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Effect of Minimum Wage Legislation on Poverty Levels: Evidence from Nigeria

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ABSTRACT: The study investigated the implication of minimum wage on the poverty rate in Nigeria. The objective of the study is to examine the potential influence of minimum wage on the poverty level in the country. There is a scarcity of research on this matter, despite its significance in providing recommendations for policy. The central Bank of Nigeria Statistical Bulletin (2018), National Bureau of Statistics (2018) and World Development Indicator, 2016 edition provided annual statistics on minimum wage, inflation, per capita income, unemployment and poverty rate from 1990 to 2018. The study utilized descriptive statistics and ARDL methodologies. The Augmented Dickey-Fuller test was used to determine whether the data set had a unit root (stationary). The result indicated that the series had a combination of I(0) and I(1). The ARDL model was employed to examine the existence of a long-term relationship. The study found that an increase in the minimum wage reduces the prevalence of poverty in the short run but failed to impact significantly on poverty in the long run. The inability of the minimum wage to impact poverty in the long run may be due to inflationary pressure. Taking into cognisance the 2024 Labour Union strikes, among others, the study recommends that the government engage in time to time review of minimum wage and develop an agreed poverty reduction mechanism that can be used by all concerned stakeholders in Nigeria such as Federal, state and local governments and Non- Non-governmental organizations (NGOs) and International Donor Communities.

KEYWORDS: minimum wage, poverty, Nigeria

INTRODUCTION

1.1 Background of the study

The primary motive of a minimum wage policy is to provide a wage floor for poorly paid workers and improve their welfare (Aderemi, 2017). Raising the legal minimum wage is supported by the widely accepted and persuasive argument that doing so will benefit the region's poorer citizens by reducing poverty and redistributing money (Pauw and Leibbrandt, 2012).

As for the minimum wage as a tool to fight poverty, some academics have questioned it, claiming that it has low target efficiency, results in job losses, and diverts focus from other important public programmes (Sabia, 2014). However, if the minimum wage is poorly targeted, it may still have a significant positive influence on the families it does affect (Acs et al., 2014).

The minimum wage in many countries is often set approximately 40% of the average pay(ILO(2009), 2009). Furthermore, the consideration of workers and their families' requirements should encompasses the overall salary level in the nation, the cost of living, social security benefits, and the comparative living standards of other societal segments.

The purpose of increasing wages is to improve the economic situation of workers by enhancing their purchasing power, enabling them to address the financial challenges caused by the inflated prices of consumer products, which have diminished the value of other earnings. The prices of products and services are experiencing a rapid and significant increase. It is hardly surprising, therefore, that workers incomes are insufficient to cover the substantial expenses of living. The implementation of minimum wage serves as a safeguard against the exploration of vulnerable, uninformed, or marginalized segments of the population. The implementation of a minimum wage provides individuals with a higher level of protection compared to the current voluntary bargaining system (Fapohunda, 2013).

In spite of Nigeria's abundant natural resources, poverty is widespread and exacerbated by unequal access to opportunities and infrastructure (Omonona, 2009). Poverty assessments, whether from single or multidimensional perspectives, show similar trends (Oyekale and Oyekale, 2013). The Minimum Wage has also not been well structured to meet worker needs, which has left ongoing agitation seemingly inevitable and the multiplier effects unclear (Nwude, 2013). Price increases also continue to eat away deeply into workers' per capita earnings (Fapohunda et al., 2013; Akpasung, 2014), leaving Nigerian workers in appalling conditions when their pay and living conditions are compared to those of workers in other developing countries (Anake et al., 2014).

There have been thirteen (13) commissions established to investigate matters pertaining to workers' compensation in Nigeria, where the formal sector's minimum wage policy was established in 1955 (Aminu, 2011). A number of noteworthy assessments have been conducted recently in response to labor union demands for salary that is appropriate with the state of the economy (Anake et al., 2014).

Workers in developing nations typically put in a great deal of effort to overcome poverty, but their pay often falls short of what is needed to provide a respectable living for themselves and their dependents (World Bank, 2012). This necessitates a number of ways to support employees, including the minimum wage policy in the formal sector, and increase the compensation of Workers in the informal sector are typically excluded from minimum wages in many developing nations; South Africa's MW legislation did not cover them until 2002 (Dinkelman and Ranchhod, 2012).

Different nations and authors have different definitions of informality. The lack of social protection for employees is one of the characteristics of informality in the developed world, whereas in the developing world, small enterprises are associated with informality (Alaniz et al., 2011). To stay up with the reality of the Nigerian economy, minimum wages have been raised multiple times. This study was necessary because, despite the increases, it appears that the wellbeing of the workforce has not been addressed, as seen by the persistent agitation for additional increases. Additionally, in an attempt to replicate better working conditions in the industry, workers in the informal sector constantly raise the prices of necessities, burdening the public in the process. Thus, the goals of this research are to: (i) investigate how minimum wage legislation affects the level of poverty in Nigeria; and (ii) present a comparative analysis of how minimum wage legislation affects poverty in Nigeria both in short run and long run.

The major variables for this study are poverty level and minimum wage. The poverty level would be measured by the number of people living on less than $1.90 per day which was the poverty headcount ratio or poverty line as of 2011 and the data will be sourced from the Central Bank of Nigeria (CBN). The minimum wage would also be measured by the real minimum wage (minimum wage adjusted by inflation) which would be sourced from the National Bureau of Statistics (NBS). The data collected will be analyzed using descriptive statistics.

Subsequent to this introduction, the remainder of the article is organized in the following manner: Section 2 presents the conceptual framework and the review of existing research,Section 3 provides a detailed explanation of the analytical technique, including the data sources, the extent of the study, the attributes of the variables, the model specifications, and the tests conducted to establish causality, Section 4 of the documents presents a discussion of the empirical findings and analysis, Section 5, on the other hand, contains the policy implications and concluding notes.

