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Trend Analysis of Consumption, Savings and Debt, Following the Minimum Wage Legislation in Nigeria

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Abstract

The study examined and appraised effects of minimum wage on consumption, savings and debt behaviour in Nigeria. These were with a view to determining the relationship among consumption and savings in respect to minimum wage legislations in Nigeria as well as analysing the effect of minimum wage on debt behaviour in Nigeria, 1980 to 2016. Secondary data were used for the study. Annual data on minimum wage, consumption, savings, debt, interest rate and inflation covering the period from 1980 to 2016 were sourced from Central Bank of Nigeria Statistical Bulletin, 2016 edition. Descriptive statistics techniques of analysis were employed. Under descriptive techniques, tables and graphs were adopted. The result from the trends analysis showed upward trending of consumption, savings and debt following the minimum wage legislation in Nigeria. The study concluded that that minimum wage legislation has a positive significant impact on consumption in the long-run. Also minimum wage legislation has a significant positive effect on both savings and debt behaviour in the long-run.

Keywords

Minimum Wage, Consumption, Savings, Debt Behaviour

1. Introduction

Minimum wage legislation is among the most controversial public policy not only in developed countries, but also in emerging economies such as Nigeria. In Nigeria, the minimum wage policy has been reformed after 2011 and enforced throughout a labour market with more than 60 million workers. But how effective were these minimum wage policies in improving income, consumption and welfare of low income households in Nigeria? This paper analyzes the trends of the minimum wage level on consumption spending, savings and debt behaviour of Nigeria working population, covering the period of 1980-2016. Household consumption, savings and debt makes available a particularly relevant metric of welfare because it is often better measured and less volatile than income, [1]. The effectiveness of minimum wage policies in most developing countries has been challenged for fears about unemployment risk, threats to an already unstable industrial competitiveness, and employment substitution into the informal labour market, [2], [3]. Also additional concerns why higher minimum wages may fail to have reasonable impact on consumption, savings and debt: first, higher minimum wages may simply substitute for other social transfers so that the effective income increase is considerably soothed. Many social transfer programs are conditioned by income thresholds and cumulative effect of ineligibility is hard to evaluate in practice. Second, the disposable income effect of higher minimum wages may be perceived as transitory - particularly in emerging countries with higher price inflation. Consumption smoothing may then result only in modest consumption and welfare increase. Third, higher minimum wages may increase unemployment risk, raise precautionary saving and again attenuate the consumption effect. Fourth, the higher frequency of unemployment can make some households much worse off than in the previous policy regime. Fifth, increased minimum wage will tend to increase the ability of workers to meet their loan obligations to financial institutions, thus reducing their debt burden. Against the background of these concerns, our study is to estimate the consumption savings and debt response of Nigeria workers to minimum wage hike over years. Nothing much has been done in the literature on the effects of minimum wages on consumption, savings and debt, most especially for developing countries. A few literatures have examined the impact of minimum wages on consumption for U.S. states. [4] estimate a positive spending effect for mini- mum wage dependent U.S. households, and arrived at conclusion that most of the consumption is due to vehicle purchases. Similarly, [5] employs sales data to find that a 10% increase in minimum wages increases non-durable consumption by 1% at an aggregate county level, and shows that the increase is greater in poorer counties. The effect of minimum wage changes on other wages and labour income in developing countries is better documented. Using labour survey data from Indonesia, [2] estimates the impact of doubling the minimum wage on the entire wage distribution, and finds that wages above the minimum wage also increased between 5-15%. [6] find that all growth inequality in income earnings in Mexico is due to the decline in the real value of the minimum wage. [7] study the impact of the minimum wage change in Brazil on the reduction of earnings inequality and conclude that minimum wages help reduce earnings inequality in formal sectors of the economy and that the decline is more pronounced at the bottom of the wage distribution. Research on developing countries has generally considered alternative income shocks to estimate consumption elasticities. [8] uses weather induced income shocks in India to estimate consumption elasticity to income in the range 0.91-1.02 depending on the definition of consumption. Related work by [9] studies weather shocks in Thailand to estimate the saving propensity to income shocks related to weather conditions; the estimated saving propensity to positive and persis- tent weather shocks is found to be greater than zero, but small. Nevertheless, while weather shocks or other disasters can have relatively persistent income effects, they may not always amount to permanent income changes.

