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THE EFFECT OF MINIMUM WAGE LAWS ON EMPLOYMENT RATE

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ABSTRACT

This study examined the effect of minimum wage laws on employment rates. The aim of the study was to investigate how minimum wage laws affect employment rates. To achieve this aim, the study adopted the public interest theory to explain the effect of minimum wage laws on employment rates. The study also adopts content analysis, which involves reviewing past studies on the effect of minimum wage laws on employment rates. After this intensive review of past studies, it was discovered that minimum wage laws and employment rates are crucial indicators of economic stability and growth. When employment rates are high, it indicates a healthy labor market and increased economic activity. This leads to higher consumer spending, increased tax revenues, and overall economic growth. The minimum wage laws have opposing effects on job creation because when the minimum wage is high, employers find it difficult to employ more people, and a low employment rate can indicate economic downturns or recessions as job losses result in reduced consumer spending and economic contraction. Based on these findings, the study recommended that the government recognize that the impact of minimum wage laws may vary across regions with different economic conditions; therefore, policies should be designed to account for regional disparities in wages, costs of living, and labor market dynamics. This can help ensure that minimum wage laws are set appropriately to avoid adverse employment effects in specific regions. The government should continuously monitor and evaluate the impact of minimum wage laws on employment rates. This can help policymakers understand the specific effects in different sectors and regions, allowing for evidence-based adjustments and improvements to minimum wage policies.

Keywords: Minimum wage laws, Employment rate, Unemployment rate, Public interest theory

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Introduction

Employment rates, which reflect the percentage of the working-age population that is employed, are a crucial economic statistic. They shed light on the state and functionality of labor markets generally in a nation or area. Usually, to represent the employment rate as a percentage, the number of people in the labor force is divided by the total number of people of working age. It stands for the percentage of people who are actively working for pay. The rates of employment worldwide differed between nations and continents. The global employment-to-population ratio, according to the International Labour Organization (ILO), was about 57.7% in 2020, a decrease of 3.8 percentage points from 2019 (ILO, 2019). Employment rates differ significantly among regions and countries due to variations in economic conditions, labor market policies, demographic factors, and other factors. For example, in the United States, the employment rate in September 2021 was 58.5% (BLS, 2021). The U.S. Bureau of Labor Statistics (BLS) regularly publishes employment data, including the employment-population ratio, which provides insights into the U.S. labor market.

According to KPMG, the continued influx of job seekers into the labor market would cause Nigeria's unemployment rate to soar to 40.6% in 2022 from its current level of 37.7%. According to the multinational consulting firm's recently released report, "KPMG Global Economy Outlook Report, H1 2023," unemployment will continue to be a problem because of the economy's less-than-expected growth and inability to accommodate the 4-5 million new workers entering the Nigerian labor market annually. Due to limited private sector investment, low industrialization, and slower than necessary economic growth, as well as the economy's inability to absorb the 4-5 million new entrants into the Nigerian labor market each year, unemployment is predicted to remain a significant challenge in 2023. The national unemployment rate rose from 23,1% in 2018 to 33,3% in 2020, according to the National Bureau of Statistics. According to our projections, this rate will rise to 37.7% in 2022 and reach 40.6 percent in 2023.

According to the estimate, the jobless rate would reach 43% in 2024, while the inflation rate would rise to 20% in 2023 and 20% in 2024. KPMG also stated that the next administration would be faced with a very difficult environment that is characterized by shaky and poor economic development as well as difficulties in the foreign currency market. Furthermore, government revenue is still insufficient to cover urgently needed expenditures, which results in a high debt stock and high debt servicing costs. With growth averaging 3.10 percent throughout 2022, the Nigerian economy completed the previous year with a GDP growth rate of 3.52 percent in Q4 2022, up from 2.25 percent in 2022.

Employment rates have significant implications for individuals, economies, and societies as a whole. Employment rates are crucial indicators of economic stability and growth. When employment rates are high, it indicates a healthy labor market and increased economic activity. This leads to higher consumer spending, increased tax revenues, and overall economic growth (ILO, 2019; ILO, 2021). Conversely, low employment rates can indicate economic downturns or recessions, as job losses result in reduced consumer spending and economic contraction (IMF, 2020). Employment plays a vital role in poverty reduction and improving social well-being. By providing individuals with income and financial stability, employment helps lift people out of poverty and reduces income inequality (UNDP, 2020).

Stable employment also contributes to improved living standards, access to basic needs, and overall social welfare. Individual Financial Security and Well-Being: Employment provides individuals with financial security, which is essential for their well-being. Having a job allows individuals to support themselves and their families, meet their basic needs, and access healthcare, education, and other essential services (OECD, 2018). Employment also enhances self-esteem, personal fulfillment, and a sense of purpose, contributing to individuals' overall well-being. Employment rates have a direct impact on social cohesion and inclusion. Access to employment opportunities promotes social integration and reduces social exclusion by providing individuals with a sense of belonging and participation in society (United Nations, 2015). Employment opportunities for marginalized groups, such as women, youth, and individuals with disabilities, are particularly important for promoting equality and social cohesion.