2.0 LITERATURE REVIEW

2.1 Conceptual Review: Minimum Wage

The concept of "minimum wage" has recently faced examination, gaining a progressively problematic status in terms of both usage and government objectives, particularly throughout the 1980s. The notion of minimum wage is frequently employed in various manners throughout several countries and by diverse individuals; it is primarily a term used in various situations when a worker's compensation cannot be lower than a certain threshold. Minimum wage is the lowest amount of money that workers in both the private and public sectors of an economy are legally required to be paid.

According to Fapohunda(2013), the term "minimum wage" refers to the lowest hourly rate that an employee is legally required to receive under Federal Law. The term "remuneration" refers to the compensation provided for work performed during a specific timeframe, regardless of whether it is determined by time or productivity. This compensation cannot be reduced through individual or collective agreement and is protected by law. It is typically set at a level that ensures the workers and their family have their basic needs met, taking into account the economic and social conditions of the country. Nevertheless, during the 1967 gathering of experts on minimum wage determination and associated issues organized by the international Labour Organization (ILO), it was elucidated that the notion of minimum wage encompasses three fundamental concepts:

(i) The wage should significantly provide for the fundamental necessities of workers including food, clothing, housing, education and recreation. This should be determined in consideration of the economic and cultural progress of each country.

(ii) The Minimum Wage establishes the minimum level of compensation that must be paid to workers, irrespective of their qualifications.

(iii) The Minimum Wage represents the wage that each country can legally enforce and uphold penalties and sanctions. An argument in favor of adjusting the Minimum Wage is that it provides workers with a sufficient income to fulfill their essential requirements and improve their quality of life.

2.1.1 Trend of Minimum Wage in Nigeria

Hassan Sunmonu became the inaugural President of the NLC through a democratic election in 1978. Prior to Mr. Sunmonu, Nigerian workers did not have a formalized minimum wage sytem. When political officeholders received a salary increase, Sunmonu's NLC initiated a campaign for a well-organized minimum wage. In 1981, the NLC advocated for a minimum wage of N300. As a result of the **ShehuShagari-led** federal government's refusal to make the payment, the, labor union demanded a state wide strike that effectively halted economic activity. Ultimately, the Shagari administration and the NLC Led by Sunmonu reached an agreement on a minimum salary of ₦125.

In 1989, the labor union, led by **Pascal Bafyau** as NLC President, demanded an increase in the minimum wage. During the negotiation phase, Adam Oshiomole, who served as Bafyau's deputy, took charge of leading the conversations with the administration. Subsequently, the minimum was raised to ₦250. Between 1989 to 2001, the minimum pay experienced an increase from ₦250 to ₦300 and from ₦5,000 to ₦7,500. In 2010, **President Goodluck Jonathan** increased the minimum wage of the country to ₦18,000. The Labour union is now in negotiations with the federal government regarding a reevaluation of the minimum wage. The government has declared that the initial minimum wage of ₦24,000 would be augmented to ₦30,000.

Three Presidents of the NLC had a crucial role in increasing the minimum wage from the 1980s till now. These presidents include Bafyau—Adams Oshiomhole, **Abdulwahed Ibrahim Omar** and **AyubaWabba.** Due to increase inflation and the consequent decrease in the typical Nigerians' purchasing power, it is necessary to regularly reassess and increase the minimum wage. Ultimately, Nigeria's minimum wage frequently presents a predicament with no favorable outcome for any party involved (Egbas, 2018)

Table 2.1 Federal government policies on minimum wage legislation from 1981-2019

Act/amendments /legislations	Recommendations Amount in Naira (₦)	Dollars equivalent ($)	Effective Years
Minimum Wage Act of 1981	125	205	1981
Minimum Wage Amendments Decree 1990	250	31	1990
Federal Budget 45% Increase 1993	363	16.5	1993
Government Direct on Wages 1998	3500	41	1998
Minimum Wage Act of 2000	7500	75	2000
Minimum Wage Act of 2011	18000	120	2011
Minimum Wage Act 2019	30000	85	2019

Author's Computation 2019

Federal and State Minimum Wage in Nigeria:

A. Federal Minimum Wage

As already mentioned, the current minimum wage is ₦30,000 per month. This has been the mandated minimum wage since 2019 and is applicable to all workers across the country.This wage is set by the National Minimum Wage Act and is the same for both public and private sector workers. It is important to note that this minimum wage does not include the 13th month salary or the cost of living allowance.

B. State Minimum Wage

The minimum wage in each state of Nigeria is set by the respective state government. This is usually slightly higher than the federal minimum wage, as each state takes into account the cost of living and other factors when setting its minimum wage rate. For example, in Lagos, the minimum wage is ₦35,000 per month, while in Kaduna it is ₦30,000. It is important to note that these rates can change from year to year, so it is important to check with the relevant state government for the most up-to-date minimum wage.

Compliance with Minimum Wage Laws in Nigeria

Compliance depends on the effectiveness of the entire process of designing and implementing minimum wage policies, from fixing the right level to identifying an appropriate rate structure and effective enforcement measures. All of this should be done in full consultation with employers and workers' organizations.

The old salary of N30,000 has not yet been implemented by many business organizations and government agencies, including 15 state governments which was about 41% of the total, while the Nigeria Labour Congress (NLC) and Nigerian workers eagerly await another wage hike next year. Abia, Bayelsa, Delta, Enugu, Nasarawa, Adamawa, Gombe, Niger, Borno, Sokoto, Anambra, Imo, Benue, Taraba, and Zamfara are among the states that have not yet reacted positively to the minimum wage. Furthermore, more than 70% of employees in the private sector and a few government ministries, divisions, and agencies (MDAs) do not now earn the N30,000 minimum salary.

As the world continues to become more interconnected, it is essential for global organizations to understand the importance of following labour laws in the countries in which they operate. This should be possible especially in Nigeria, where the government has put in place regulations to ensure that workers are paid a minimum wage. Organizations that do not comply with these laws, may experience a range of problems. Some of these include:

Stiff Penalties: Non-compliance with laws on the minimum wage in Nigeria can result in fines and other penalties for the organization. The Nigerian government has put in place stiff penalties for employers who violate the minimum wage laws. These include fines, a ban on the organization from conducting any business with the government, and even jail time for the individuals responsible. As a result, it is essential for organizations to ensure they are compliant with the minimum wage laws to avoid these penalties.

