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Challenges of Minimum Wage Implementation and Management in the Nigerian Public Sector a Game Theory Analysis

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ABSTRACT

Minimum wage is a major instrument established by the International Labour Organization (ILO) to protect workers from unjustified low pay and to ensure equitable share of the proceeds of labour. This helps to alleviate poverty among low-income earners and ensure they are able to take care of their basic needs. However, in most developing countries like Nigeria, workers struggle to survive as the minimum wage is hardly enough to take them home. In some cases, the government find it difficult to honor agreements like wage increase or changes in working conditions; hence the incessant protests and strikes by the workers union represented by the Nigerian Labour Congress (NLC) and the Trade Union Congress (TUC). The government also finds it difficult to raise wages for workers resulting in disagreements. Using the Game Theory, this study therefore shows how both the government and the workers union can manage the challenges of wage disputes through bargaining so that everyone is better off. As a result, the government and the economy will not lose millions of Naira due to deadlocks and strikes, while workers will not lose productivity and wages due to 'No work, no pay' policy of the government. It is recommended that both the government and the labour union should negotiate their diverse terms for each party to have a better pay-off.

Key words: Minimum wage, Game theory, Labour, Government, Nigerian Labour Congress

INTRODUCTION

The International Labour Organization (ILO) defined Minimum wages as "the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract" (Coralie, 2018).The National Minimum Wage was adopted by the International Labour Organization (ILO) as Minimum Wage Fixing Machinery Convention 026 of 1928 and reinforced by Minimum Wage Fixing Convention 131 of 1970. It was also captured in Article III subsection (d) of the ILO Philadelphia Declaration which demands that every country pursues… "policies in regard to wages, earnings, hours and other conditions of work calculated to ensure a just share of fruits of progress to all, and minimum living wage to all employed and in need of such protection" (Nigerian Labour Congress (NLC) and Trade Union Congress (TUC), 2021).

Minimum wage is usually established to protect workers against unjustified low pay. It helps to ensure a just and equitable share of the proceeds of labour to all, and a minimum living wage to all who are employed and in need of such protection. Minimum wages can also be one element of a policy to overcome poverty and reduce inequality, including those between men and women (ILO, 2018). Minimum wage legislation according to ILO, 2008 is practiced in more than 90% of the nations of the world and help to prevents the exploitation of weak, ill-informed or isolated groups of individuals (Fapohunda, Atiku & Lawal, 2012). It affords such people a more comprehensive protection than is available through existing voluntary bargaining machinery. Each ILO member State that adopts the Minimum Wage Conventions is left with the obligation of establishing a system of minimum wage that will cover all sectors of the economy including the Organized Private Sector which wages are to be paid hourly, daily or monthly depending on what the social partners adopt. According to the provision, the Nigerian government then adopted a monthly wage system in Nigeria through social dialogue (NLC & TUC, 2021). Over the years, Nigeria has witnessed a huge increase in the number of industrial actions which is usually associated with default in payment of workers remuneration, low pay or non-payment of negotiated increases in the remuneration. Records have shown that 90% of strikes in Nigeria arose from wage related disputes (Kester as cited in Mustapha, 2021). However, collective bargaining is the only legal means by which government workers negotiate wages with the federal government but the latter has cultivated the habit of not honoring these negotiations especially regarding increased remuneration.

Objectives

This paper examines the minimum wage commissions in Nigeria from the colonial era to the present and then the disagreements and attendant industrial actions that ensue due to constant default on the part of government in honoring its wage agreements with the workers in the Nigerian public sector. This study will employ the Game theory in analyzing the decisions of the government and workers union in their negotiations over the years. It also examines issues relating to government policy on minimum wage and how it impacts on the economic and social wellbeing of the workers.

Conceptual Review

Minimum wage can simply be defined as the smallest hourly wage that an employee may be paid as mandated by Federal Law (Fapohunda et al, 2012; Archibong, Forstina, Jude & Chukwudi, 2014, Eme & Okeke, 2009). Put differently, George (as cited in Mustapha 2021) also defined the concept of minimum wage as the lowest wage an employer is allowed to pay. The Cain Labour Standard Act of 1938 (as cited in Fapohunda et al, 2012) defines minimum wage in the USA as the minimum hourly rate of compensation for labour as established by federal statute and refined by employers engaged in businesses that affect interstate commerce. It may also be referred to as the rate of pay fixed either by a collective bargaining agreement or by governmental enactment as the lowest wage payable to specified categories of employees.

