

New Minimum Wage Law in Nigeria: Implications for Youth Unemployment in the Country

Henry Okodua
Department of Economics and Development Studies
Covenant University, Ota, Nigeria
Email address: henry.okodua@covenantuniversity.edu.ng

1. State of Issue

Rising cost of living and agitations by workers for wage increases are inextricably linked all over the world. For instance, trade unions in Nigeria embarked on an economically damaging industrial action in late 2018 to push for a wage increase across sectors of the economy. The strike action by workers was resorted to after a sustained period of failed agitations for a general wage increase. In Nigeria, the federal government is empowered to periodically legislate on a national minimum wage. Government often initiates a wage-review process in response to pressure from workers or when it considers the extant minimum wage to be "unreasonably low". Government may also embark on the process of wage review in cases where there is no adequate collective bargaining machinery for the effective regulation of wages or other conditions of employment of workers.

Government recognizes that the process of setting the minimum wage is as important as the minimum wage itself, if set objectives of the wage review are to be achieved. Therefore, Nigeria has an Industrial Wages Boards set up by the government to periodically assist in the wage review process, for either specific sectors or for all sectors of the Nigerian economy. To ensure the wage review process is inclusive of all stakeholders, the Industrial Wages Boards are tripartite in nature, and may make recommendations on wage rates, which the Government exercises its discretion to make binding on the employers and employees concerned. The Tripartite Committee comprises representatives of the government, labour, and the private sector. It is also instructive to emphasize that there is no pre-set criterion to determine the minimum wage in the country.

Recently, President Muhammadu Buhari in 2019 signed into law a bill to increase Nigeria's monthly minimum wage. The law is known as the National Minimum Wage Act 2019. The "2019 National Minimum Wage Act" increased the minimum wage in Nigeria from 18,000 Naira (45 Euros) to 30,000 Naira (75 Euros) per month. The National Minimum Wage Act 2019 which effectively repealed the National Minimum Wage Act, 2004 (as amended) applies across all sectors/employers, except for:

1. an establishment in which workers are employed or paid on part-time and/or on a commission or piece-rate basis.
2. workers in seasonal employment like agriculture; and
3. persons employed on a vessel or aircraft to which the laws regulating merchant shipping or civil aviation apply.

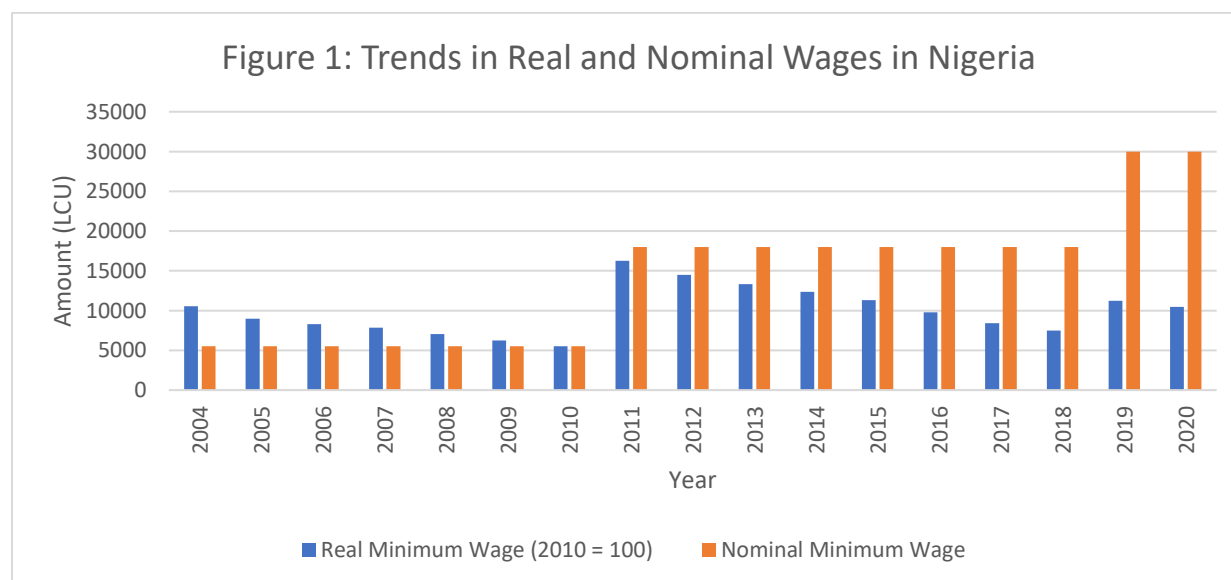
The National Minimum Wage Act 2019 includes in it, the introduction of a five-year expiration period, and will thereafter be subject to a review in accordance with the provisions of the Law. The 2019 Act prescribes stiff penalties for defaulting employers. These penalties include fines (not exceeding 5% of the monthly wage); payment of all outstanding arrears to any "underpaid" employee; and financial penalties.

