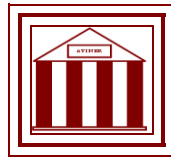


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**National Minimum Wage of 2011 and
Labour Market Situation in Nigeria**

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Abstract

This paper dwells on the 2011 National minimum wage (Amendment) Act in relation to the Nigerian labour market. The National Minimum wage (Amendment) Act of 2011 is in furtherance of the National Minimum Wage Act of 2004. The study combines both qualitative and quantitative methods, including structured questionnaire and in-depth interview for a pellucid analysis of the linkage between wage determination and labour market situation in Nigeria. Multistage sampling technique was used to select 210 respondents, that is 42 respondents from 5 wards in Yaba Council Development Area and Lagos Mainland Local Government Area of Lagos state. The results indicated that minimum wage affects the level of unemployment in the country ($\chi^2=80.09, 0.05$); minimum wage policy influences prices of commodity ($\chi^2=25.3, 0.05$); the minimum wage law constitute an appropriate instrument for compensation administration ($\chi^2=49.31, 0.05$) and that there is a relationship between minimum wage law, employee motivation and productivity ($\chi^2=52.1, 0.05$). The result of regression analysis shows that the relationship among the variables is very significant at both 1% and 5% levels of significance. Therefore, minimum wage policy is important for the management of labour market challenges and opportunities in Nigeria.

Keywords: Wage determination; Labour Market situation; Employment system; Nigeria.

Introduction

Wage is at the centre of employment relationship. It is one of the most complex and problematic issues in industrial relations and human resources management. People work with the objective of receiving pay for services rendered at the end of a given period, usually based on terms stated in the agreement or contract of employment. Compensation and wages remain the singular most important obligation an employer has towards an employee. The cost of fulfilling this obligation in form of wages, salaries, pensions and related costs to the employer is estimated at about 60% of the total cost of running a major business (Cole, 2002).

To Banjoko (2006), wage related issues lead to labour-management relations problems such as violent strikes, picketing or work stoppages much more than any other issues in an organization. The need to inspire and motivate employees via the design, establishment and implementation of a robust pay system that will induce commitment, dedication, loyalty and best performance is an imperative for any business, private or public which aspires to attain the highest organizational productivity. As a precursor to his writing on scientific management theory, Fredrick Winslow Taylor (1896) believed that money is a prime motivator for work efforts; he developed a 'wage system' to ensure a productive workforce. Fapohonda, Adiku & Lawal (2012) describe minimum wage not only as the smallest hourly wage that an employee is paid as mandated by federal law but also as a social protection which requires the effort, commitment and collaboration of all stakeholders. This corresponds to ILO Convention 131 of 1970, which stipulates: *that minimum wage is a must minimum sum payable to a worker for work performed or services rendered within a given period, whether calculated on 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 economic and social condition* (Fapohonda *et al*, 2012).

Minimum wage is definitely the irreducible minimum salary/wages that any federal governments will fix to protect its vulnerable population from the exploitation of employers: No employer is allowed to go below it. (Ahiuma-Young, 2013).

Wage laws, structure and administration are central to employment relations, employee motivation and productivity. Party politics plays a great role in wage determination in Nigeria, government arrogates itself the role of wage fixing by establishing tribunals, quasi-committees, and this in turn leads to no definite and effective wage policy (Anyim, Elegbede & Ggbajumo-Sherif 2011). Nevertheless wages are also determined by labour market forces on which prevailing wage rates depend. These forces are a direct result of economic situation and among other factors, determine the capacity of employers to pay; as such, wages rates are subject to inflationary tendencies. It is against this backdrop that this study is geared towards investigating the dynamics of the 2011 minimum wage regime and its relationship with other

elements that make up the labour market especially, unemployment, price of commodities, motivation and productivity as well as wages and compensation administration.