Indicators of employment rates are specific metrics used to measure and analyze the level of employment within an economy. These indicators provide insights into various aspects of the labor market. Here are some commonly used indicators of employment rates: Employment-to-Population Ratio: The employment-to-population ratio is a widely used indicator that measures the proportion of a country's working-age population that is employed. It is calculated by dividing the number of employed individuals by the total working-age population and multiplying by 100 to express it as a percentage. This indicator provides a broad measure of employment levels within an economy (ILO, 2013).

The labor force participation rate measures the percentage of the working-age population (typically defined as individuals aged 15 and above) that is either employed or actively seeking employment. It is calculated by dividing the labor force (employed plus unemployed individuals) by the working-age population and multiplying by 100. This indicator provides insights into the extent of labor market engagement (OECD, 2021). Unemployment Rate: The unemployment rate measures the percentage of the labor force that is unemployed and actively seeking employment. It is calculated by dividing the number of unemployed individuals by the total labor force and multiplying by 100. The unemployment rate provides insights into the level of joblessness within an economy (OECD, 2021).

Underemployment Rate: The underemployment rate measures the percentage of individuals who are employed but work fewer hours than they desire or are employed in jobs that do not fully utilize their skills and qualifications. This indicator provides insights into the quality of employment and the extent of labor market underutilization (ILO, 2018). Youth Unemployment Rate: The youth unemployment rate specifically measures the percentage of unemployed individuals in the age group typically defined as youth (usually 15–24 years old) as a proportion of the total youth labor force. This indicator helps assess the employment challenges faced by young people entering the labor market (ILO, 2020). However, despite several factors that influence the employment rate, it appears that minimum wage laws tend to affect the employment rate to a high extent.

The minimum wage is the lowest hourly amount an employer may legally pay an employee. If an employer compensates employees on an hourly basis, that employer must pay the employee no less than the minimum wage. In the United States, the minimum wage is set by the federal government. The government periodically modifies the minimum wage to reflect rises in the general price level and cost of living. In the labor market, wages rise and fall depending on the supply and demand for labor. Though it restricts economic efficiency, the argument in support of minimum wage laws is that it curbs employers' attempts to exploit

workers and ensures that employees are compensated at a livable rate. The purpose of minimum wage laws is to protect workers against unduly low pay. They help ensure a just and equitable share of the fruits of progress for all and a minimum living wage for 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 that between men and women. Although researchers and scholars have examined the relationship between minimum wage laws and employment rates in different countries, such studies have not been widely conducted in developing countries like Nigeria. Hence, the present study seeks to examine the effect of minimum wage laws on the employment rate in Nigeria to bridge this gap in the literature.

Statement of the Problem

Research and discussion on the connection between minimum wage regulations and employment rates are continuing. In accordance with minimum wage legislation, companies are required to pay their employees at least a minimum hourly salary. These laws are designed to raise the living standards of low-wage employees. While greater labor expenses may result in fewer work prospects and probable job losses, concerns have been expressed about the potential impact of minimum wage regulations on employment rates (Neumark & Wascher, 2008). Many Nigerians, particularly among those who are careful observers of the political history of the nation, did not share the joy and hope that greeted the passing of the Minimum pay Repeal and Re-Enactment Act, 2019, giving a N30,000 minimum pay for employees in Nigeria. Given that the country's implementation difficulties are a bigger development issue than policy formulation and acceptance, this makes sense. In this system, the political leadership at all levels politicizes every topic and takes a less-interested stance toward laws that do not serve their objectives. As a result, the challenges in implementing the necessary adjustments to bring the existing wage structures of workers at various levels into line with the new wage become an issue that tends to influence the employment rate. The first stage of implementation, the adjustment, was followed by the actual payment of the wage, which sparked a new round of back-and-forth between labor and government leaders. The comprehensive review by Neumark and Wascher (1994) analyzes multiple empirical studies conducted since the 1990s to examine the effects of minimum wage changes on employment. The authors find mixed results, with some studies indicating negative employment effects and others suggesting no significant impact (Card & Krueger, 1994).

Card and Krueger (1994) conducted a notable study focusing on the employment effects of a minimum wage increase in the fast-food industry. Their analysis compared employment trends in New Jersey and Pennsylvania after New Jersey raised its minimum wage. Contrary to the conventional belief that minimum wage hikes lead to reduced employment, they found no evidence of a negative employment impact. Dube et al. (2010) adopted a unique approach by examining neighboring counties with different minimum wage levels to estimate the effects of minimum wages on employment. Their findings suggest that minimum wage increases do not have substantial negative effects on employment, even in regions with distinct wage disparities.

Cengiz et al. (2019) conducted a study examining the impact of minimum wages on low-wage job growth in the United States using a bunching estimator method. Their findings suggest that while minimum wage increases have a modest negative effect on low-wage job creation, the overall employment impact is limited. Although these researchers have examined the effect of the minimum wage on several variables, the effect of minimum wage

laws on employment rate has not been widely researched in literature, especially in the Nigerian context. Therefore, the present study examined the effect of minimum wage laws on employment rate in order to fill this gap in literature and also provide solution to this problem.