Poor Brand Reputation: Non-compliance with the minimum wage in Nigeria can lead to a range of reputational issues. Employees who are aware of being short-changed with respect to the minimum wage may decide to take action, leading to unfavorable publicity for the organization. This can lead to a loss of trust in the organization and may even result in clients choosing to take their business elsewhere.

Employee Disengagement: Furthermore, not complying with the minimum wage in Nigeria can have an impact on employee morale. When employees feel they are being *"used"* they are more likely to become disillusioned and disgruntled.This can lead to a decrease in productivity and motivation, and eventually resulting in a high turnover of employees.

Employee-Led Litigations: Not enacting minimum wage in Nigeria laws can result in legal action from the employees. Employees may decide to take the organization to court, claiming that their rights are being violated by the organization's failure to comply with the minimum wage laws. This can lead to costly litigation fees for the organization whether or not they win the case. Besides, growing employee activism and labour laws could eventually result in the organizations being forced to settle employees with hefty sums.The NBS, a government agency, said there was a paradox at the heart of Nigeria as the economy was going from strength to strength, mainly because of oil production - yet Nigerians were getting poorer. Bellow is the **Nigeria's population in poverty living on less than a $1 (£0.63) a day**

- 1980: 17.1 million
- 1985: 34.7 million
- 1992: 39.2 million
- 1996: 67.1 million
- 2004: 68.7 million
- 2010: 112.47 million
- 2018: 91 million

Source: Nigeria's National Bureau of Statistics

POVERTY

Poverty, conversely, refers to a state of complete deprivation of resources required to fulfill fundamental individual requirements, such as sustenance, attire, and housing. The threshold at which absolute poverty is defined is always about the same, independent of the person's permanent location, religion and ethnicity. Poverty is about not having enough money to meet basic needs including food, clothing and shelter. However, poverty is more, much more than just not having enough money but access to basic needs of life. (Wikipedia, 2019)

According to the World Bank definition,

> *"Poverty is hunger. Poverty is a lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, fear for the future, and living one day at a time. Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action -- for the poor and the wealthy alike -- a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities."*

Adding to a lack of money, poverty is roughly not being able to partake in social activities; not being able to send children on a day trip with their schoolmates orto social gatherings like birthday parties; not being able to pay for treatments in case of illness. These are all costs of being poor. Those people who are scarcely able to pay for food and shelter simply can't consider these other expenses. When people are excluded within a society, when they are not well educated and when they have a higher incidence of illness, there are negative consequences for society. We all pay the price for poverty. The increased cost on the health system, the justice system and other systems that provide supports to those living in poverty has an impact on our economy.Poverty can be absolute or relative across the globe.

ABSOLUTE POVERTY

Absolute poverty was first introduced in 1990, the dollar-a-day poverty line measured absolute poverty by the standards of the world's poorest countries. The definition given by the World Bank organization to the new international poverty line was $1.25 a day in 2008 for 2005 (equivalent to $1.00 a day in 1996 US prices). In 2015, they reorganized and pegged it to $1.90 a day. Therefore, Absolute poverty, extreme poverty, or abject poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services. (Wikipedia, 2019)

Absolute poverty is most time used interchangeably with extremely poor or when regarding poverty at its peak. Robert McNamara, the former president of the World Bank, described absolute or extreme poverty as, "a condition so limited by malnutrition, illiteracy, disease, squalid surroundings, high infant mortality, and low-level expectancy as to be beneath any reasonable definition of human decency."

Poverty has risen in Nigeria, with almost 100 million people living on less than $1 (£0.63) a day, despite economic growth, statistics have shown. The National Bureau of Statistics said 60.9% of Nigerians in 2010 were living in "absolute poverty" - this figure had risen from 54.7% in 2004. The bureau predicted this rising trend was likely to continue. Nigeria is Africa's biggest oil producer but the sector has been tainted by accusations of corruption.According to the report, absolute poverty is measured by the number of people who can afford only the bare essentials of shelter, food and clothing. The NBS, a government agency, said there was a paradox at the heart of Nigeria as the economy was going from strength to strength, mainly because of oil production - yet Nigerians were getting poorer." even though the Nigerian economy is growing, the proportion of Nigerians living in poverty is increasing every year, although it declined between 1985 and 1992, and between 1996 and 2004," (Kale, 2005). According to the World Bank poverty rates in Nigeria ‘are expected to increase in 2024 and 2025 before stabilizing in 2026. Risks to Nigeria’s outlook are substantial, especially if reforms lose momentum or are reversed’. (World Bank, 2024).

RELATIVE POVERTY

On the other hand, relative poverty occurs when a person cannot meet a minimum level of living standard, compared to others in the same time and place. Therefore, the threshold at which relative poverty is defined varies from one country to another or from one society to another. For example, a person who cannot afford housing better than a small tent in an open field would be said to live in relative poverty if almost everyone else in that area lives in modern brick homes, but not if everyone else also lives in small tents in open fields. The NBS said that relative poverty was most apparent in the north of the country, with Sokoto state's poverty rate the highest at 86.4%.In the northwest and northeast of the country, poverty rates were recorded at 77.7 percent and 76.3 percent respectively, in contrast to the southwest region which had 59.1percent. As per Richard Hamilton, an analyst fromBBC Africa, it is unsurprising that extremist group such as Boko Haram, continue to be popular in the northern areas of the country, where there is a high level of poverty and underdevelopment. Other poverty types include:

3. Situational Poverty:this type of poverty refers to a transient state of impoverishment resulting from the impact of an unfavorable even, such as an environmental catastrophe, unemployment, or serious health issues. Individuals can empower themselves with even a model amount of support, as poverty arises from adverse circumstances.

4. Generational Poverty: it is passed down to people and families from one generation to the next. This situation is further compounded by the absence of any means of escape, as the individuals are confined within its circumstances and lack the necessary resources to extricate themselves. “occurs in families characterized by multigenerational poverty.” These impoverished families lack the necessary resources to escape their current circumstances” (Jensen, 2009).