Literature Review

This study rests on the Theory of Incentive in Management (Economy of Incentives) and the Neo Classical Model/Theory of Minimum Wage. Incentives in Management Theory was proposed by Barnard (1938) in Steven, Shafritz and Jang (2011), the central idea is that employees should be induced and compensated to cooperate and contribute to the organization. Barnard (1938) maintained that incentives, viewed in both monetary and non-monetary terms, specific and general terms are necessary to retain employees and sustain their contribution to the organization. Barnard (1938) in Laffunt and Matimont (2011) advocated the use of incentive as both inducement and persuasion. Besides, Ott, Shafritz and Suk Jang (2011) noted that incentive changes the state of mind of employees and encourages them to work. The Neoclassical Theory of Minimum Wage is concerned with how minimum wage reduces the demand for labour. The main argument of the theory is that reduction in labour is dependent on wage increase especially among employees with low skill. Thus, increase in minimum wage affects income distribution and so breeds poverty, inflation and unemployment. Neunark and Washer (1992) in Herr, Kazandziska and Praprotnik, (2009) suggested that minimum wage has negative effects on employment, because it is based on the following: (a) workers are well informed of their wages (b) same labour market function in markets (c) labour and capital must be substitutable.

Wage is that monetary reward an employee gets as worth of contribution to an organization (Goel, 2010; Hale and Goodale, 1986; Rao, 2005). Yoder and Staudohar (1982) asserts that wage is a direct monetary compensation given to employees for their hourly rated production and service. Wage involves fair and equitable assessment of the contributions of employee in an organization (Ofili, 2004). Casio (2003) argues that wage serves to enhance an employee's sense of respect and esteem. Similarly, Klein and Dompe (2007) noted that wage is a tool for managing the imbalance in bargaining power that low wage workers face in the labour market. The ILO (2009) define minimum wage as *"the lowest level of remuneration permitted....., which in each country has the force of law and which is enforceable under threat of penal or other appropriate sanctions. ILO further explained that minimum wage as a policy tool should protect vulnerable workers by addressing pay inequality, prevent poverty and protect low wage earners"*. Elangkovan (2012) describes minimum wage as the lowest monthly remuneration that employers can legally pay employees and which employees can sell labour effort. However, Wilson (2012) opined that minimum wage is the law that gives employers grounds to discriminate against workers with low skill. Meer and West (2013)

corroborates this view by asserting that minimum wage helps employers reduce their demand for workers leading to unemployment.

The Nigerian economy since the 1980s has been characterized by poverty, inflation, inequality in pay, huge debt etc. leading to unimpressive performance of the economy (Ekpo, 2008). This according to Fajana (2000), has brought massive unemployment in the Nigeria Labour Market. Bassy and Atan (2012) noted that the unimpressive economic performance of Nigeria has not only distorted the labour market with all its fiscal imbalances but also created huge unemployment. Akintoye (2008) also noted that this huge unemployment is the result of the economic crisis of 1980s and 1990s in Nigeria which resulted in massive business closure and workers' retrenchment. Similarly, the fall in demand for labour and its unemployment consequences is a result of government fiscal policies on taxation, subsidies, minimum wages etc. which left the employers with less funds to pay employees' wages and led to aggressive trade union activities (Iniodu and Ukpong, 2001).

National Minimum Wage (Amendment) Act of 2011

The Nigerian government chose to set minimum wage to establish a wage that small, medium scale enterprises and even large organizations can afford to pay workers; below which they must not go and above which those who can afford to pay more can go. Government's involvement in setting of minimum wage in Nigeria dates back to colonial period/era with Hunt Commission of 1934, which was followed by Bridge Commission/Committee of Inquiry 1941, Tudor Davis Commission of 1945, Harragin Commission of 1945, Miller Committee of 1947, Phillipson Adebo Commission of 1948 and Whitely Commission 1948. Other commission that followed include Gorsuch Commission of 1954, Mbanefo Commission of 1959, Morgan Commission of 1963, Eldwood Commission of 1966, Adebo Commission of 1971, Ufoji Commission of 1973, Onosade, Coockey, Ademolekan Commissions 1981, Philip Dotun Panel of 1985, Ukandi Damachi Commission 1990, Ayida Review Panel of 1994, Philip Asiodu Committee of 1998/1999, Enerst Shonekan Committee of 2000, and Belgore Alfa Committee of 2009/2010. From these commissions that were set from colonial period/era, evolved several Acts/decrees irrespective of the government in power (military or civilian) to ensure that employers do not exploit their workers. The Acts include the Wage Board Act of 1955, Wage board and Industrial Council Act of 1974, National Minimum Wage Act of 1981, National Minimum Wage Decree of 1988, National Salaries Incomes and Wages Commission Decree of 1999, National Minimum Wage Act of 2000, National Minimum Wage Amendment Act of 2003, and the National Minimum Wage Amendment Act of 2011. The subject of minimum wage has remained relevant even after Nigeria's independence from Great Britain in 1960. Over the years, the wage was sometimes fixed through collective bargaining and negotiation and at other times by fiat, the latter usually during military regimes. Under the military