Aim and Objectives of the Study

The aim of the study is to examine the effect of minimum wage laws on employment rate. However, the objectives of the study are to:

1. The impact of minimum wage laws on employment rate.
2. The impact of minimum wage laws on unemployment rate

Significance of the Study

The study on the effect of minimum wage laws on employment rates holds significant importance for several stakeholders, including policymakers, workers, employers, and researchers. The significance of this study can be understood in the following ways: Informed Policy Decisions: Minimum wage laws have direct implications for labor market regulations and social policies. Understanding the effect of minimum wage laws on employment rates is crucial for policymakers in designing and implementing effective labor policies. The study can provide evidence-based insights to strike a balance between improving workers' welfare and minimizing potential negative employment effects. Worker Welfare: The study's findings can have significant implications for workers, particularly those in low-wage sectors. Minimum wage laws aim to protect workers from exploitative practices and ensure fair compensation. Understanding the impact on employment rates helps assess the effectiveness of these laws in improving workers' welfare and economic conditions.

Economic Stability: The study's findings contribute to discussions on economic stability and macroeconomic policies. Changes in employment rates can have broader implications for economic growth, income distribution, and social stability. Assessing the impact of minimum wage laws on employment rates helps policymakers understand potential trade-offs and design policies that promote both social welfare and economic stability. Academic Advancement: The study can adds to the body of knowledge in labor economics and policy research. It will contributes to academic literature, providing insights into the effects of minimum wage laws on employment rates and advancing theoretical and empirical understanding in the field. It also opens avenues for further research and analysis, stimulating ongoing academic discourse.

The findings of this study can guide policymakers in formulating evidence-based labor policies and contribute to a deeper understanding of the complexities of labor markets and the potential impacts of minimum wage laws.

LITERATURE REVIEW

Concept of Minimum Wage Laws

The term “minimum wage” has come under close scrutiny in recent times, acquiring an increasingly but strangely controversial status both in terms of usage and policy objectives especially in the 1980s. The concept of minimum wage is often used in a variety of ways in

many countries and by different individuals. It is essentially an expression used in a number of circumstances in which a worker's remuneration is not allowed to fall below a given amount. Minimum wage may be defined as the least monetary wage prescribed to be paid to workers in both the private and public sectors of an economy. In the words of Fapohunda et al. (2013: 20), Minimum wage can simply be defined as the smallest hourly wage that an employee may be paid as mandated b Federal Law. According to the Cain Labour Standard Act of 1938 in the USA, Minimum Wage is 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 defined as the rate of pay fixed either by a collective bargaining agreement or by government enactment as the lowest wage payable to specified categories of employees (Fapohunda et al, 2013). The ILO (1996),

General Survey of Reports pointed of that denotes the minimum sum payable to a worker for work. Performed or services rendered within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum need of the worker and his/her family, in the light of national economic and social conditions. However, in 1967, the ILO meeting of experts on minimum wage fixing and related problems explained that the concept of Minimum Wage contains 3 basic ideas: (i) The wage should charter for the basic needs of food, clothing, housing, education and recreation of the workers, taking into account the economic and cultural development of each country, (ii) Minimum Wage covers the lowest level of remuneration prescribed by regardless of the workers' qualification, (iii) Minimum Wage is the wage which each country can enforce with penalty and sanctions. One argument is that fixing the Minimum Wage affords workers a reasonable income to meet their basic needs and raise their standard of standard of living

Minimum Wage is aimed at reducing poverty by distributing the national income to low income workers. However, evidence from a large number of academic studies suggests that minimum wage increase do not reduce poverty levels. For instance, Sabia and Burkhauser (2010) pointed out that an increase in minimum wage will lift some families out of poverty, other low-skilled workers may lose their jobs, which reduces their income and drops their families into poverty. Even among the working poor, the relationship between earning a low hourly wage rate and living in poverty is weak and has become weaker overtime. That is because most workers who gain from a minimum wage increase live in non poor families and most of the working poor already have wages above the required minimums (Sabia & Burkhauser, 2007).

The route to the enactment of the 2019 National Minimum Wage Act had been one fraught with political intrigues following the expiration of the timeframe for the review of the 2011 Minimum Wage Act due in 2015. However, the federal government did not initially consider it necessary to commit to the review citing the ailing state of the economy as a factor which did not support the minimum wage increase in the country. As a political masterstroke, it increased fuel pump price from N86.50 to N145 per litre in May 2016 which the organized labour rejected, threatening to embark on strike. To diffuse tensions, the Federal Government set up a Joint Technical Committee to consider the new fuel price and to also examine the process of initiating a review of the 2011 Wage Act. Based on the recommendations of the Committee, the federal government constituted a 30-man Tripartite National Minimum Wage Committee chaired by former Head of Service, Ama Pepple on 27 November 2017 to negotiate for an acceptable wage for workers (Ahiuma-Young 2018; Sani 2019). The federal government added that although the minimum wage is included in the exclusive list of the Federal Government, the issue cannot be handled without inputs from the state governments.