In summary negative employment effects of minimum wage increases have always been a key policy concern. In the Developing nation's situation, we do not find that higher minimum wages increase unemployment in among low income population. While various point estimates for the employment elasticity of high minimum wages are negative, their economic and statistical significance remain low across various model specifications. This absence of negative employment effects could be explained by the extremely low minimum wage level in Nigeria, which is generally low median wage compared to the U.S. or France and Sweden, [10]. At such a low minimum wage level, even low productivity workers can typically find a new job after being relived from his former job. Evidence of a higher turnover rates in counties with an increase in minimum wages supports this interpretation. The effect of minimum wages on employment in developing countries is disputed. Using firm-level data from border regions subject to different minimum wage changes, [11] find a small and negative relation between minimum wages and firm employment. However, employment flows out a firm sample may not be synonymous with more unemployment. [3] find small negative employment effects of minimum wages using the household panel. However, these results appear fragile to the inclusion of county-level trends, which the authors failed to provide adequate information for. Our paper is organized as follows. Section 1 contains introduction, while section 2 discusses background and rationale behind minimum wage legislation in Nigeria. Outcome of the trends of debt behaviour following the minimum wage legislation in Nigeria is discussed in section 3 while section 4 presents the trends of savings following the minimum wage legislation in Nigeria. Finally, section 4.5 contains the trends of consumption following the minimum wage legislation in Nigeria.

2. Rationale Behind Minimum Wage Legislation in Nigeria

Minimum wage policy is one of the principal components of welfare boosting and poverty reduction macroeconomic policy framework in Nigeria. Minimum wage (MW) legislation is a major income policy readily employed in this regard. MW legislations in the country have always been preceded by high inflation rates that erode purchasing power and bring reduction in welfare [12]. Consequently, the need for MW legislation, which normally leads to a rise in nominal wage, is justified as a means of adjusting wages and salaries to match with the rise in costs of living. As a result, there are always agitations from the labour unions for persistent wages and salaries increase. This regular call for rise in wages is at times based on the wide gap between public sector and organised private sector's wages. The gap between public sector's and private sector's wages has often been given as one reason for the inefficiency and corruption in the public sector. It is argued that public sector workers deserve adequate compensation commensurate with their labour, in order to bring about efficiency. In view of the above, many stakeholders, particularly the labour union organisations, have severally called for wage increase. However, given the problem with wage increase, government has found a convenient means of raising wages by setting up Wage and Salary Commissions (WSCs) over the years. Although WSCs are meant to provide a solution to civil service problems, increment in wages and salaries is normally embedded in the recommendations of such Commissions.

3. Wage Determination Policies in Nigeria 1980-2016

A number of criteria for fixing or determining wages and salaries have been identified in the literature. Among these are job evaluation (which is adjudged the most valuable way of fixing wages), government order (especially with regard to minimum wage), ability to pay (on the part of the employers), cost of living, and collective bargaining [13]. [14] stressed (among other factors) the impact of fluctuating labour market forces (demand and supply) in the setting of wages. Fapounda explained further that in the case of

Nigeria, modern sector wages and salaries are determined and regulated by administrative decisions of government, Prices and Income Policies. Also, in Nigeria, the traditional (mainly rural and informal) and intermediate sector wages are influenced to a great extent by market forces and to a lesser extent by wage level in government establishments.

