Impact of National Minimum Wage Increase on Unemployment and Inflation Rates in Nigeria: An Empirical Analysis

Abdurrauf Babalola
Al-Hikmah University, Ilorin, Nigeria

Abstract
This study examined the impact of national minimum wage increase on unemployment and inflation rate in Nigeria. It employed the Federal Government national minimum wage from 1980 to date, unemployment and inflation rates as released by the National Bureau of Statistics 2019 series. ARDL models of cointegration and ECM were employed to analyze the data, keeping unemployment rate as dependent variable in model 1 and inflation rate as dependent variable in model 2. It was evident in the findings that national minimum wage has a positive and significant impact on unemployment and inflation rate in both the short and long run in the Nigerian economy. A 10 per cent increase in national minimum wage, on the average, led to approximately 1 and 2.3 per cent increase in unemployment rate in the short and long run periods. Also, a 10 per cent increase in national minimum wage, on the average, caused a corresponding increase in inflation rate by 1.3 and 1.1 per cent in the short and long run periods. This work therefore recommends that while both parties of the federal government and the Nigerian Labour Congress, recognize the implication of high increase in national minimum wage on unemployment and inflation rates, the government could have a steady and mild increase intermittently without any negotiation or call for strike by the labour union. This, from the findings, will not result to any significant effect on the two rates.

Key words: Minimum Wage, Unemployment, Inflation, ARDL

JEL Classification: J21, J23, J38, J63

Paper Classification: Research Paper