regimes collective bargaining and negotiations were not allowed to work, rather fiat or tribunals were used (Aiyede 2002). It is important to note that because Nigeria as a nation has witnessed more of military rule than democratic rule, Fiats have been the major way of fixing wage than collective bargaining. Of the over 15 Commissions and 7 Acts on wage fixing from 1934 till date, Fiat has well over 10, showing that the role of collective bargaining in wage fixing is relegated to the background.

In 1972, the minimum wage was set at ₦60 (Sixty Naira); by 1981 it increased to ₦100, 1982 saw it increased to ₦125. The same 1982, witnessed a wage freeze which was lifted in 1988 fiscal year (UNESCO 2012). By 1st October 1985, the Ibrahim Babangida administration applied wage deduction of between 2%-20% from workers' salaries, rents, dividends, telling Nigerian workers that they are giving to their future generation, "For their tomorrow we gave our today" (Babangida,1991). In 1990 the wage became ₦250, and by 1993, it was yet increased to ₦363. 1998 saw a sharp move to ₦3500; from 1972 - 1998, the states and private employers had consolidated minimum wage. By year 2000, the minimum wage was split into two: with federal government paying its workers ₦7,500 while the state and private employers paid ₦5,500. The Minimum Wage Act of 2004 sort to harmonize wages across federal, state and private workers. In 2011, Minimum Wage (Amendment) Act, which replaced the Minimum Wage Act of 2004 was signed into law on March 22, 2011, by President Good-luck Ebele Jonathan to review the national minimum wage upward from ₦7,500 to ₦18,000.

The 2011 Minimum Wage Amendment Act is among the several amendments to National Minimum wage in Nigeria since colonial era to the present political dispensation. This Act Fashoyin (2011:3) said is a Universal Labour-Market institution used by federal governments to protect the standard and living conditions of the lowest member of the Labour Force. Since Udorji Salary Award of 1973, the federal government has used minimum wage increase as a means for poverty reduction and improvement of workers' wellbeing. However, Neumark and Wascher (2004, 2008), Formby, Bishop and Kim (2005), argue that minimum wage increase does not reduce poverty but increases poverty and causes dis-employment. Stigler (1946:363) notes that minimum wage reduces employment to some extent and is unable to fulfill its purpose due to inflation. Minimum wage leads to increase unemployment (Brown, Gilroy and Kohen, 1983).

Wage regulations in Nigerian have drastically reduced employment, especially among low skilled workers. Folawewo (2007) opines that a rise in minimum wage will lead to increase productivity in all economic sectors; marginal rise in employment in the agricultural sector and marginal fall in services sector's employment and no significant effect in manufacturing, mining and oil sectors. Minimum wage increase leads to a significant rise in general price levels, has positive effect on household incomes and consumptions, as well as on government balances. Grossman (1983) having reflected on Stigler (1946), considered the effects of bidding minimum wage within an economy when such economy is at equilibrium. *He argued that given*

full employment and competitive labour market in which wage is determined by productivity, a binding minimum wage that is set above the equilibrium rate would bring about truncated effects on average wage within the economy. These truncated effect would result in job loss, especially those jobs whose wages are affected by the set minimum wage.

Adams (1987) believes that increase in minimum wage will not only lead to increase in unemployment and price level, it will result in marginal decline on real wage, employment and real GNP. Brown, Gilroy and Kohen (1982), suggest that minimum wage depends on prevailing economic situation; has a positive relationship with unemployment, and a negative relationship with employment. For Neumark and Wascher (2004), Formby, Bishop and Kim (2005), minimum wage increase has not only small dis-employment effect, it also gives small gain to lower tail families. Neumark and Wascher (2008) argued again that minimum wage policy raises only the income of poor families, especially those whose incomes are below the stipulated minimum wages.