5. Rural Poverty: It occurs in rural areas with a population below 50,000. It is the area where there are fewer job opportunities, less access to services, less support for disabilities and quality education opportunities. People are tending to live mostly on farming and other menial work available to the surroundings.

The rural poverty rate is growing and has exceeded the urban rate every year since data collection began in the 1960s. The difference between the two poverty rates has averaged about 5 per cent for the last 30 years, with urban rates near 10–15 per cent and rural rates near 15–20 per cent (Jolliffe, 2004).

6. Urban Poverty: It occurs in metropolitan areas with a population over 50,000. These are some major challenges faced by the Urban Poor:

- Limited access to health and education.
- Inadequate housing and services.
- Violent and unhealthy environment because of overcrowding.
- Little or no social protection mechanism.

2.2 Theoretical Review

Specifically, two theories are being used in literature to explain the link between minimum wage legislation and the poverty level. They are the human capital theory and derivational theory of poverty. They are described below:

2.2.1 Human Capital Theory of Poverty

The foundation of orthodox economic theory relies on the premise of perfect competition and market equilibrium, which requires a robust correlation between wages and productivity. The demand side of the labormarket is thought to be governed by various attributes or competencies that workers can offer. The development and expansion of human capital theory, originally proposed by Becker 1964, was largely influenced by the importance of workers possessing a set of valuable skills, Some neo-classical economists focus on individual decisions regarding education, training and mobility (as components of human capital) to explain variation in incomes. However, they often overlook the influence of other factors such as economic institutions and social norms. Consequently, this study incorporates human capital development into the model by utilizing life expectancy rate at birth as a surrogate. Consequently, there is a positive correlation between the expectation rate and human capital development, meaning that as the expectancy rate increases, so does the level of human capital development, and conversely.

Lydall (1968) argued that the variation in the organization of intelligence, environment, and education on an individual level is primarily responsible for the discrepancies in the distribution of personal incomes. However, this explanation cannot align with the significant income disparity observed between males and females, or between whites and blacks. While acknowledging the potential existence of social bias in his work, he refrained from integrating it into his analysis.

Nevertheless, according to Manchin(1999), impoverished households in numerous nations have a tendency to allocate insufficient resources towards schooling. The policy recommendation derived from this perspective, which focuses on human capital in relation to poverty, is that while complete income equality cannot be achieved due to inherent genetic disparities in ability, significant progress can be made by increasing investment in the education of impoverished individuals. This will enhance their level of ability, which plays a crucial role in determining their potential earnings. Adult education might be crucial for those whose talents are not in high demand and/or who have not received adequate education through traditional schools (Neumark, 2003)

Several notable authors have contended that, investing in one's capital can often come with a significant and emotional burden that may dissuade individuals from taking the risk. This burden might arise from quitting solid yet low-paying employment and severing social connections. However, failing to invest in one's own talents increases the likelihood of receiving poor wages and, thus, experiencing poverty. This, in turn, amplifies the previously indicated expenses associated with investing in human capital, thereby strengthening the negative cycle (Pemberton et al, 2013). This policy concept aims to effectively redistribute a public resource, such as education, in order to equalize the distribution of skills among the population. By doing so, it can assist prevent the occurrence of harmful cycles. This idea asserts that investing in education to develop human capital is a significant factor in determining the amount of poverty in the country.

2.2.2 Deprivation Theory of Poverty

Relative Deprivation refers to the perception or feeling of being deprived or disadvantaged in comparison to others. It is a concept that focuses on the subjective experience of inequality and the sense of unfairness that arises from the adoption of the theory of poverty has been deemed necessary to provide a framework for the study and ensure the empirical relevance of the work. Peter Townsendpre-funded this theory in 1979, as asserted by Townsend himself. "Poverty can be objectively defined and consistently applied only by considering the concept of relative deprivation. " He supports this assertion by explaining that society establishes and shapes people's demands, including the basic necessity of eating (Holbom, 2008).

According to Townsend, poverty impacts the energy expenditure of various segments of the population, not only in their work but also in their involvement in community and family activities. Their roles as parents, spouses, friends, and neighbors, as well as their work responsibilities, influence the number of calories they need to consume daily. In addition, he was a prominent advocate for defining poverty based on relative deprivation. He emphasized that poverty should be defined in relation to the prevailing standards of a specific society at a given time. Furthermore, he strongly believed that poverty encompasses more than just a mere absence of material resources (Holbom, 2008).

Moreover, he contends that the nation of relative deprivation should be understood in relation to the resources accessible to individuals and households, as well as the patterns of living that dictate the utilization of those resources. He contends that focusing just on money as a measure of a household's material condition disregards other forms of resources that may be accessible. It fails to consider capital assets (such as owning a home, which may provide more advantages than renting), and disregards employment fringe benefits, gifts, and the value of public social services like education and healthcare(Holbom, 2008).

2.3 Empirical Review

The relationship between poverty and the minimum wage has been the subject of numerous studies, with varying degrees of success. Studies conducted by Foguel et al. (2001), Gindling and Terrell (2010), Ham (2013), and Kapelyuk (2014) shown how minimum wage reduced poverty in the various nations they looked at. However, Neumark et al. (2006) noted that the findings of their investigation into how the minimum wage affects family income distribution in Brazil do not lend credence to the idea that the minimum wage has a positive distributional effect that raises the income of low-wage earners' households.

According to Pauw and Leibbrandt (2012), the minimum wage is an unpopular policy instrument due to the distributional issue that has been identified, rendering it inappropriate as a tactic to combat poverty. Both the wealthy and the impoverished were affected negatively. A few writers have even distinguished multiple ways in which poverty is impacted by the minimum wage. Alaniz et al. (2011) found that while rising minimum wages in Nicaragua reduced household poverty, this effect varied according to whether the household head was impacted by the minimum wage or not.