In addition, during the civilian regime in 1981, the nation's minimum wage was fixed at ₦ 200 (two hundred Naira) per month by an Act of Parliament but at the onset of SAP in 1986 (late in the year), government issued the National Minimum Wage (Amendment) which abridged the 1981 Minimum Wage Act by exempting persons or companies employing less than 500 workers and persons employed in agricultural projects from its provisions. This Amendment was, however, rescinded on the 24th of April 1987 owing to labour protests against it in major cities (Enugu, Ibadan, Lagos, Benin and Kaduna) across the country. When a national economic emergency (of 15-month duration) was declared on October 1st 1985 against a background of lacklustre economic performance, deductions ranging from 2 to 15 percent from all incomes including rents, dividends and wages and salaries of workers in both the private and public sectors including armed forces were effected at source and paid into a Fund (Economic Recovery Fund) at the Central Bank of Nigeria. These deductions were part of measures expected to reduce domestic absorption so that the long running macroeconomic imbalance (current account and fiscal deficits in particular) besetting the economy could be ameliorated. There was, however, a refund of the deductions made in respect of junior workers at the end of the 15-month economic emergency period.

There was a redefinition of minimum wage in 1991 to embrace total emolument and at the same time there was a discontinuation of universal applicability of minimum wage to all public sector departments and government levels. Each government department/level was advised to pay according to its ability. However, at the beginning of 1993 an increase of 45 percent was effected in public sector workers' salaries. The increase was ostensibly meant to cushion the inflationary effects of the rapidly depreciating naira (against the major international currencies like dollar and pound sterling) following the deregulation of the foreign exchange market on March 5, 1992. By September 1997, the Federal Government issued a directive to increase the prevailing minimum wage and other levels of wages (especially in the public sector) perhaps due to its concern for workers' welfare. The implementation of the directive resulted in the increase of the national minimum monthly wage from ₦ 1200 to ₦ 3000. This, likewise, led to substantial increases in take-home pay of all other categories of employees in the public sector. The extent of increase in pay in the private sector in response to what obtained in the public sector is, however, not known. Following an agitation for some increase in wage by Nigeria Labour Congress in the year 2000, the Federal Government again increased the minimum monthly wage from ₦3,000 to ₦5,500 in May 2000 while other levels of pay in the public sector were also increased. The increases in public sector pay were based on the report of a 19-man presidential committee set up to advice on the wage problem. The legal backing for the increases was the Wage (Minimum) Act of 2000. The extent to which State Governments complied with the minimum wage aspect of the Act differed from one to the other. This might be due to the financial strength (of individual states), which had been recognized since 1991 as a critical factor in public sector employers' compliance with any wage directive from the Federal Government. In Nigeria, the Federal Government appears to play some sort of overriding role on labour matters. In the Table 1, the study highlights some of the policies of Nigerian government in the past three decades in the area of minimum wage and other wages for workers in the country. It can be seen that the minimum wage and other wages in the public sector registered zero rate of increase from 1980 to 1986 perhaps as a result of the requirements of the economic reform programme (structural adjustment programme) that held sway during the period. Also, the period from 1990 to 1996, 2002 to 2007 and 2008 to 2016 recorded no increase in public sector pay in the face of the rapidly rising price level that prevailed during the period.

Table 1. *Federal Government Policies on Minimum Wage from 1980 -2011.*

	Commission/Budget/Decree /Act	Recommendations	Effective Year
1	Minimum Wage Act of 1981	Minimum Wage of N=125 ($209)	1981
2	Minimum Wage (Amendments) Decree 1990	Minimum Wage of N=250 ($31)	1991
3	Federal Budget (1993)	45% across the board increase in government workers' salaries resulted in the increase of minimum wage from N250 ($11.4) per month to N363 ($16.5)	1993
4	Government Directive on Wages (1998)	Minimum wage of N=3500 ($41) for Federal Worker. Minimum wage of N=3000 ($35) for State Government Workers.	1998
5	Minimum Wage Act of 2000.	Minimum Wage of N=7500 ($75) for Federal Worker. Minimum Wage of N=5500 ($55) State Government and Private Sector Worker.	2000
6	Minimum wage Act of 2011	Minimum Wage of N=18000 ($120).	2011

By the Absolute Income Hypothesis, income and wage are generally positively related to consumption, and by implication, savings. As for their impact on debts, the expected relationship is not all that clear-cut. An increase income and wages could prompt the desire for increased debt obligation- following improved financial standing and consequentially enhanced credit worthiness. And for those indisposed to increased debts, such increases could equally provide an avenue to reduce or stay off debt obligations. In view of the foregoing, this chapter analyses the trends of consumption, savings and debt behaviour following the implementation of the series of minimum wage over the study period, 1980-2016.