Falk, Enerst and Christain (2006), believe that minimum wage increase leads to a rise in reservation wages, which would persist even after the removal of the minimum wage. Organizations pay higher wages yet, the effect on employment remains retrenchment/retirement of workers or job/pay cuts, etc. due to profit erosion. Minimum wage also results in significant rise in prices of commodities (Folawewo, 2007).

Methodology

Survey research design was adopted for the article. Data were collected through the use of structured questionnaire, which was administered to two hundred and ten (210) civil servants, self- employed/artisans, business men and women, transporter, and unemployed persons in Five (5) out of the eighteen wards that make up Yaba Council Development Area and Mainland Local Government Area of Lagos State Nigeria (old Lagos Mainland Local Government Area of Lagos state). 42 respondents were selected from each of the five wards using Multistage Sampling Technique. Descriptive and inferential statistics were used to analyze the data collected. Interpretation and discussions are based on the result that emerged from the analysis. The study combines both qualitative and quantitative approaches of structured questionnaire and in-depth interview.

Results

Table 1. *Respondents' Socio-demographic Background*

Sex	Frequency No=210	Percentage (100%)
Male	104	49.5
Female	106	50.5
Age		
16-25	41	19.5
26-35	68	32.4
36-45	59	28.1
46-65	42	20
Occupation		
Civil servants / Government workers	42	20
Artisans/ self employed	42	20
Traders/business men and women	42	20
Transporters	42	20
Unemployed persons	42	20
Educational Status		
Pry sch. Cert and below	28	13.3
SSCE/WAEC/GCE/HSC	47	22.4
NCE/OND/TC II/ A' level	48	22.9
HND/BSC equivalent	52	24.8
M.Sc. and above	35	16.6
Total	210	100
Grade Level of Respondents		
GL 1-5	31	14.8
GL 6-10	54	25.7
GL 11-17	32	15.2
Others	93	44.3

Source: Survey; 2013

Table 1 shows that 49.5 percent of respondents were male compared to the female respondent with a higher proportion (50.5 percent). The age distribution of respondents shows that 51.9 percent of the respondents identified with 16-35 years age brackets while the relatively older respondents in 36-65 years age bracket constitute 48.1 percent. The distribution of the respondents by occupation shows 20 percent for each group including unemployed persons. The academic status of respondents showed that 58.6 percent of the respondents identified with at least National Certificate of Education (NCE)/Ordinary National Diploma (OND)/ Technical Colleges II (TC II)/ Advance Level (A' level) while 41.4 percent of the respondents identified with Higher National Diploma (HND) and Bachelor's Degree (BSc). More than one-third (40.5 percent) of the respondents recognized their Grade Level within the range of 1 to 10, while 15.2 percent of the respondents were found in the higher Grade Level (11-17). The rest of the respondents were members of the artisan class.

Research Hypotheses

1. H0: Minimum wage has no impact on the level of unemployment in the country.
2. H0: Minimum wage policy has no effect on prices of commodity.
3. H0: Minimum wage law does not constitute an appropriate instrument for compensation administration.
4. H0: There is no relationship between minimum wage law and employee motivation and productivity.

Table 2. Minimum Wage Law Will Increase the Rate of Employment

Occupational Status		SA	A	SD	D	Total
Civil Servants / Government Workers		2	4	21	15	42
Artisans/ Self-Employed		-	2	33	7	42
Traders/Business Men and Women		-	1	29	12	42
Transporters		1	6	26	9	42
Unemployed persons		-	3	30	9	42
Total		3	16	139	52	210
Options	F _i	F _I	F _i -F _I	(f _i -F _I) ²	$\frac{\Sigma (f_i-F_I)^2}{F_I}$	
SA	3	52.5	-49.5	2450.25	46.7	
A	16	52.5	-36.5	1332.25	25.3	
SD	139	52.5	86.5	-173	3.29	
D	52	52.5	-0.5	0.25	4.8	
Total	210	210			$\chi^2=80.09$	