Gindling (2014) argued that a number of factors determine whether raising the minimum wage will result in greater or lower levels of poverty in developing nations. These include the degree of enforcement, the existence or lack of social safety nets to assist those adversely affected by the minimum wage increase, whether low-wage workers who are essentially the target group live in impoverished households, whether those covered by the minimum wage policy lose their jobs as a result of adjustment, and how the minimum wage affects those in the uncovered (informal) sector. The study found that raising the minimum wage had a small but positive impact on poverty in emerging nations since so many people labour in the unregulated informal economy.

According to research conducted in Costa Rica by Gindling and Terrell (2005), there appears to be little effect of minimum wage on self-employment in the uncovered sector. An increase in the minimum wage only results in a rise in formal. Increase in minimum wage merely raises wages of formal sector employees relative to the self-employed who are not covered by the minimum wage. Alaniz et al. (2011) opined that minimum wage could have indirect effect on the self-employment sector through absorption of workers pushed from formal sector which ultimately drives down wages in the uncovered sector. On the other hand, efforts of institutions (e.g unions) that try to replicate minimum wage condition in the informal sector might eventually lead to poverty reduction (Gindling and Terrell, 2010

Alain de Janvry and Elisabeth Sadoulet (2022), by examining a variety of nations, have discovered that the coefficient is predominantly negative. This indicates that higher minimum salaries are associated with lower levels of poverty. In contrast to Morley's findings (2022), it was determined that the coefficient for urban poverty is only statistically significant during a recession. However, these studies solely rely on observations conducted exclusively in Latin America (Dinardo, 1996, C,2002: Neumark &Schweltzer, 2005).

Mainning (2005) also determined that minimum wage legislation is ineffective as a means to combat poverty in Indonesia. A study revealed that a mere 17% of the extra income generated by the minimum wage hike in 2003 was received by impoverished households. Approximately 34% of the benefits went to homes just above the poverty line, while the remaining 50% of the advantages were enjoyed by households that were not classified as poor. Additionally, the analysis of net benefits demonstrates that only 25% of impoverished households get an increase in income, but 75% of impoverished households face a decrease in purchasing power due to increased costs. Muller and Teiner (2008) examined the impact of a €7.50 per hour raise in the minimum wage on poverty levels in Germany. They stated that the reason for the hike was to mitigate poverty among the employed individuals with low income. Their findings demonstrated that the program would have little efficacy in alleviating poverty.

In a more recent study, Richard (2010) expanded on existing research by investigating the impact of the rise in state and federal minimum wage rates in the United States, from \$5.15 per hour in 2003 to \$5.85 per hour in 2007, on poverty levels. This was done by analyzing survey data and applying a panel regression analysis. In addition, they conducted a simulation to analyze the impact on income distribution of the proposed rise in the minimum wage from \$7.25 per hour in 2009 to \$9.50 per hour. This analysis was based on data collected from a demographic survey. Their research revealed no empirical support for the hypothesis that the poverty rate was lowered as a result of minimum wage hikes during the period from 2003 to 2007. Additionally, it was shown that the suggested wage hike did not effectively focus on the working poor, as only 11.3 percent of the workers who would receive the salary rise were in impoverished homes. Approximately 63.2% of individuals who receive the minimum wage are secondary workers who live in households with earnings that are twice the poverty line. Additionally, 42.3% of these beneficiaries come from families with incomes that are three times the poverty line. It is important to highlight that several research have also demonstrated that minimum wage has the ability to reduce poverty.

In Nigeria, the limited numbers of research that have examined the impact of the minimum wage have primarily concentrated on its implication on employment and macroeconomics. The findings are inconclusive, since (Taiwo, 2005) discovered a negative impact on employment, while (Folawewo, 2007) highlighted that the well-being of both poor and high-income households improved after the implementation of the minimum wage hike in Nigeria. Both of them embraced the CGE technique. Studies conducted in Nigeria have clearly overlooked the impact of the minimum wage on poverty, which is the primary objective of minimum wage regulations.

Similarly, assessments of poverty in Nigeria have mostly concentrated on income or expenditure (Okunmadewa et al., 2007; Aigbokhan, 2008; Omonona, 2009). Nonetheless, research on multidimensional poverty has been the focus of some authors. Multidimensional poverty in Abia State was evaluated by Oyekale and Okunmadewa (2008), Multidimensional poverty in rural Nigeria was examined by Oyekale (2011), Salman (2012) examined the impact of microenterprises on poverty in Osun State, and Multidimensional poverty in Nigeria was examined by Oyekale and Oyekale (2013) using data from the Demographic and Health Survey (DHS). However, utilising data from senatorial districts, Sowunmi et al. (2012) used a spatial approach to poverty study.

However, no one has examined the short- and long-term connections between poverty and the minimum wage. In order to address a topic that receives little attention in the literature on minimum-poverty, this study uses the Autoregressive Distributive Lag approach.

3.0 METHODOLOGY

In determining the kind of methodology to be used in the analysis the study wants to carry out the stationary test using the unit root test of Augmented Dicky Fuller to check whether the data are fit to be used. The data employed in this study are secondary data which were obtained from the World Bank data, the Central Bank of Nigeria (CBN) statistical bulletin, National Bureau of Statistics (NBS) from 1980-2019 using the annual time series.

This study therefore among the aforementioned methods adopts the conventional regression method by directly considering the impact of real minimum wage on the poverty level with the inclusion of some relevant control variables such as unemployment rate, per capital income, real average, real public spending, human capital stock, education expenditure and inflation rate. The inclusion of important variables such as inflation (INF), unemployment rate (UNP), per capita income (PCI), real average wage (RAW) and human capital stock (HCS) to a large extent solves the problem of omission of important variables as observed in previous studies so far. The inclusion of the control variable was as a result of the studies conducted by previous authors and found significant in the results such as Aminu and Anono (2012) on inflation and unemployment, among others.