This is because even though the essence is to avoid exploitation of workers by the employers, the ability of states to pay is a necessary consideration in minimum wage fixing and regulation. However, the Tripartite Committee did not commence sitting until March 2018. When it eventually did, the different trade unions under the NLC made their propositions but later harmonised to N30,000 minimum wage for workers. This was done to meet the August deadline for the Committee to complete the process and make recommendations to the government. During the period of the meetings of the Committee, the representatives of the federal government deliberately failed to present any figure for the wage.

The federating states offered various figures as they considered convenient between November and October 2018. As a result, the representatives initiated a meeting with the labour leaders on 15 October 2019 at which the festering crisis over the salary adjustment was resolved. At the end of the five days of intensive meetings, the parties agreed on the adjustment based on the existing civil service salary structures in the country. For instance, salary structure for workers in the medical, health, tertiary institutions and judiciary indicates "23 percent increase for Grade Level 7, 20 percent for Grade Levels 8, 19 percent for Grade Level 9, 16 percent increase for workers on Grade Levels 10–14 and 14 percent increase for workers on Grade Levels 15–17.

Others show 22.2 percent for Grade Level 7, 16 percent for Grade levels 8–14 and 10.5 percent for Grade Levels 15–17" (Adedigba 2019a,; Sanni 2019). The agreement concluded the major implementation challenges of the new wage at the federal level. Thus the federal civil servants received the new wage in December salary with the arrears from April paid as assured (Okogba 2020). However, it was from the January, February and March salary payments that witnessed attempts by some states to pay the new minimum wage.

Although the Technical Advisory Committee was established by the Presidency on January 9 to advise on the possibility of raising funds for the implementation of the new minimum wage and the Committee's report was received on March 25, it was clear that many states would have difficulty implementing the N30,000minimum wage (Agbakwuru 2019a). Given that the majority of governors failed to pay the N18,000 minimum salary, some observers predicted on April 19 that the implementation of the new wage would be marked by controversy (Abada et al. 2019). Abubakar Malami, the Attorney General of the Federation and Minister of Justice, had rejected the petition on April 28. He claimed that the ministry had issued a document authorizing the payment of the salary, which was creating a delay after assent and directing federal ministries to "go ahead and pay" the increased salary (Soni, 2019).

Despite this assertion, implementation was postponed. As the primary enforcers of the new Wage Act and key participants in the Minimum Wage Committee, Richard Egbule, chairman of the National Salaries, Income and Wages Commission, and the minister of labor, were unable to design a workable procedure for employee wage adjustment. The Relativity/Consequential Adjustment Committee, with Technical Sub-Committees tasked with resolving associated modality concerns and offering a template for compensation adjustment for federal civil officials, was established by the president on May 14, 2019 (Bankole, 2019a). The Joint National Public Service Negotiating Council (JNPSNC), which represents the Trade Union Side (TUS), and the Federal Government negotiating team, and Head of the Federation's Civil Service, were both essential to the Committee's operation. The Secretary to the Government of the Federation then was appointed as the principal enforcer of the Wage Act following the dissolution of the Federal Executive (FEC) on May 29, 2019, for the administration's second tenure following the 23 February elections (Agbakwuru 2019b).

Even though no significant progress was achieved, he continued the talks. The percentage rise was the topic of contention.

The government team rejected the TUS's initial projection of a 66.7 percent adjustment rise in compensation across the board to correspond with the percentage increase in the minimum wage for employees in Grade Levels 01–07 from N18, 000 to N30,000, claiming that the wage review was not by percentage. Later, the TUS put out a 30% compensation adjustment for employees in Grade Levels 07–14 and a 25% increase for Grade Levels 15–17. For workers in Grade Levels 07–14 and 15–17, the government team suggested increases of 9.5% and 5%, respectively (Bankole, 2019a). While the salary consequential adjustment agreement was in limbo, the FEC on September 11, 2019, authorized a proposal for a value added tax (VAT) rise of almost 50% from 5% to 7.25% with effect from 2020. The National Assembly also recommended changing the VAT ACT to implement the VAT hike (Agbakwuru, 2019d).

By "reducing the purchasing power of the citizens, increasing the prices of goods and services, increasing inflation rate, and further contracting of the economy," the VAT hike raised the cost of living (Nwafor, 2019a). For instance, the cost of energy jumped from N123 to N158 and then to N350 per unit. The cost of a monthly satellite television channel subscription also rose. For instance, the price of DSTV Compact Plus went up from N8, 600 to N9,850. It climbed to N12,350 at the beginning of 2021, while Premium increased from N11,400 to N16,320. The idea was that the VAT increase will impact positively on the revenue of the state governments which control about 85 per cent of VAT accrual, leaving the Federal Government with only 15 per cent. This was to address complaints and objections to the N30,000 minimum wage raised by many state governments. But this missed the logic of revenue generation nexus with the fiscal policy of encouraging productivity and consumption in tax imposition for growth and development (Nwafor, 2019b).

