this decision was taking at the expense of the nation which may spit economic disaster in the longer term for the country.

Summary

Nigeria needs a minimum wage payment for every worker in the country but unfortunately the minimum wage agreed by the Federal Government of Nigeria with the organized Labour Union Congress is only meant to cover the lower cadre public servants of the states and federal level. There is no doubt the minimum wage is a huge increase of almost 67% which is well above inflation rate. With inflation running at about 11% the huge increase may lead to a spiral demand by the nongovernmental worker and the informal worker that constitute almost 70% of the labour force in Nigeria and this would possible lead to a demand pull inflation, and a further increase in unemployment as a result of a seemingly inability of the employer to assimilate the new minimum wage, and consequently to keep on to their workers and to employ new staff because of the wage demand. The government in a bid to stir the economy into equilibrium position could in fact end up plunging the country into yet another recession that could result from a deflationary policy measure.

This not to say minimum wage is bad for Nigeria but the government would have worked out all the economic, political and social implications expediently enough before yielding to pay a whopping 66% increase.

References

Alayande , B. A and Alande, S. (2004) “Determinants of Vulnerability to Poverty” A World Bank Commissioned Study.
Annual Abstract of Statistics, (2018) Lagos and Abuja.
Annual Abstract of Statistics, Year Book , 2017 HMSO, Abuja.
Archibald, G. C . (1969) The Phillips Curve and the Distribution of Unemployment’, America Economic
Archibald, G.C. (1971) The Structure of Excess Demand for Labour’, in Microeconomic Foundations.
Brechling, F.P. R (1965) ‘Some Empirical Evidence on the Effectiveness of Prices and Income Policies’, in Income Policy and Inflation, ed. M. Parkin and M.T. Summer , Manchester University Press.ch2.
Burger, A. E. (1969) The Effects of Inflation Review, Papers and Proceedings.
Curwen, P. J. (1978) Inflation, London and Basingstoke: Macmillan Press Ltd
Federal Government of Nigeria News Bulletin, 2019.
Federal Reserve Bank of St Louis review.
https.tradingeconomica.com^Nigeria
https/www expatica com/uk
Jones, A. (1973)The New Inflation. The Politics of Prices and Incomes, London : Andre Deutsch.
Kenyes, M (1964) The General Theory OF Employment, Interest and Money, London: Macmillan
Knoema Corperation. Com 2018
Knoema. Corperation. Com 2019
Oniha (2018) Nigeria Debt Management Office, Abuja.
Paulus, N. I. (1975) Economics for Business Studies, Staffordshire and West Midlands: Polytech Publishers Ltd.
Phillips, A. W.(1958) The Relationship Between Unemployment and the Rate of Change of Money Wage Rate in the United Kingdom 1861-1957, Economica .
Punch Nigeria, July 2019.geria Debt Management Office Bulletin, 2018
Quartz Africa, 2018
Sloman, J. (2007) Essentials of Economics, Harlow: Pearson Education Ltd.
Stephen, F. H. (1974) Wage Determination and Trade Unions: A Comment, Scottish Journal of political Economy

Biographical note:

Imuetinyan Press John Ugiagbe was the Managing Director of Pressway Global Ventures INC Ltd . He has lectured in the UK Colleges and Universities for12 years. He is now a lecturer at Igbinedion University, Okada, Nigeria. He holds a number of academic, professional and vocational qualifications. He is a graduate in Economics (BA, Hons), from Wolverhampton University, a graduate in African Studies (BA, Hons) from Birmingham University and a graduate in Law (LLB) from S’ton Solent. He holds a Dip.BA (finance and

marketing) from the University of Aston in Birmingham, and a MBA, De M'Fort University and a Certificate in Education (Garnett College). He also holds the Chartered Institute of Marketing Diploma and Higher National Diploma in Business studies. He regularly writes for the Nigerian National News Papers, especially the (The Nigerian Observer). He is the author of a novel: A Journey's Path. He has a wide and varies research interests, which include: Fiscal federalism, Poverty alleviation, Constitution and constitutionalism, marketing planning and ethical issues across the globe, Nigeria's social, political and economic development, and qualitative methods in research.

Prof Omotsefe D. Odejimi (PhD, FMNES, FNES), JP is the Deputy Vice Chancellor, Igbinedion University, Okada. She has a wide and varies research interests, which include: Poverty alleviation, Nigeria's social, political and economic development, and quantitative methods in research.