3.1 Model Specification

Following the previous work of Hansen (2015), Baum (2007), and Greene (2003) combined; the empirical moment equation is as follows:

$$POVTt = \beta 0 + \beta 1MWt + \beta 2LEBt + \beta 3UNPt + \beta 4INF + \beta 5PCI + \varepsilon t \ldots\ldots\ldots\ldots 1$$

POVT stands for poverty rate at year (t), **MW** stands for minimum wage at year (t), **LEB** stands for life expectancy as (human capital stock) at year(t), UPstands for unemployment rate at year (t), **INF** stands for inflation rate at year (t), **PCI** stands for per capital income at year (t), and

$\mathcal{E}_t$stands for error term at year (t)

The reason for the inclusion of the variables in the model is different suggestions which emanated from the theories and empirical shreds of evidence which have shown their importance and significance in the determination of poverty level in Nigeria's economy. The inclusion of minimum wage to the existing model was due to many recent studies which had explored the effects of minimum wage increases on poverty (see, for example, Card and Krueger 1995; Addison and Blackburn 1999; Neumark and Wascher2002; Neumark et al. 2004, 2005; Burkhauser and Sabia2007; Leigh 2007; Sabia2008; Sabia and Burkhauser 2010; Gundersen and Ziliak2004).

3.2 Data Descriptions

The data used in this study draws from the rich World Development Index (WDI) and the National Bureau of Statistics (NBS). These sources contain the inflation data from 1980 -2018, an unemployment rate of 1991-2016, 1990-2015, and the value for the minimum wage from 1981-2019 respectively.

3.3 Estimation Technique

As a pre-test condition, an augmented dickey fuller unit root test was applied to test for the stationary of the series. This will be used to trial-test the level of stationary of variables as a pre-estimation test to perceive whether the data is fit to be used and the type of regression model to be employed. This test reflects on the various level of ADF such as unit root test at level and at first difference to test for stationary for the regression model that will fit in the data analysis. The assorted level of stationary can either be at; constant, constant and trend and none. The ADF model can be mathematically specified as:

$$\Delta X_t = \mu + a x_{t-1} + \sum_{i=1}^{k} \beta \Delta X_{t-i} + E_{t\ldots} \ldots\ldots 4$$

$$\Delta X_t = \mu + \beta t + a x_{t-1} + \sum_{i=1}^{k} \beta \Delta X_{t-i} + E_{t\ldots} \ldots\ldots 5$$

$$\Delta X_t = a x_{t-1} + \sum_{i=1}^{k} \beta \Delta X_{t-i} + E_{t\ldots} \ldots\ldots\ldots\ldots 6$$

Where;Δ denotes the first different operator,X_1 is the variable under consideration, μ is the constant term,, t is the time series trend, x_{t-1} is the lag of the series being tested, k denotes lag length, Δxt-1 is the first difference lagged series usually taken to eliminate the problem of serial correlation (Dickey and Fuller, 1979) and E_1 is the white noise process with E_1 **Πiid** (σ^2). The term k in the test is automatically determined by Schwarz Information Criterion (SIC) or Akaike Information Criterion (AIC) to get the optional lag length and ensure white noise process of the residuals.

Econometrics Model:

$$\Delta POVT_t = \beta_0 + \Sigma\beta_{1i}\Delta MW_{t-1} + \Sigma\beta_{2i}\Delta LEB_{t-1} + \Sigma\beta_{3i}\Delta UNP_{t-1} + \Sigma\beta_{4i}\Delta INF_{t-1} + \Sigma\beta_{5i}\Delta PCI_{t-1} + E_{ti} \ldots\ldots\ldots\ldots\ldots\ldots 7$$

Where: E_t = disturbance (error term) which captured other factors that were not incorporated in the model, although they can affect the model

β_0 = parameter intercept/ constant,

β_1, β_2, …. = coefficient of the independent (exogenous) variable.

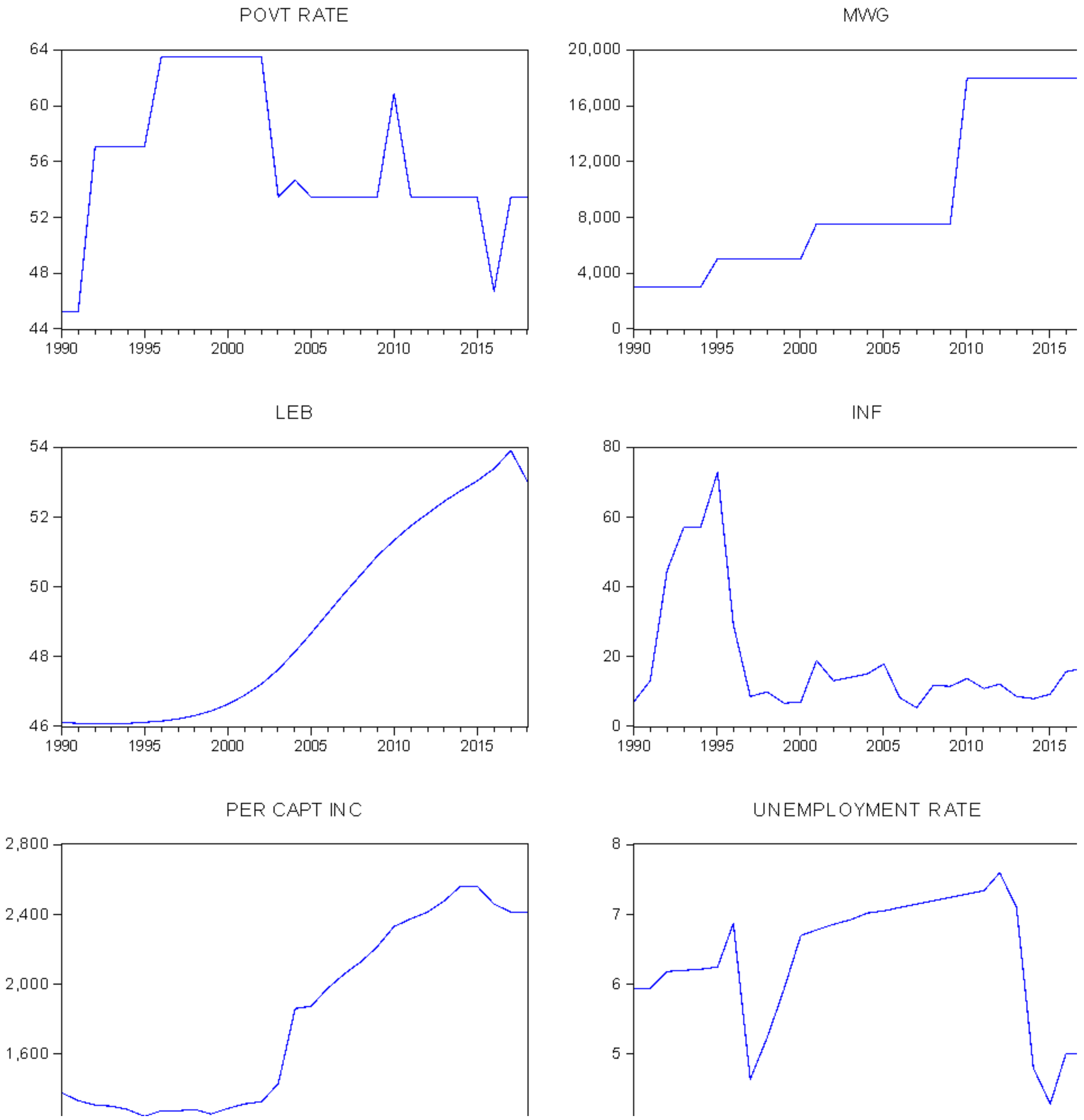
POVERTY (POVT) is regarded as dependent variable (DV) in the model. While Minimum Wage (MW), Life Expectancy (LEB), Unemployment (UNP), Inflation (INF**)**, and Per Capital Income (PCI**)** are independent variables (IV).Dependent Variables are variables that are determined by the model while independent variables are those variables that are exogenously determined by the model.