While raising minimum wage beyond the market wage remains a pro-poor tool any government can engage to raise household incomes and help mitigate the pains of poverty in many countries, employers may circumvent this tool by increasing the level of automation in the organization. This is often true for employers who chose to avoid a breach of the minimum wage Laws, and would in such case, naturally opt for cost-cutting measures by seeking increased automation instead of hiring more workers, just to ensure that they are in compliance with the Laws of the land. The possibility of these cost-cutting options for the employers of labor is the main motivation for this paper analysis of issues emanating from the enactment of a new minimum wage law in Nigeria.

2. Causes and Analysis

Minimum wage legislation in Nigeria has a long history. The labor Act of 2004 for instance, sets the minimum wage at ₦5,500.00 per month. There is also the National Minimum Wage Act of 2011 which sets the minimum wage at ₦18,000.00 per month. As earlier mentioned, the 2019 National Minimum Wage Act increased the minimum wage in Nigeria from ₦18,000 to ₦30,000 per month. The overarching goal of successive minimum wage review in the country has remained that of raising household incomes to counter rising living costs.

An attempt is made in Figure 1 to match the rise in money wage between 2004 and 2020 with the equivalence in real terms using the consumer price index (CPI) as the deflator. The goal is to provide a comparison of money wages paid to workers and the general cost of living in the country just to put workers' agitations for a wage increase in context. Figure 1 shows a trend for money wage that is stable but reviewed upward periodically. On the other hand, real wages in Nigeria (using 2010 as base year) have maintained a steady decline suggesting that workers have been severely shortchanged over the years. For example, the Figure clearly indicates that workers in the country are worse-off even with the 2019 wage increase when real wage for this year is compared with wages for 2011 to 2015. It is therefore not surprising that workers continue to push for upward wage review across sectors of the economy.



Source: Real wage data were computed by author using money wage data with CPI

Money wage and CPI data are from: [International Financial Statistics - IMF Data](https://data.imf.org/?ts=CountryList&ts2=CountryList)

From Figure 2, a comparison of 2017 national minimum wage among selected African countries (selection based on 2017 data availability from ILOSTAT) shows that minimum wage paid Nigerian workers was already less than those of 8 other African countries within the comparison group. That position will likely decrease further if all African countries are included in the list.



Source: computed by author

Minimum wage data are from: [Statistics on Wages - ILOSTAT](#)

Per capita GDP data are from: [World Economic Outlook database, April 2021 \(imf.org\)](#)