4. Trends Analysis of Consumption

The consumption pattern of a country depicts the aggregate demand of goods and services in the country, and in most cases it constitutes about 60 percent of national income. Consumption pattern also depicts the level of welfare and poverty that a nation is experiencing. It is worth noting that when a country is experiencing a downturn trend, it implies that the aggregate demand (consumption) is in decline, poverty incidence is on the increase, unemployment rate rises, investments fall drastically and prices of goods and services will most likely rise too. On the other hand, when the aggregate demand (consumption) is high, firms will invest and be ready to employ idle resources, prices will fall (due to an increase in the supply of goods and services) and other economies of scale will be accrued to the nation as a result of the large size of its aggregate demand.

From Table 2 minimum wage act of 1980-1985 fixed ₦200 as the minimum wage that must be paid to individual workers. This was the period of fourth national development plan. The fourth National Development plan, (1981-1985) was launched by the President ShehuShagari in 1981 on behalf of the federal government and the government of the then nineteen states of the federal Government of Nigeria. Consumption during this period was ₦ 272.3 billion on the average but was growing at a decreasing rate of 3.1%. The fourth national development plan was again affected by the change in government in 1983 and by yet another change in 1985. These two changes seriously disrupted the implementation of the programmes of the plan and, consequently, the performance of the economy during the fourth plan was generally poor. However in the periods of 1986-1990, the government legislated a new minimum wage act that increased the minimum wage to ₦750 in response to the problems of encountered during the fourth development plan period, which almost crumble the economy. Although it was part of one-year economic emergency programme instituted in 1986 to solve some obvious economic problem left behind by an economic policy christened Structure Adjustment Programme (SAP), the programme was introduced in 1986 for the economy to have a foundation before any meaningful planning could be done. This does not have a trickledown effect on the economy even though minimum was increased to ₦750. Consumption during this period was ₦155.4 at a growth rate of 0.7%. Nevertheless, growth rate of consumption reached the average peak of 207.8 billion at a growth rate of 10% during the period of 1998-2001. This is the period of re-commencement of democracy. It is imperative to note here that since the recommencement of democratic government on May 29, 1999 the administration of presidentOlusegunObasonjo came up with a series of economic and political reforms to put the country back on a sound economic and political footing. This resulted in the introduction of new minimum wage act during the period of 2002-2007 to ₦7500. Consumption during this period increase to ₦407.8 billion at a growth rate of 5.5%. However, there was a decline in growth rate of consumption to 2.2% during the period of 2008-2016, even though minimum wage during this period was increase to about ₦18000. This could be attributed to tendency of household to increase their saving as a result of rise in minimum wage, although the absolute value of consumption increased to ₦466.9.

Table 2. *Trends of Consumption.*

Year	Minimum wage (₦)	Consumption (Billion)	Growth Rate of Consumption (%)
1980-1985	200	272.3	-3.1
1986-1990	750	155.4	0.7
1991-1997	1200	207.8	3.6
1908-2001	5500	257.2	10
2002-2007	7500	407.8	5.5
2008-2016	18000	466.9	2.2

Source: Author’s Computation

Note: The formula for growth rate of consumption is $r = \sqrt[n]{\frac{A}{P}} - 1$ or

$$r = \left[\frac{A}{P}\right]^{\frac{1}{n}} - 1$$

Where r is the growth rate, n is the number of samples, A is the current year value and P is the value for the previous year.