The purpose of the augmented Dickey-Fuller (ADF) test is to verify the null hypothesis, $\mathscr{E} = 1$. We are unable to deny the presence of a unit root if the null is un-reject able. There are two variations of this test, one with an intercept and the other with a trend, as was previously described. The null hypothesis of a unit root is present in the majority of the unit root tests that we will look at in this chapter. After conducting tests to determine the stationary of the data set, it was found that the data exhibited stationary at both I(1) and I(0) levels. This test introduced the utilization of an Autoregressive Distributed Lag (ARDL) bound test approach as suggested by Persaran, Shin and Smith(2001), to examine co-integration and estimate the link between the variables. The ARDL strategy has some favorable statistical benefits compared to alternative co-integration techniques. The ARDL test procedure is unique in that it can produce accurate results regardless of whether the variables are integrated of the same order (1(0) or different orders (1(1)) or mutually co-integrated. Additionally, this procedure is known for providing highly efficient and consistent estimates, regardless of the size of the sample being analyzed (Pesaran, Shin & Smith, 2001). Hence, this strategy is applicable in this case as our root test indicates that all the series are either integrated of order (1(0) or integrated of order one (1(1)). The ARDL model can be specified as:

$$y_t = c_0 + c_1 t + \sum_{i=1}^{p} \emptyset_i y_{t-i} + \sum_{i=0}^{q} \beta'_i X_{t-1} + u_{t\ldots} \ldots \ldots ..4.$$

4.0 DATA ANALYSIS AND DISCUSSION

DATA SET TREND ANALYSIS



This section initiates a thorough analysis of the characteristics of the unprocessed data collection. Table1 displays the outcome of the descriptive statistics. From the result, it could be observed that the mean values of POVT, MW, LEB, INF, PCI, and UNP are respectively 55.88, 9465.51, 48.994, 18.45, 1806 and 6.304 with their standard deviations of 5.424, 6032.54, 2.845, 17.155, 522.60 and 0.9568 .The Jarque-Bera (JB) value of 0.380738, 3.9645, 3.2852, 29.92, 3.7164 and

2.9046 respectively with their p-values of 82.66percent, 13.77 percent, 19.34percent, 15.59percent and 23.40percent means that they are normally distributed. However, the JB value of 29.92 with the p-values less than 5 percent suggests that it is not normally distributed.

Table 2. Discriptive Analysis

Statistics	**POVT**	**MW**	**INF**	**PCI**	**LEB**	**UNP**
Mean	55.88414	9465.517	48.99414	18.45985	1806.052	6.304172
Median	53.47000	7500.000	48.12566	12.21701	1860.062	6.702000
Maximum	63.50000	18000.00	53.90000	72.83550	2563.092	7.600000
Minimum	45.27000	3000.000	46.07283	5.382224	1242.738	4.275000
Std. Dev	5.424074	6032.547	2.845084	17.15574	522.6024	0.956826
Skewness	-0.028899	0.602754	0.384539	2.020111	0.191440	-0.643657
Kurtosis	2.441652	1.648044	1.541461	5.905995	1.288544	2.135920
Jarque-B	0.380738	3.964582	3.285238	29.92824	3.716445	2.904608
Probbility	0.826654	0.137753	0.193473	0.000000	0.155950	0.234030
Sum	1620.640	274500.0	1420.830	535.3356	52375.51	182.8210
Sum.Sq.Dev	823.7761	1.02E+09	226.6461	8240.946	7647171.	25.63442
Observations	29	29	29	29	29	29
R^2						
F-STAT						

Author’s Eview 9.1 Computation

Table 3 demonstrates that MW, INF, PCI, and UNP exhibited unit roots at levels but they attained stationary after being differenced once. This is because the absolute values of their test statistics were lower than the critical values at a significant level of 5 percent. However, after performing a first-order differencing, the test statistics exceeded their critical values at a significance threshold of 5 percent when absolute values were considered. However, it is worth noting that both POVT and LEB remained constant at certain levels, since their test statistics, when their absolute values were compared to their critical values, were found to be higher. Due to the integration of the variables into order 1(1) and 1(0), we were required to estimate our model using the ARDL model. Nevertheless, we will not proceed with this action until we establish our criterion for selecting the lag. The auto selection model serves as the foundation for our lag selection process due to its widespread adoption, despite being criticized for its lack of consistency and irregularity the ideal latency.