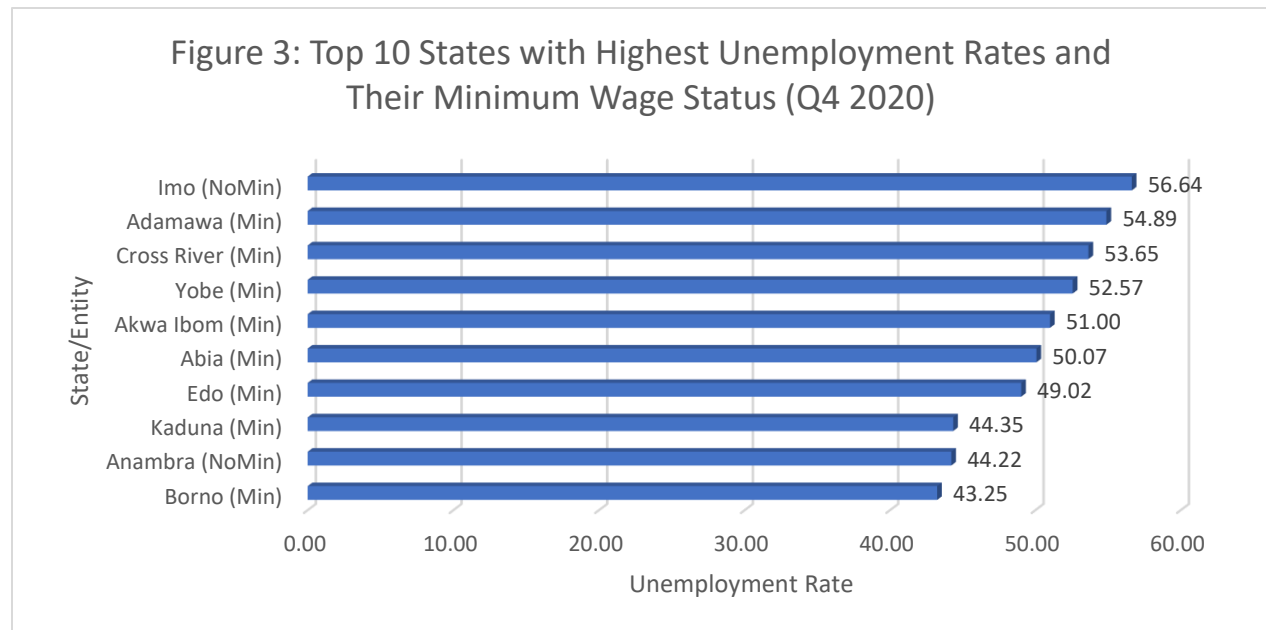
Arguably, the case for a wage-increase in Nigeria prior to the enactment of the 2019 Minimum Wage Act became very compelling considering at least, the comparisons provided in Figures 1 and 2.

One other striking observation in Figure 2 is the fact that Nigeria has a higher per capita GDP than Senegal, Togo, and Burkina Faso and yet, the country pays a lesser minimum wage to her workers. The possible explanation for this relatively poorer package could be any of the following: higher income inequality, higher level of official corruption, or at best, Nigeria invests more of her resources in physical infrastructure. Any combination of these factors can also explain the observed differences in minimum wage. As for the other African countries with higher minimum wage and higher per capita GDP than Nigeria, the quick justification will be that average productivity is higher in those countries.

Given that the overarching objective of setting the minimum wage is to ensure that vulnerable workers are not paid oppressive wages; there is also the burden of ensuring wages are fair to both the employers and the employees. When wages are set above the marginal productivity of low-skilled labor, the economy will be exposed to the danger of discouraging growth and this will impede the creation of new jobs in the formal sector, thereby increasing the incentives for expansion of informal sector. What this means is that minimum wage must be set to balance all competing economic and social imperatives of the society.

Figure 3 presents the top 10 States with highest unemployment rates in Nigeria and their minimum wage implementation status using 2020 Q4 data provided by the National Bureau of Statistics –

Nigeria. Only two of the States (Imo and Anambra) are yet to implement the new minimum wage law as at June 2021 ([the-nation-online-ng](https://www.thisdaylive.com/articles/only-two-states-have-not-implemented-the-new-minimum-wage-law-as-at-june-2021/)). Although Imo State has the highest unemployment rate, 80 percent of these top-ten States have implemented the minimum wage law. The Figure therefore suggests a strong positive correlation between the new minimum wage law implementation and unemployment rate in Nigeria. Of course, no inference can be drawn at this stage as these figures are merely descriptive.