5. Trends Analysis of Savings

Savings has been defined as wage income not spent or consumed but reserved for future consumption, investment or for unforeseen contingencies. It is also considered as an indispensable weapon for economic growth and development. It is a well known fact that countries which promote saving tend to grow faster, provided the financial system is well deepened. At the other hand, some analysts fear that a rising savings rate could hamper economic recovery if consumer expenditures form a large component of aggregate demand. Low savings rate has been cited by some study as one of the most serious constraint to sustainable economic growth (World Bank, 1989). Saving leads to rapid capital accumulation (including knowledge and skills with capital)’, Moreover, the relationship between minimum wage and savings can have significant implication on the state of the economy. High income and savings gap can have resultant effect on investment.

Savings remains a necessity that cannot be avoided especially for a developing economy like Nigeria, though it is assumed that increases in the level of minimum wage will bring about increase in savings rate as well as consumption. However, despite the significant of saving in economic growth and development, the country had not been successful in increasing her saving rate, but the current minimum wage had been described as a means to boost domestic private savings in order to enhance individual welfare need in Nigeria. Over the years, increase in savings has been associated with rise in minimum wage.

From Table 3 minimum wage was ₦200 between the periods of 1980 to 1985. The average savings during this period was ₦8.8 billion at a growth rate of 14%. This is the period of fourth National development plan, introduced by the first elected democratic president of the Federal Republic of Nigeria, which served as a base for long-term economic and social development of Nigeria. The country was bedevilled with series of economic challenges, which comprise of short fall in oil revenue occasioned by the fall in oil price, high level of corruption, fiscal rascality among the political office holders. This could be responsible for the low growth rate of saving in the country within this period. The incident of fall in savings was well pronounced in the 1983, with its attendant reduction in the standard of living. However, this event culminated in the overthrown of the Shagari led government in 1983. At the end of fourth development plan in December 1985, a one year economic emergency programme was instituted in 1986 probably to solve some obvious economic problems left behind by Shagari's administration part of which was an introduction of ₦750 minimum wage as an improvement on the existing wage. During this period (1986-1990) saving increase to ₦21.9.4 billion on the average at a growth rate of 16%. Interestingly, this was later absorbed by an economic policy christened the Structural Adjustment Programme (SAP). According to the apologists of SAP, the programme was introduced in 1986 for the economy to have a foundation before any meaningful planning could be done. However, the government had an intention to do away with the existing medium-term planning and consequently introduced ₦1200 minimum wage as component of a rolling plan. Savings during these periods rose to 101.4 billion on average at a growth rate of 25%. The growth rate of savings (29%) was at peak during the period of 2002-2007 with minimum wage of ₦7500, therefore, raising savings to ₦1299.2 billion on the average. This was the period of re-commencement of democratic, under the administration of president OlusegunObasanjo. Nevertheless, there was a fall in the average growth rate of savings sprouting from 2008-2016. Even though saving increases on absolute value to ₦6514.5 billion due to interest policy of central Bank of Nigeria introduced during this period.

Table 3. *Trends of Savings.*

Year	Minimum wage (₦)	Savings (Billion)	Growth Rate of Consumption (%)
1980-1985	200	8.8	14
1986-1990	750	21.9	16
1991-1997	1200	101.4	25
1908-2001	5500	337.8	25
2002-2007	7500	1299.2	29
2008-2016	18000	6514.5	13

Source: Author's Computation

Note: The formula for growth rate of savings is $r = \left[\frac{A}{P}\right]^{\frac{1}{n}} - 1$