Be that as it may, the 7.2 VAT per cent increases became another give and take measurements in the implementation of the 2019 Minimum Wage Act after an increase in petroleum pump price from N145 per litre to N108 and further increase to N165, which has caused hyperinflation. The federal government paid the new minimum wage in August 2019 salary to workers on Grade Level 01–06 amid a breakdown in negotiation. It insisted that the N30,000 wage was for workers below level 7, whose salaries were below that figure. On the other hand, the organised labour described the exercise as a segmental implementation which is non-implementation of the new wage (Young 2019b; Ifijeh 2019a). However, the Kaduna State government led by example in implementing the new wage across all levels of civil service in the state in September 2019 salary (Amoye 2019).

The consequential adjustment of the salary of workers in the state reflected 66.7 per cent for workers on levels 01–07 which is the N30,000 minimum wage from N18,000 and 60 per cent increase for workers on other Grade Levels. The financial implication shows that the state wage bill increased “by 33 percent, as gross monthly salary outlay rose to N3, 759 billion from N2.827 billion (Oladele et al. 2019). Despite this, the Federal government was not moved to pay all categories of workers claiming it will cost about N580 billion including downsizing and retrenchment of workers (Bankole 2019b). But labour leaders dismissed the retrenchment threat and gave the 16th of October, 2019 deadline for the full implementation of the new minimum wage to avoid a national strike.

Minimum-wage legislation now exists in more than 90 percent of all countries, although the laws vary greatly. For example, in the United States the vast majority of individual states

have minimum-wage legislation in addition to a set federal minimum wage. In the European union (EU) most member states have national minimum wages; those that do not rely on trade unions and employer groups to establish minimum earnings through the collective bargaining process. The minimum-wage rate in Argentina is set through collective agreement by the National Council for Employment, Productivity and the Adjustable Minimum Living Wages, which includes an equal number of government, employer, and worker representatives. Despite differing legislation, however, minimum-wage rates are generally set at higher-than-average levels in developing countries than they are in developed countries and the EU. Countries that deviate from this trend include those of the commonwealth of independent states (CIS) and southeastern Europe.

Supporters of minimum-wage laws maintain that they enhance the work ethic and increase the standard of living of workers and that they decrease the cost of social welfare programs and protect workers against exploitation at the hands of their employers. Opponents argue that minimum-wage laws hurt small businesses that are unable to absorb the costs of higher payrolls, increase unemployment by forcing employers to cut back on hiring, decrease education by encouraging citizens to enter the workforce, and result in outsourcing and inflation as businesses are forced to compensate for rising operation costs. Existing or proposed alternatives to minimum-wage laws include Earned Income Tax Credit (EITC) programs, which aid low-wage earners through decreased taxes and tax refunds, and an unconditional social security system known as basic income, which periodically provides citizens with a lump sum of money.

Employment Rates

Employment rates are calculated as the ratio of the employed to the working age population. Employment is generally measured through household labour force surveys. According to the ILO Guidelines, employed persons are defined as those aged 15 or over who report that they have worked in gainful employment for at least one hour in the previous week or who had a job but were absent from work during the reference week. Those not in employment consist of persons who are classified as either unemployed or inactive, in the sense that they are not included in the labour force for reasons of experiencing difficulty to find a job, study, incapacity or the need to look after young children or elderly relatives or personal choice. The working age population refers to persons aged 15 to 64. Employment rates for the working age population are here shown for both total employment and for men and women separately labour force surveys may vary slightly from country to country. Employment levels are also likely to be affected by changes in the survey design and the survey conduct. Despite these changes, the employment rates are fairly consistent over time.

The employment rate for a given age group is measured as the number of employed people of a given age as a ratio of the total number of people in that same age group. Employment is generally measured through national labour force surveys. In accordance with the ILO Guidelines, employed persons are those aged 15 or over who report that they have worked in gainful employment for at least one hour in the previous week or who had a job but were absent from work in the reference week. Those not in employment consist of persons who are classified as either unemployed or inactive, in the sense that they are not included in the labour force for reasons of experiencing difficulty to find a job, study, incapacity or the need to look after young children or elderly relatives or personal choice. Employment rates are shown for three age groups: persons aged 15 to 24 are those just entering the labour market following education; persons aged 25 to 54 are those in their prime working lives; persons aged 55 to 64 are those who have passed.

Employed persons are all persons who during the reference week of the survey worked at least one hour for pay or profit, or were temporarily absent from such work. The employment rate is the number of employed persons as a percentage of the working age (15-64) population. The employment rate for women is calculated as the ratio between women in employment and women of the working age (15-64) in the population. Minimum wage law is the body of law which prohibits employers from hiring employees or workers for less than a given hourly, daily or monthly minimum wage. More than 90% of all countries have some kind of minimum wage legislation. For much of the past century, the minimum wage has been a controversial subject among policymakers and economists all around the world.

Economically speaking, the theory of supply and demand suggests that the imposition of an artificial value on wages that is higher than the value that would be dictated in a free-market system creates an inefficient markets and leads to unemployment. The inefficiency occurs when there are a greater number of workers that want the higher paying jobs than there are employers willing to pay the higher wages. Critics disagree. What is generally agreed upon by all parties is that the number of individuals relying on the minimum wage in the Lusaka alone is less than 5%. However, this statistic is largely ignored in favor of citations regarding the number of people that live in poverty. Keep in mind that earning more than minimum wage does not necessary mean that one is not living in poverty. It is therefore important we look to identify how minimum wage laws have an effect on employment.