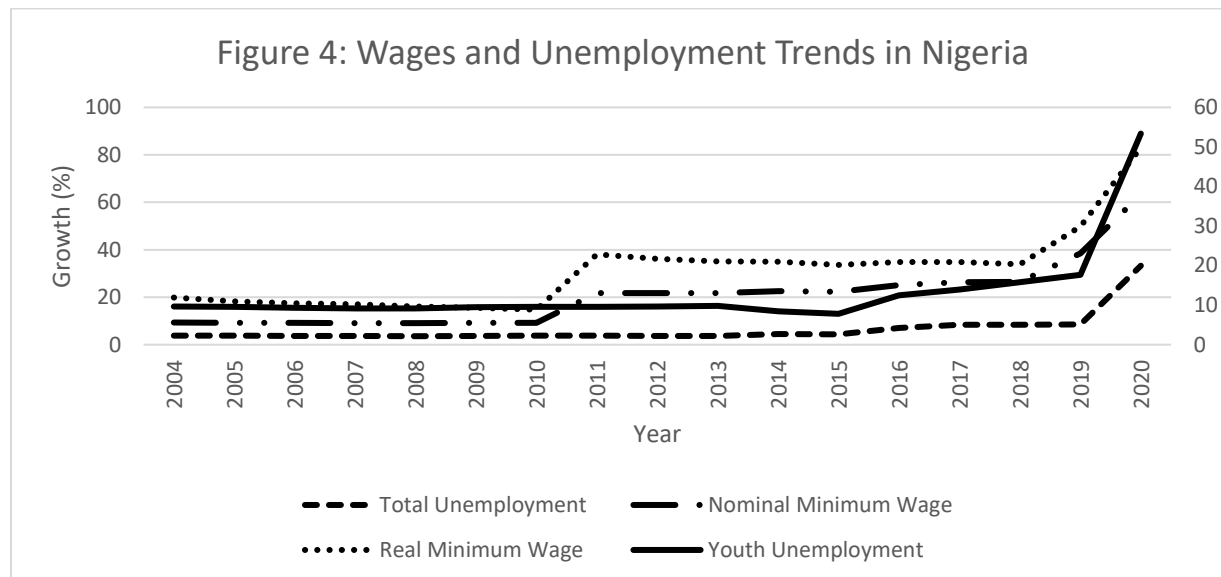
Source: computed by author

All data are from: [NATIONAL BUREAU OF STATISTICS \(nigerianstat.gov.ng\)](https://nigerianstat.gov.ng)

3. Future Expectations and Implication

Agitations for wage increase in Nigeria is expected occasionally. All stakeholders are at the same time, expected to be mindful of the trade-offs that often accompany these interventions. While an attractive remuneration is essential for increasing job satisfaction and inducing workers to be more productive, it no doubt substantially add to overall labor costs. Higher labor costs that eat deep into profits will no doubt lead employers to use fewer employees and device strategies to use them more productively.

For example, Hamermesh (1993) suggests that a 10% increase in labor costs lead employers to cut the employment of teenage and young adult workers by more than that of mature workers. This finding has a serious implication for youth unemployment in a country like Nigeria which currently stands at about 33.33% of total labor force in the country. It will therefore be informative to examine the data trend on wages and unemployment in Nigeria to project the direction of youth unemployment in the country post minimum wage law implementation. This information is presented in Figure 4.



Source: computed by author

Data on minimum wage are from: [Statistics on Wages - ILOSTAT](#)

Data on unemployment are from: [NATIONAL BUREAU OF STATISTICS \(nigerianstat.gov.ng\)](#)

Figure 4 reveals that youth unemployment rate remained higher than total unemployment rate in Nigeria over the years. The trend also reveals that unemployment rate has systematically growing with nominal wage increase in the country over time. One other striking observation from Figure 4 has to do with the fact that the trend of youth unemployment has been on the increase from 2016 which coincides with the year of economic recession in the country. The increase in minimum wage in 2019 may have also accounted for the observed increase in the trend of youth unemployment in Nigeria during the period. Of course, the role of the Covid-19 pandemic cannot be overlooked in attempting an explanation for the rising trend of youth unemployment in the country in recent time.

As a concluding summary, there has been an observed positive relationship between the minimum wage and youth unemployment in Nigeria over the years. Whether this observed positive relationship is systematic or due to other factors is beyond the scope of this paper. If this observed relationship is systematic, it will strongly suggest that younger people in the work force are more likely to bear the burden of higher labor costs associated with wage increase in the country. **Whatever the case may be, the number of job-seekers in Nigeria will continue to be on the increase as population projections for the country remains in excess of output growth.**

Reference

Hamermesh, D. (1993). *Labor Demand*. Princeton, NJ: Princeton University Press.