Many factors such as inflation and other changes in the economic environment changes the value of workers' wages over time which results in reduction of the real value of wage that the worker eventually takes home, hence the need for periodic minimum wage review and review of other work conditions. Many countries review their minimum wages over shorter periods compared to Nigeria which reviews her minimum wage every five years, this has made workers feel neglected, cheated and unvalued over the years. According to ILO (as cited in NLC and TUC, 2021), three major ideas are considered while fixing the minimum wage at any point in time. It considers the amount sufficient to cater to those basic necessities such as food, clothing, housing, education and recreation of the workers, while taking into account the economic and cultural development of each country. Secondly, minimum wage represents the lowest level of remuneration permitted by law, the level of the worker notwithstanding. Third, minimum wage is the wage backed by the force of the law and enforceable by appropriate bodies.

Currently, there is a strong tussle between the Nigerian government and the labour unions over increment of minimum wage which was last reviewed and established on 19th March, 2019, as the Minimum Wage Bill and was passed into law as a legislative framework for the implementation of the new minimum wage in the sum of N30,000. It is worthy of note that prior to the 2019 review, the minimum wage was last reviewed in 2011 and this long delay in the review of the minimum wage negatively affects minimum wage earners as the rate of inflation and subsequent increase in the prices of goods and services leaves them agitated, thus leading to industrial strike actions.

Historical overview of wages Commissions in Nigeria

Minimum wage determination in Nigeria dates back to the colonial era when negotiations and consultations on wages were left mainly at the discretion of European officers who were at the hem of public administration (Fashoyin, 1980; Fapohunda et al, 2012; Akintoya et al, 2020). The main feature of the colonial wage policy was setting up commissions in response to workers outbursts and protest against bad working conditions and low wages. Precedence was set by initiating the Hunt Commission of 1934 which was charged with reviewing the wages of unskilled workers and to determine reasonable standard of living for labour (Akintoya et al, 2020, Onyekwena, 2021). This was followed by the Bridges Committee of 1941 which reviewed wages of African

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government workers in Lagos and recommended compensatory increase subsequently, called cost-of-living awards. The Philipson-Adebo commission (1953) followed with the task of drawing a framework for the attainment of Nigeriazation status which simply implies to increase the number of senior cadres of Nigerians in t cvgh he civil service.

The Lidbury Commission (1954) established that grading and salary scales should be based on responsibility and not race while the Mbanefo Commission of 1959 ensured uniformity in pay and condition of service for all cadres and groups across the country. It is noteworthy that before 1946, the civil service was broadly divided into European and African services in which the Europeans were better treated than African workers in terms of higher pay, better conditions of service, etc. (Ogunna, 1999), until the recommendation of Sir Walter Harragin Commission of 1946 was implemented. The structure was then abolished and replaced with the structure of Senior and Junior services which introduced the principle of equity and fairness in the civil service where both Europeans and Africans received a uniform basic salary (Okafor and Aniche, 2015).

Post independence wage determination

At the early period of post-independence, wages and salary grading were based on each regional government's ability to pay which brought about ununiform salary structure across the federation. In addition, there were also differences across different service units and professions among the civil servants which resulted in a complicated salary structure across board (Akintayo et al, 2020). But in 1963 The Morgan Commission introduced minimum wage for workers based on geographical area, varying from region to region depending on the economic conditions of the areas like cost of living but Mustapha (2021) is of the opinion that the Morgan Commissions were set up by the then government to review and award wage increase in order to appease workers for fear of being voted out of power. He opined that subsequent military governments towed the same path by setting up the Adebo commission of 1970 after the civil war and the Udoji commission in 1974 as they are aware of the fact that the trade union movement is an easy vehicle for the mobilization of people's sentiments.

The first national minimum wage legislation in the post-independence era took place between May 28 and June 15th of 1981 which enacted the National Minimum Wage Act of 1981. This act mandated every employer to comply with a wage of 125 Naira as the basic salary per month. Subsequently, in January 1991, the National Minimum Wage Act was reviewed, and workers started to earn a new minimum wage of 250 Naira per month being an 80 percent increase (Onuegbu, 2010; Mustapha, 2021). The Babangida Regime (1985-1993) made some salary reforms which introduced different salary systems to various professions.

For instance, universities, health workers, the judiciary, police, prison service, etc., had different salary structures higher than those of the civil service. This worked alongside the Udoji principle of uniform pay for public servants within a particular service in the entire Federation and for all tiers of government. In addition to this, this Regime appointed the Gray Longe Commission and later the Adamu Fika Panel. The two panels introduced the elongation of salary structure by increasing the numbers of steps within each level. The Abacha Regime (1993-1998) in 1997 appointed the Allison Ayida Panel which recommended a review of the wages and salaries of the Nigerian civil service. The federal government under General Abdulsalam Abubakar in line with their recommendations, introduced a salary structure based on the minimum wage of 3,000 Naira per month for states and local governments and 3,500 Naira for federal workers (Ogunna 1999; Asodike and Jaja 2012, Akintayo, Oyaromade, Ayantunji and Ajibola, 2020). The pay system introduced in January 1999 under Abubakar Regime (1998-1999) created for the first time, a dual pay structure, one for federal workers, and the other for the state and local governments‟ workers.