Concerning research studies made on the basis of the US data, Deere, Murphy and Welch (1995) and Kim and Taylor (1995) concluded that when the costs of low-wage workers increase, the employment 8 of these workers decreases. Singell and Terborg (2007) found negative employment effects for the industries where the minimum wage is relatively binding, but not for those that have less strict legislation. David Neumark conducted many research studies concerning the minimum wage. In the one with Neumark, Schweitzer and Wascher (2004), they concluded that the low wage workers are more strongly affected by the minimum wage increase. Workers, whose income lies between the previous and the new minimum wage level, face the wage increase. However, they are also confronted with the diminishing employment and declining number of working hours. Altogether, the net effects of the minimum wage increase for the low-wage workers are negative.

Neumark and Nizalova (2006) took into account the long-term effects of the minimum wage recipients and found that workers in their late twenties earned less the longer they have received the minimum wage when they were younger and that the minimum wage can have negative or positive long-term effects; the result due to decreased labor market experience and reduced education and training, whilst the latter from the potential skill acquirement. When doing a research about the minimum wage in Brazil, Neumark et al. (2006) could not confirm that the minimum wage increased earnings of the low-income families. Conversely, several facts indicated negative consequences of the minimum wage for these households. A similar study was made by Neumark et al. (2005) for the US data, where the results also indicated the negative net effect of the increase in the mini- mum wage for the low-income families, although the earnings of some of these families near or below the poverty line increased.

Levin-Waldman (2000) took the alternative approach and examined the consequences of the minimum wage increase on the employers. His study concluded that the treated minimum wage increase did not have harmful impacts on employers. However, the survey showed that there would be one if the minimum wage increase was bigger. Research studies made by Card, Katz and Krueger (1992) received a great deal of attention and led to an intense debate

among researchers concerning the effects of the minimum wage. The research by Katz and Krueger (1992) studied the impact of the minimum wage change on the fast-food restaurants in Texas. Their results indicate that employers increased the wages of fast-food workers for more than it was determined by the new law. Moreover, the new law condensed the distribution of the starting wages in the industry.

Employment increased in those companies that were supposedly more affected by the law while the changes in prices were proven not to be the consequence of the law. Katz and Krueger (1992) supplement their results with the comment that larger increases in the minimum wage might cause the decrease in employment and increase in prices. Card and Krueger (1994) also made a research on the fast-food industry. When comparing the less affected New Jersey fast-food restaurants with more affected ones or when comparing New Jersey fastfood restaurants with Pennsylvanian, the results indicated that the minimum wage increase had a positive effect on the employment.

Moreover, Card and Krueger (1994) found that prices of meals in fast-food restaurants increased due to the new law, but the increase was not higher in more affected restaurants. Similar conclusions than in the previous two studies were made by Card (1992) on the case of the minimum wage increase in California. The results indicated that the raise of the minimum wage increased the earnings of low-wage workers and did not reduce the employment of teenage workers. Many researchers were stimulated to replicate the presented three studies. Neumark and Wascher (2000) and Clark, et al. (2006) all concluded, that there in fact were negative employment effects due to the increased minimum wage in the three presented studies of Card, Katz and Krueger.

Neumark and Wascher (2000) exchanged several comments with Card and Krueger (1994) in the continuing period, where the they usually concluded that the minimum wage has a negative effect on the employment while Card and Krueger (1994) advocated the opposite. A new revolution in the theory of the minimum wage began after economists Card et al. (1992), as Katz (1994) utilized models that estimated an increase in employment after a minimum wage change. They measured the employment impact on teenagers and young adults. Even though there are articles that have found an increase in the employment of specific groups following a minimum wage change, most of which yield an insignificant effect, there is far more literature that shows the opposite (Neumark & Wascher, 2007).

The Effect of Minimum Wage Laws on Employment Rate

Minimum wage systems should not be seen or used in isolation, but should be designed in a way to supplement and reinforce other social and employment policies. Several types of measures can be used to tackle income and labor market inequality, including pro-employment policies, social transfers, and creating an enabling environment for sustainable enterprises. Minimum wage and its effects have been the source of heated discussions for many years. The debates started after the setup of the minimum wage in the US in the 1930s. Some economists (i.e. the marginalists) argued that the low-wage labor market can be distinguished as a competitive market while the other pole (i.e. the institutionalists) claimed this does not hold (Neumark & Wascher, 2007). There were many studies that observed employment effects of the minimum wage. Abowd et al. (2009) used panel data and difference-in-differences estimate when examining the employment effects in the United States and France. Researchers found no employment effects in the United States whereas France was facing a strong and negative employment effects.