6. Trend Analysis of Debt

Nigeria's indebtedness dates back to pre-independence period. However, the quantum of the debt was small until 1980. The debts incurred before 1980 were mainly long-term loans from multilateral and official sources such as the World Bank and the country's major trading partners. The debts were not of a burden on the economy because the loans were obtained on soft terms. Moreover, the country had abundant revenue receipts from oil, especially during the oil boom of 1980. All the same, the fall in oil prices and hence oil receipts forced the country to raise the first jumbo loan of more than ₦1.0 billion from the international capital market. The loan, which had a grace period of three years, was used to finance various medium and long-term infrastructural projects, which failed to yield returns for its amortization. The period of 1981 - 1985 mark a new government era of first democratic elected government. Minimum wage during the period was fixed at ₦200 while the debt was ₦27.7 billion on the average at growth rate of 28%. This could be as a result of some deflationary measures put in place in 1978 that were relaxed. A debt pattern that favoured imported goods emerged which was aggravated and sustained by the import substitution, industrialization strategy that depended heavily on imported raw materials and machinery as well as overvalued exchange rate regime. Many of the projects included in the Fourth National Development Plan (1981-1985) had high import content

Beginning from 1986-1990, the debt stock began to grow astronomically, and rose to ₦ 211.7 billion: an increase of over 40%. Minimum wage was increased to ₦750 during this period. This resulted in mounting arrears and unmanageable growth of the debt stock relative to available resources. Similarly, new minimum wage act was for the period of 1991-1997. The debt stock, which was about ₦ 211.7billion in 1990, grew to nearly ₦922.6 billion during this period at a growth rate of 14%. In this period, the debt service payment due was a little above ₦260 billion which was about 33% of the total earnings. As at December 31st, 2001, the country's debt stock amounted to ₦3188.5 billion in absolute value at a growth rate of 32% which was about 59.4% of the National income and 153.9% of export earnings.

There was a drop in the level of indebtedness in the year 2002 to 2007, due to the debt relief by Paris club, London club and other creditors. Even though minimum wage was increased to ₦7500. Table 4 reveals that Nigeria's debt profile rose to ₦5748.8 billion in period of 2008-2016 at growth rate of 24.4% to ₦7,564 billion at growth rate of 20% due to deficit budget financing.

Table 4. *Trends Analysis of Debt.*

Year	Minimum wage (₦)	Debt (Billion)	Growth Rate of Consumption (%)
1980-1985	200	27.7	28
1986-1990	750	211.7	40
1991-1997	1200	922.6	14
1908-2001	5500	3188.5	23
2002-2007	7500	4366.8	11
2008-2016	18000	5748.8	20

Source: Author's Computation

Note: The formula for growth rate of debt is $r = \left[\frac{A}{P}\right]^{\frac{1}{n}} - 1$

7. Summary of Findings and Recommendations

The study examined the effects of minimum wage on consumption, savings and debt behaviour in Nigeria from 1980 to 2016. This section brings together the main findings in the study.

7.1. Summary of Findings

From the various descriptive analyses conducted, the following constitute the summary of main findings: Base on the trends analysis of consumption, savings and debt behaviour in Nigeria, the followingwere the summary of the results:

(i) The trends analysis of consumption in Nigeria from 1980-2016, showed an upward trend with an average growth rate of 3.2%, following the minimum wage legislation in Nigeria.

(ii) Following the minimum wage legislation in Nigeria, the trends analysis of savings, showed an average growth rate of 20.3% upward trend. This revealed an upward trend of savings within the study period.

(iii) Similarly, debt behaviour in Nigeria exhibits an upward trend during the period of study with an average growth rate of 22.7%, following the minimum wage legislation in Nigeria.

7.2. Policy Recommendations

In view of the findings which have emanated from this study, the following recommendations are made:

1. Minimum wage in Nigeria had a positive relationship with savings. Thus, minimum wage policy should be reviewed upward with a view to enhancing the saving ability of workers, particularly the low income earners.
2. Low minimum wage tends to increase the likelihood of workers to seek loan from banks or cooperative societies thereby increasing their debt burden. Hence, there should be an upward review of minimum wage, to increase the credit worthiness of workers as well as their ability to access credit. Also, increased minimum wage will tend to increase the ability of workers to meet their loan obligations to financial institutions, thus reducing their debt burden.
3. Given that minimum wage was found to positively impact on consumption spending, efforts should be put in place to increase the minimum wage with a view to promoting worker's welfare through consumption.

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