The Obasanjo Administration (1999-2007) on May 1, 2000, enacted the National Minimum Wage Act through the national assembly to pay a wage not less than national minimum wage of 7,500 Naira per month to all federal workers and oil producing states and then 5,500 Naira to all other states, the NLC protested against this which resulted in an upward review of the national minimum wage to 6,500 Naira per month for state workers while that of federal workers remained at 7,500. (National Minimum Wage Amendment Act 2000; Arizona-Ogwu 2007, Akintayo et al, 2020, Mustapha, 2021). The next minimum wage Act was signed into law by the

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Goodluck Jonathan administration in May 2011, where a flat rate of 18,000 Naira per month was fixed as the national minimum wage for both federal and state workers including the private sector workers.

This same Act abolished the dual wage system of the Abubakar regime and established the same minimum wage system for all government workers including the private sector (Mustapha, 2021; Akintayo et al, 2020). In 2019 however, President Muhammadu Buhari signed into law the minimum wage repeal and re-enactment Act, 2019 which increased the minimum wage to 30,000 Naira per month which many states still find very difficult to pay (Oyediran: The Punch, 2024). The harsh economic realities in Nigeria have pushed the organized labour to demand a new minimum wage, which is by the way due for a review in line with the policy of five yearly review of the national minimum wage (Mustapha, 2021). The debate has been going on for a while as the organized labour refused to accept the meager N62,000 that the federal government is offering to pay, given that inflation is overboard in the economy and that such wage cannot sustain an average Nigerian worker. The end to this battle is not in near sight.

Theoretical Framework

This study is based on the Game theory which Varian, 1992 defined briefly as the study of interacting decision makers. The strategic form of the game is defined by exhibiting a set of players, a set of strategies, the choices that each player can make, and a set of payoffs that indicate the utility that each player receives if a particular combination of strategies is chosen (Varian, 1992). It is assumed that in the description of the game: the payoffs and the strategies available to the players are common knowledge. That is, each player knows his own payoffs and strategies, and the other player's payoffs and strategies. Furthermore, each player knows that the other player knows this, and so on. We also assume that it is common knowledge that each player is "fully rational." That is, each player can choose an action that maximizes his utility given his subjective beliefs, and that those beliefs are modified when new information arrives according to Bayes' law (Varian, 1992).

In this study, the two players involved are the federal government of Nigeria who is the employer of labour, mostly represented by the Minister of Labour, and the labour union represented by the Nigerian Labour Congress (NLC) or its representatives who is the employee. The strategies involved here is the collective bargaining processes between the two players in this game which involves haggling over wages and other working conditions. Here, the government wants to spend less in order to have more money thereby leaving the workers with lower minimum wage; while the workers on the other hand, want to have higher minimum wage and better working conditions. These benefits are their payoffs respectively. It is assumed also that both players are fully aware of the other's strategies; in most cases, the government uses delay tactics to have their way while the workers union often resort to strike actions. Both players know the best case and the worst-case scenario. There is always uncertainty for bargaining in good faith, which may lead to either a solution or deadlock and they both make effort to avoid extreme solutions such as working pause, strikes, 'no work, no pay' threats and strike threats. Let us assume that there are two strategies available to both players based on Mallis, (2017) analysis:

Strategy 1 = take a flexible stance

Strategy 2 = take a rigid stance

Flexible stance on the part of government may be to increase the minimum wage to the amount proposed by NLC or something close to it, while for the workers, it might be to accept any amount proposed by the federal government. Rigid stance may be for the government to refuse to increase the minimum wage or whatever unrealistic wage they may have proposed. The rigid stance on part of the NLC may be to refuse to accept anything less than what they proposed.