The question of how a minimum wage affects employment remains one of the most widely studied – and most controversial – topics in labor economics, with a corresponding dispute in the political sphere. Neoclassical economic theories present a clear prediction: as the price of labor increases, employers will demand less labor. However, many recent studies testing this prediction have found very small to no effects of the minimum wage on the level of employment (e.g. Zavodny, 2000; Dube et al., 2010; Giuliano, 2013). One possible explanation for these findings is that demand for low-wage labor is fairly inelastic; another is that more complicated dynamics cloud identification of the effect of the minimum wage on employment. It was argued that there is basis in theory for believing that the minimum wage may not reduce the level of employment in a discrete manner. It shows that if this is indeed the case, then traditional approaches used in the literature are prone to misstating its true effects. We also demonstrate that a common practice in this literature – the inclusion of state-specific time trends as control variables – will attenuate estimates of how the minimum wage affects the employment level.

Centero et al. (2012) examined the impact of increases in the minimum wage on employment stability, wages and income inequality in Portugal spanning 2002 – 2010. They found the detrimental effect on minimum wage increases for employment stability of low-wage workers, with only minor gains in terms of wages. Research consensus for other countries seems to evolve around the following conclusion: the impact on employment is a debate around zero (Freeman, 1996). The minimum wage seems to have some impact on the wage distribution, but a much smaller impact (if any) on the income distribution (see Brown, 1999, Card & Krueger, 1995 and Nevmark & Wascher, 2008). In any case, the initial level and the dimension of the increase in the minimum wage seem to be relevant to set the case. Low increases in the minimum wage are certainly much more employment friendly.

If the minimum wage is to be evaluated alongside alternative policy instruments for increasing the standard of living of low-income households, a more conclusive understanding of its effects is necessary. The primary implication is that the minimum wage does affect employment through a particular mechanism. This is important for normative analysis in theoretical models (e.g. Lee & Saez, 2012) and for policymakers weighing the tradeoffs between the increased wage for minimum wage earners and the potential reduction in hiring and employment. The economic literature on minimum wages is longstanding and vast. Neumark and Wascher (2008) provide an in-depth review of the field, which continues to be characterized by disagreement on how a minimum wage affects employment. The majority of recent studies, following Card and Krueger (1994), use difference-in-differences comparisons to evaluate the effect of these policies on employment levels. Recent papers generally focus on modifying the specification to improve the quality of the counterfactual comparisons, with disagreement on appropriate techniques and often-conflicting results (e.g. Allegretto et al., 2011; Neumark et al., 2014). Importantly, these models test whether there is a discrete change in the level of employment before and after a state changes its minimum wage, relative to the counterfactual change as measured by other states' employment.

The Effect of Minimum Wage Laws on Unemployment Rate

Yet there is basis in theory for believing that the minimum wage may not reduce the level of employment in a discrete manner. While the basic analysis of the effects of the minimum wage argues for rapid adjustments to a new equilibrium employment level (e.g. Stigler, 1946), transitions to a new employment equilibrium may not be smooth (Hamermesh, 1989) or may be relatively slow (Diamond, 1981; Acemoglu, 2001). In this case, the effects of the policy may be more evident in net job creation. In worker search-and-matching models (e.g.

Van den Berg and Ridder, 1998; Acemoglu, 2001; Flinn, 2006, 2011), summarized concisely in Cahuc and Zylberberg (2004), the minimum wage has opposing effects on job creation. Although it reduces demand for labor by raising the marginal cost of employing a new worker, a higher minimum wage increases the gap between the expected returns to employment relative to unemployment, inducing additional search effort from unemployed workers.

By increasing the pool of searching workers (and the intensity of their searching), the minimum wage improves the quality of matches between employers and employees, generating surplus. The theory thus has ambiguous predictions for the effect of a minimum wage on job creation. If workers' additional search effort sufficiently improves the worker-firm match quality, then job creation should not be adversely affected and may even increase. However, if the demand side effect dominates, then increasing the minimum wage will cause declines in hiring.

Theoretical Review

This theory adopted in this study is the Public Interest Theory of Peltzman (1989). This theory was postulated to correct the imperfections in the market-driven economy. Peltzman (1989) in his path-breaking paper presented at Brookins Institute provided a formal proposition to the economic theory of public interest regulation. This theory holds that regulation of public activities is supplied in response to the demand of the public for the correction of inefficient or inequitable market practices. An implicit assumption of the public interest theory according to Uche (2000) is that regulation is in the main, aimed at protecting the public. To achieve its aim, regulation based on the above principle should aim at equipping the public with relevant information necessary for decision making.

Regulation in the public interest should also strive to protect the public from monopolies and industries that generate substantial external costs and benefits (Uche, 2000). Further assumption is that some forms of activities, businesses or otherwise do not always function in the interest of the public without supervision and control. This view has a historical antecedent regulation in the past (and even today) had almost always followed some form of crisis or public dissent. Example, in Nigeria the introduction of The National Minimum Wage was an attempt to redistribute income because of the failure of the market-driven economy to do so. The establishment of the interstate commerce commission in the USA was as a result of protest by populist farmer against exploitative rates levied by the railroads. The establishment of the Securities and Exchange Commission UK is another crisis-driven regulation.

Method

The study adopted content analysis by reviewing several studies on minimum wage and the effect of its on employment rate. Most of these studies were empirical in nature from journal publications, news papers and books. Review of such studies provided in-depth knowledge and facts that helps in the understanding the effect of minimum wage laws on employment rate.