Source: Survey; 2013

Table 3. Minimum Wage Policy will bring about Increase in the Prices of Goods in the Market

Occupational Status		SA	A	SD	D	Total
Civil servants / govt workers		12	17	6	7	42
Artisans/ self employed		15	11	10	6	42
Traders/business men and women		18	12	4	8	42
Transporters		15	9	7	11	42
Unemployed persons		20	8	9	5	42
TOTAL		80	57	36	37	210
Options	F _i	F _I	F _i -F _I	(f _i -F _I) ²	$\frac{\Sigma (f_i-F_I)^2}{F_I}$	
SA	80	52.5	27.5	756.25	14.40	
A	57	52.5	4.5	20.25	0.4	
SD	36	52.5	-16.5	272.25	5.9	
D	37	52.5	-15.5	240.25	4.6	
Total	210	210			$\chi^2=25.3$	

Source: Survey; 2013

Table 4. *Minimum Wage is an Appropriate Instrument to Determine Wages and Salary in an Organization*

Occupational Status		SA	A	SD	D	Total
Civil servants / govt workers		12	14	6	10	42
Artisans/ self employed		4	-	22	16	42
Traders/business men and women		1	3	25	13	42
Transporters		6	3	19	14	42
Unemployed persons		5	7	12	18	42
Total		28	27	84	71	210
Options	F_i	F_I	f_i-F_I	$(f_i-F_I)^2$	$\frac{\Sigma (f_i-F_I)^2}{F_I}$	
SA	28	52.5	-24.5	600.25	11.4	
A	27	52.5	-25.5	650.25	12.4	
SD	84	52.5	31.5	992.25	19	
D	71	52.5	18.5	342.25	6.51	
					$\chi^2=49.31$	

Source: Survey; 2013

Table 5. *The Current Minimum Wage will motivate workers to perform and increase organization's output*

Occupational Status		SA	A	SD	D	Total
Civil servants / govt workers		17	11	5	9	42
Artisans/ self employed		19	14	7	2	42
Traders/business men and women		15	16	6	5	42
Transporters		12	20	8	2	42
Unemployed persons		14	19	4	5	42
Total		77	80	30	23	210
Options	f_i	F_I	f_i-F_I	$(f_i-F_I)^2$	$\frac{\Sigma (f_i-F_I)^2}{F_I}$	
SA	77	52.5	24.5	600.25	11.43	
A	80	52.5	27.5	756.25	14.40	
SD	30	52.5	-22.5	506.25	9.64	
D	23	52.5	-29.5	870.25	16.6	
Total	210	210			$\chi^2=52.1$	

Source: Survey; 2013

Inferential Analysis

Test Of Hypotheses

The Model Equation

$$Y = f(X_1, X_2, X_3)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + U_r$$

Where:

Y = Dependent Variable: *The current minimum wage will motivate workers to perform and increase organization's output (MWM).*

X1 = *Minimum wage law will increase the rate of employment (MWL)*

X2 = *Minimum wage policy will bring about increase in the prices of goods in the Market (MWP)*

X3 = *Minimum wage is an appropriate instrument to determine wages and salary in an organization (MWI)*

β_0 = Constant Term, β_1 , β_2 and β_3 are the coefficients of X1, X2 and X3 respectively.

U_r = Error Term

Regression Analysis

Variables Entered/Removed^b

Model	Variables Entered	Variables Removed	Method
1	MWI, MWL, MWP ^a	.	Enter

a. All requested variables entered.

b. Dependent Variable: MWM

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.952 ^a	.906	.905	.30133	.401

a. Predictors: (Constant), MWI, MWL, MWP

b. Dependent Variable: MWM

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	180.290	3	60.097	661.841	.000 ^a
	Residual	18.705	206	.091		
	Total	198.995	209			

a. Predictors: (Constant), MWI, MWL, MWP

b. Dependent Variable: MWM

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.211	.073		2.871	.005
MWL	.420	.040	.259	10.557	.000
MWP	.604	.037	.690	16.344	.000
MWI	.139	.038	.143	3.662	.000