Table 3. Augmented Dicky Fuller (ADF) Unit Root Test

VARIABLE	*ADF Test Statistics*		*ORDER OF INTEGRATION*
	ADF Test Statistics		
	AT LEVEL	*FIRST DIFFERENCE*	
MW	*-0.633475*	*-5.386357*	*I(1)*
INF	*-2.000297*	*-4.273565*	*I(1)*
PCI	*-0.096495*	*-5.386357*	*I(1)*
UNP	*-1.775223*	*-4.951680*	*I(1)*
LEB	*-3.224672*		*I(0)*
POVT	*-2.734547*		*I(0)*
Test critical values at level: 1% = -3.679322, 5% = -2.967767, 10% = -2.622989 Test critical values at 1st Diff: 1% = -3.689194, 5% = -2.971853, 10% = -2.62512			

Source: *Author’s Eview 9.1 Computation*

The table below represents the ARDL long-run estimates of the effect of MW, INF, PCI, LEB, and UNP on POVT. From the result, the R2 value of 0.8715 shows that about 87.15 per cent of the changes in the poverty rate is explained by the independent variables (minimum wage, life expectancy by birth, per capital income, inflation rate, and unemployment rate) in the long run. Furthermore, the F-statistics showed that the model is statistically significant even at 1 percent since the probability value of f-statistics is 0.002 therefore the model is a good representation of statistical value.

Table 4. Short and Long Run ARDL Cointegration Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(PER_CAPT_INC)	-0.001378	0.007977	-0.172699	0.8660
D(MWG)	0.001074	0.000312	3.446898	0.0055
D(LEB)	-1.805801	2.040227	-0.885098	0.3950
D(LEB(-1))	-16.443983	6.865650	-2.395110	0.0355
D(INF)	-0.216209	0.049313	-4.384396	0.0011
D(INF)	0.083482	0.050446	1.654875	0.1262
D(SECHENRO)	-0.189746	0.241328	-0.786259	0.4483
D(UNEMPLOYMENT_RATE)	-0.684022	1.044959	-0.654592	0.5262
D(UNEMPLOYMENT_RATE(-1))	-1.188164	0.964215	-1.232260	0.2435
CointEq(-1)	-1.011873	0.147822	-6.845233	0.0000

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PER_CAPT_INC	-0.001361	0.007806	-0.174394	0.8647
MWG	0.000371	0.000428	0.864765	0.4056
LEB	0.610179	1.460948	0.417660	0.6842
INF	-0.187510	0.047935	-3.911757	0.0024
SECHENRO	-0.651666	0.383799	-1.697937	0.1176
UNEMPLOYMENT_RATE	2.096846	1.385813	1.513080	0.1584
C	42.666660	65.310947	0.653285	0.5270

Author's Eview Computation 2019

5. DISCUSSION OF FINDINGS

The above result shows the both short and long-run relationship between the dependent and independent variables. It shows that at short-run minimum wage has a positive impact on the poverty level as the probability value is higher than the significant level even at 1 per cent may be because of the increase in the nominal value of the money at the initial stage but despite its significant, it has a negative impact on poverty at short run because of several reasons such as an increase in the price of goods and services as a result of increased in minimum wage among other factors. And in the long run, an increase in the minimum wage would not have a significant impact on the poverty level as the result shows that the probability value is greater than the significant level even at 10 percent. This is the evidence emanated from Nigeria using its data to confirm the insignificance of the minimum wage in the long run. This result actually in support of other literatures believed that minimum wage is not really significant in the long run for example, Available studies for Latin America show that a rise in the minimum wage may reduce poverty (and vice versa), at least in the short run. Samuel Morley, for example, who looks at the relationship between minimum wages and poverty in a cross-section of Latin American countries, finds a negative correlation between minimum wages and poverty.This result achieved the objective of this study stated in section one of this paper.

Also per capita income as shown from the result do not have a significant impact on the poverty level in the short run as the probability value is higher than the significant value in both the short and long run and this mean number of years of life does not depend on whether one is poor or not.

Furthermore, this result shows that in both the short and the long run inflation is significant in the poverty level as the result shows the probability value in both the short and the long run is greater than the significant level. This means that the general and persistent increase in the price of goods and services actually affect the poverty level in Nigeria. This is because it is possible for the poor to spend all their income in the consumption of goods necessary for living such as food, shelter, etc and when the price of these goods and services increases the level of poverty increases and the poor people may not live the circle of poverty even with the increased in the minimum wage. The recent 2024 increase in the minimum wage to N70,000:00 by the Tinubu led administration may have negative multiplier effects on the extremely poor and vulnerable.

6. CONCLUSION

This study examines the implication of minimum wage on the poverty level in Nigeria using the Autoregressive distributed lag methodology. Based on the above findings, the study concludes that the poverty level reduction in Nigeria has been significantly influenced by increasing minimum wage only in the short run but has no significant impact in the long run. This conclusion goes along with the outcome of the research conducted by Maining, (2005) in Indonesia, Muller and Teiner (2008), in Germany, Richard (2010) in U.S.A among others

It also ascertained through this study that inflation has both short-run and long-run influences in the increase in poverty level in Nigeria while other variables such as per capita income, life expectancy, and unemployment are not statistically significant in determining the poverty level in Nigeria. Hence, the following recommendations:

(i) Government should encourage time to time review of minimum wage and develop an agreed poverty reduction mechanism that can be used by all concerned stakeholders in Nigeria such as Federal, state and local governments.

(ii) Government should consider the price level in determining the current minimum wage of the workers.

(iii) Government should not only tackle absolute poverty by increasing minimum wage and find another means of catering for the poor rather than taking minimum wage as a yardstick for assisting the poor or reducing poverty in Nigeria

(iv) The government should find the means to identify the poor people in the country and provide the necessities of life for them such as food, cloth and shelter so they will not die as miserable human beings.

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