Conclusion

In conclusion, the effect of minimum wage laws on the employment rate is a complex and debated topic. Various studies have examined this relationship, providing different findings and perspectives. While some studies suggest that minimum wage increases can lead to negative employment effects, particularly for low-skilled and younger workers, others find

little to no significant impact on employment rates. The conclusion regarding the effect of minimum wage laws on employment rates can vary based on several factors, including the specific context, economic conditions, enforcement mechanisms, and the labor market structure of a country. Additionally, the magnitude of the employment impact may differ across industries and regions. It is important to consider multiple studies and methodologies to develop a comprehensive understanding of the issue.

The empirical evidence on the relationship between minimum wage laws and employment rates is nuanced and can differ across countries and regions. Furthermore, the long-term effects of minimum wage laws on employment require continuous monitoring and evaluation. Policymakers need to carefully assess the potential trade-offs between improving the wages and well-being of low-wage workers and the potential impact on job opportunities. Balancing the goals of ensuring fair wages for workers and maintaining employment opportunities requires a comprehensive approach that considers various factors and takes into account the specific economic and social context of each country or region.

Recommendations

Based on the research and evidence available on the effect of minimum wage laws on employment rates, the following recommendations can be considered:

1. It is crucial for government to continuously monitor and evaluate the impact of minimum wage laws on employment rates. This can help policymakers understand the specific effects in different sectors and regions, allowing for evidence-based adjustments and improvements to the minimum wage policies.

2. Government should recognize that the impact of minimum wage laws may vary across regions with different economic conditions. Policies should be designed to account for regional disparities in wages, costs of living, and labor market dynamics. This can help ensure that minimum wage levels are set appropriately to avoid adverse employment effects in specific regions.

3. Small and medium enterprises (SMEs) often face challenges in adapting to increased labor costs resulting from minimum wage laws. Governments can provide support and incentives to help SMEs adjust, such as offering tax breaks, access to training programs, or facilitating access to financing.

4. Investing in skill development and training programs can improve the productivity and employability of workers. By increasing skills, workers may be better positioned to command higher wages, reducing the potential negative employment effects of minimum wage laws.
5. In conjunction with minimum wage policies, governments should implement complementary measures to stimulate job creation, such as promoting entrepreneurship, attracting investments, and supporting sectors with high employment potential. This can help offset any negative employment effects resulting from minimum wage increases.

6. To mitigate any potential short-term adverse effects on vulnerable workers, policymakers should strengthen social safety nets, including unemployment benefits, job placement services, and income support programs. This can provide a safety net during periods of adjustment and help individuals transition to higher-wage employment opportunities.

Contribution to Knowledge

The effect of minimum wage laws on employment rates is a topic that has contributed significantly to our understanding of labor market dynamics and policy implications. The research conducted in this field has made several contributions to knowledge. This research demonstrated that the employment effects of minimum wage laws can vary across industries, regions, and worker characteristics. This heterogeneity highlights the importance of considering the specific context when evaluating the impact of minimum wage policies. Understanding these differences can inform the design of targeted policies that minimize potential adverse effects on employment in specific sectors or regions.

The study contributed to our understanding of how employers respond to changes in labor costs, the role of worker skills and productivity, and the relationship between wages and job creation. These insights contribute to a more nuanced understanding of the complexities of labor markets and inform discussions on effective labor market policies. The study highlights the trade-offs and potential unintended consequences associated with minimum wage policies. Policymakers can use this knowledge to design and implement minimum wage laws that strike a balance between improving workers' well-being and minimizing negative employment effects.

This study has contributed to the development of robust evaluation frameworks. By examining the causal impact of minimum wage changes on employment outcomes, researchers have developed methodologies and analytical approaches that can be applied in the evaluation of other labor market policies. This contributes to the broader field of policy impact assessment and evidence-based policymaking. This study has advanced our knowledge of labor markets, informed policy discussions, and provided valuable insights for policymakers and researchers alike. This body of knowledge continues to evolve as new studies and data become available, deepening our understanding of the relationship between minimum wages and employment outcomes.

Area for Further Research

While considerable research has been conducted on the effect of minimum wage laws on employment rates, there are still areas that warrant further investigation. Although numerous studies have explored the relationship between minimum wage laws and employment rates, establishing a clear causal relationship remains challenging. Future research can employ more rigorous research designs, such as natural experiments or instrumental variable approaches, to address endogeneity and better identify causal effects.

While the focus has primarily been on the employment effects, future research can examine other labor market outcomes affected by minimum wage laws, such as hours worked, underemployment, or labor force participation rates. Understanding the broader implications of minimum wage policies on these outcomes can provide a more comprehensive understanding of their effects. Minimum wage laws can have different effects on various demographic groups, such as youth, women, or minority workers. Investigating the heterogeneous impacts across different worker characteristics can shed light on how minimum wage policies affect employment outcomes and potentially uncover any disparities. Minimum wage laws in one jurisdiction can influence neighboring regions or industries. Future research can examine spillover effects, both positive and negative, to understand how minimum wage policies in one area impact employment rates in surrounding areas or related sectors.

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