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.3750	4.0261	3.0048	.92878	210
Residual	-.82001	.85683	.00000	.29916	210
Std. Predicted Value	-1.755	1.100	.000	1.000	210
Std. Residual	-2.721	2.843	.000	.993	210

a. Dependent Variable: MWM

Discussion of Findings

Hypothesis one, which tested the impact of minimum wage policy on the rate of employment in the country reveals that, the implementation of the new wage policy will increase the rate of unemployment in the country ($\chi^2=80.09$). This finding supports results from the works of Adams (1987) and Rocheteau and Tasci (2007) that a binding minimum wage will put the labour market in disequilibrium consequently, reduce employment and create involuntary unemployment in a competitive labour market. The second hypothesis tested, also supports (Adams, 1987) that wage increase will lead to inflation. Respondents strongly agree that the new minimum wage could lead to increase in the prices of goods and services in the market ($\chi^2 =25.3$) thereby supporting Banjoko (2006), that minimum wage increase leads to increase in price levels and the general cost of living. The result of hypothesis three reveals that minimum wage law constitutes an appropriate instrument for salary and compensation administration ($\chi^2=49.31$). The observation from hypothesis three should be treated with caution, because, while the chi- square (χ^2), computation rejects the null hypothesis that minimum wage law does not constitute an appropriate instrument for salary and compensation administration, actual responses from respondents (especially those in private employments and the unemployed group), strongly disagreed with the notion that, ‘minimum wage law is an appropriate instruments to determine wages and salary administration.

Observations from the fourth hypothesis suggest that the minimum wage will motivate workers to perform and increase organizations' output ($\chi^2=52.1$). This result is corroborated by the position of F W Taylor in Obisi (1996), here, money is seen as a prime motivator of work efforts, and so recommendation is made for 'incentive wage system'. Folawewo (2007) also agrees that a realistic minimum wage policy would adequately address the cost of living and enhance workers motivation and productivity. The 2011 Minimum Wage Amendment Act is glaringly a minimum wage policy that has both positive and negative significant socio- economic impact on the labour market.

Empirical results from the regression table, with average coefficients and the p-values for MWL, MWP and MWI represented are 0.420 with p-value 0.000, 0.604 with p-value 0.00 and 0.139 with p-value 0.000 respectively. The p-values for all the variables are considered less than 0.01 and 0.05. This implies that there is a significant relationship between MWL, MWP, MWI and MWM; which means National Minimum Wage has a positive and significant effect on the Labour Market Situation in Nigeria.

Finally, the analysis leaves us with the conclusion that the relationship among the variables is very significant at both 1% and 5% levels of significance. More so, the equation has a good fit as R-square (R^2) accounts for 90.6% of the total variation in the model, while Prob (F-statistic) reveals that the variables of the model are highly significant at 5% significance level, since the p-value (0.000) is less than 0.05. Durbin Watson (DW) statistic of 0.401 also suggests the presence of positive auto correlation problem. Hence, we therefore accept the alternative hypotheses and conclude that Minimum wage has impact on the level of unemployment in the country, Minimum wage policy has effect on prices of commodity, and Minimum wage law constitutes an appropriate instrument for compensation administration.

Conclusion

This study is limited to low wage earners who are most affected by minimum wage policies. The study focused on an assessment of the 2011 Minimum Wage Policy and labour market situation in Nigeria. Theoretically, National Minimum Wage is expected to wield a positive and significant effect on the Labour Market Situation in Nigeria. It is a prior expectation that these variables will either lead to better or worst Labour Market Situation in Nigeria. However, the result of this research confirms that this is so, although not without doubts. The policy has not only affected the Nigerian economy positively, it has also produced some undesirable consequences. The minimum wage Act of 2011 has affected the income and consumption of Nigerian workers positively. The Act has become a popular income policy applied by the Nigerian government to enhance socio-economic and political development of the Nigerian society. However, regardless of its popularity, the policy can be regarded as an appropriate instrument for salary and compensation administration because it serves to boost motivation and productivity of

individuals in organizations without a significant improvement in serious unemployment crisis in Nigeria. Also the wage increment from ₦7,500 to ₦18,000 contributed to a rise in prices of goods and services. It is suggested that future research should examine problems associated with minimum wage policies such as unemployment and inflation.

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