FGN		**1 (flexible)**	**2 (rigid)**
NLC	**1(flexible)**	(0,0)	(-1,1)
	2 (rigid)	(1, -1)	(0,0)

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If the FGN keeps a rigid strategy and NLC keeps a flexible one then the FGN ends up with a loss and if the opposite occurs then NLC ends up with a loss. Again, if both players decide to remain firm at their initial strategy, there will be no equilibrium achieved. If both players opt to play strategy I, both will get zero payoff, same is true if both players play strategy 2. If FGN select to play strategy I and NLC strategy 2, then FGN's payoff is less than NLC's and if the NLC select to play I and FGN to play 2 then NLC's payoff is less than what FGN gets. Under these assumptions no Nash equilibrium is achieved and both players opt to remain at their initial strategies. However, assuming the state will be a fair mediator, at this stage, it is important to involve the state. In most situations, the state gets involved by instituting mediation committees that will try to broker peace and employ a strategy that leaves all parties better off. The state's role as a mediator is to find an ultimate solution that could satisfy all actors and at the same time retain fiscal balance and macroeconomic stability. This intervention by the state can change the expected payoffs for each player in each scenario.

Nash Equilibrium:

If both players keep a flexible strategy (2,2), there will be Nash equilibrium. But, if they keep a rigid stance (1, 1), both players get zero profit. However, each of the players has a higher payoff if it keeps a rigid stance while the opponent keeps a flexible stance (1, 2) or (2, 1) but this does not amount to Nash equilibrium. See the table below.

FGN

NLC

	1	**2**
1	(0,0)	(1, -1)
2	(-1,1)	(1,1)

Nash Equilibrium

If both players decide to go for a rigid strategy, they will both end up with zero payoffs (0,0) but if both decide to opt for a flexible strategy, both players end up with a higher payoff (1,1) and this is a Nash equilibrium.

CONCLUSION

Man is generally known as a utility maximizer who takes advantage of every situation to better off his situation. Workers want better pay and more conducive working conditions in order to meet their basic needs and fulfill their aspirations. On the other hand, employers of labour want to maximize profits which could be achieved through reduction in the cost of production; wages among others. These parties are obviously playing a game hoping for the best payoffs. From the Game theory illustrations above, it is obvious and in the best interest of both players to adopt a flexible stance which can take place through collective bargaining. Flanders (as cited in Ezeaku, Nwabude & Ezeaku, 2008) defined collective bargaining as a social process that turns disagreements into agreements in an orderly fashion. In this situation, the employers give up something while the employees also give up something in order to arrive at a decision that will favor both parties. This is called bargaining as defined by Ezeaku et al, (2008) which means to haggle over terms of 'give and take'.

Recall that the organized labour is agitating for an increase in the national minimum wage from N30,000 to a whooping sum of N615,000 (NLC, 2024), given the economic situation in the country especially the inflation rate. The federal government proposed the sum of N60,000 as what they can afford, this led to a warning strike of a few working days (Channels television, 2024). Following the game theory analysis, players involved will be better off if both take a flexible stance of continuous negotiation until both parties arrive at a pay-off that is to the advantage of both.

Assuming the players both opt for a rigid stand, labour may resort to strike action which will negatively impact both the employers and the employees. Strikes lead to loss of revenue, reduced production, increased cost, damaged reputation and social unrest, all these amount to huge and devastating economic losses. According to (Punch, 2024), Nigeria loses about $100m to strike in just one day as it cited a study by the Nigerian Economic Summit Group that estimated the 2018 ASUU strike cost the economy $1.5b. This has a ripple effect from government to the workers as there is further loss of funds to finance the agitated increase in wage, leaving both parties worse off. However, in the opposite scenario, workers may end up with higher minimum wage, government will have nothing to lose due to strike and the improved minimum wage will motivate workers to increase their productivity.

RECOMMENDATIONS

It is therefore important that government should abide by agreements it reached with labour unions and ensure that minimum wage is reviewed at the proposed regular intervals. That way, workers will not be agitated due to prolonged neglect and resulting hardship. This will lead to mutual relationship and benefits for both parties and the economy at large. Studies have also shown that better minimum wages aim at alleviating poverty and meeting basic needs of workers along with other measures of economic and social policy (Fapohunda et al, 2012; ILO, 2018). This fulfills the main objective for which minimum wage is established in the first place by the International Labour Organization in its Minimum Wage Fixing Convention, 1970 (No.131) and its accompanying Recommendation No.135, which is to give wage-earners the necessary social protection in terms of minimum permissible levels of wages.

This objective was already implicitly or explicitly contained in previous ILO Convention No.26 and Recommendation No. 30 (applicable to trades) and Convention No. 99 and Recommendation No. 89 (applicable to agriculture), which stipulated that the minimum wage should not be fixed at a lower rate than one which would ensure the subsistence of the worker and his/her family. Thus, it is important that in fixing minimum wages, the government should by all means try to understand the plight of workers, thereby fixing wages that will meet the ILO's purposes of fixing minimum wage especially to serve as a policy tool aimed at promoting rapid growth and equitable distribution of the national income. That way, all parties are happy and national harmony is intact.

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