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GLOBAL TRENDS OF WAGE AND INCOME INEQUALITY: LESSONS FOR NIGERIAN EMPLOYERS' AND ECONOMY PLANNERS

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Abstract

This study examined global trends of wage and income inequality from 2006 to 2013, using International Labour Organisation (ILO) World Wage Report of 2014/2015 as benchmark. A comparative analysis of wage and income gaps between Nigeria/Africa and other emerging economies was also examined. We were concerned with wage and income growth among developing and advanced countries. Findings revealed that, from 2006 to 2013, Nigeria and indeed Africa experienced the least wage/income growth as compared to other emerging economies and G20 nations. The study further showed the unprecedented wage gaps that exist in Nigeria and how such inequality is negatively affecting the socio-economic and politic fabrics of the country. It shows that wage and income inequality obstruct medium and long-term economic growth. It is also an obstacle to social cohesion and workers wellbeing. The paper from its findings provided specific lessons for Nigerian employers, economy planners and government. Policy option was therefore suggested as a panacea to reducing wage and income inequality in Nigeria and elsewhere in Africa.

Keywords: Wages, income inequality, employers, economy planners.

Introduction

Wage and income inequality exists at organisational, country, regional and global levels. The methods and techniques for measuring wages and income inequality also vary from one country or region to another (OECD, 2011). This suggests that a generic view or analysis of wage and income inequality without considering to specific and common variables across countries/regions may be misleading. The growing inequality in wage and income at various levels across the world has gained much scholarly attention in recent years (Agba & Ushie, 2013). This scenario has generated large and expanding literature on wages and income inequality globally. However, the generic presentation of wages and income inequality in Africa by most scholars and international organisations is largely responsible for the poor utilisation of such data/information by employers of labour, economy planners, and governments in the continent, especially in Nigeria.

The want of specific and more detailed literature and data on how wages and income inequality influenced industrial conflict, workers commitment, purchasing power, and productivity at individual, organisational, and national levels in Nigeria informed this study. The paper is posed to break generic data and information provided by scholars and international organisations on wage and income inequality into specifics, with the aim of x-raying their labour, social, and economic implications in Nigeria. The specific lessons employers of labour, economy planner and other policy makers stand to benefit is also the concern of this study. The paper will bridge knowledge gaps and make vital suggestions on ways of reducing wages and income inequality in Nigeria and probably elsewhere in Africa. To achieve these objectives, the study will be carried out under the following sub-headings:

(i) Meaning of wage and income
(ii) Why wage and income inequality
(iii) Theoretical framework: General theories of income distribution
(iv) Global trends of wage and income inequality
(v) Effects and lessons from global trends of wages and income inequality
(vi) Ways to minimise wage and income inequality in Nigeria
(vii) Conclusion

Meaning of wage and income

(a) Wage

Wage is derived from a French word – *wagier*, which means promise or pledge. Wages are returns to labour on daily and weekly basis (Agba & Ushie, 2013). It includes interval or periodic allowances accruing to employees. Overtime, leave bonuses and other allowances specified in contractual agreement between workers and the employers can also be classified under wages. Neumark and Wascher (2006) observe that wages are workers remuneration calculated on hourly, piecework or weekly basis. Wages are fixed regular remuneration or allowances paid to employees especially manual and unskilled workers.

According to International Labour Organisation (ILO, 1973; 2015), wages are incentives and straight-time pay of time-rated employees or workers. It includes premium paid to time-rated workers for holiday work, night and day shifts, and overtime. It is the earnings of piece-workers in any organisation. It embodies all forms of commissions paid to sales and other personnel alike. It is any remuneration made by the employer to the employee *for time not worked comprises*. Wages are bonuses, top-up payments in respect of workers or seasonal vocation period. ILO also acknowledge profit-sharing in organisations as wages.

Similarly, Andrew (2010) observes that wages are remuneration earned by workers on agreed number of hours per week. In United States of America, wages are paid to workers every fortnight, and is usually computed based on the number of hours not days an employee work. Prabhat (2011) posit that wages are payments made to a worker on weekly, tri-weekly or per hour.

Wages are often attributed to having no gain, but only an exchange of labour. This suggests that wage is obtained only when an individual works. It is remuneration for a work done.

(b) Income

Income is derived from an old English verb *incuman*, which means money a person gets from labour or business. According to Prabhat (2011), income is the money an individual accumulate from all legitimate and known sources including wages, gift, and interest. Income in this regards is not fixed, since it is derived from vary sources. It is the overall remuneration or money a worker gets. Wage is strictly payment for work done; income on the other hand can be gotten without any labour. Andrew posits that income is usually computed on monthly basis, except for auditing purpose, where it is calculated annually.

Income is the cumulative or the sum money earned by a worker. It includes the sum of all wages, salaries, rents, profits, and shares. In this regards, income is total earnings of an employee (Andrew, 2010). According to Atkinson (1983) and Gallo (2002), income denotes what comes to a worker. It is the sum of money, in a specified period of time that a worker can spend and is willing to spend in consumption without obstructing the value of his or her wealth. Fisher (1930) observe that income is all the just or legal money paid to a worker in a period of time, that enables the employee to enjoy his/her life by getting basic necessities of life including food, clothes, shelter, and leisure. It is all legal remuneration or money a worker receives in a given period of time and really available and intended to be used by the employee for spending. Income is therefore broader than wage. It is accession to wealth by employee.

Why wage and income inequality

Wage and income inequality refers to disparity in terms of pay that exists among workers of the same skills and educational qualifications. It entails remuneration discrimination that is perpetuated by employers of labour based on sex, nationality, religion, migration status, ethnic background, employment status, etc. It is the remuneration gaps between women and men, as well as between migrant and national workers. These inequalities according to ILO (2015) arises from multiple and complex factors that varies from one country or region to another.

In Nigeria, a great number of foreign nationals who work in the country earned far more income and wages other than their Nigerian counterpart. This is more eloquent in the petroleum sector of the economy where multinational companies dominate. Other sectors where foreigners (including Chinese, Lebanese, Philippinos) are highly paid than Nigerians is the construction companies, manufacturing, cement factories, etc. The reason for these inequalities or gaps is often tied to the fact that foreign workers are more skilled and experienced than their Nigerian counterparts. The educational qualifications in this regard accounts less or nothing. ILO (2015) report shows that the Nigerian situation is similar to that of Chile where migrant workers earn more remuneration than their national counterparts.

Wage and income gaps exist in Nigeria and elsewhere in the world because of workers engagements either in the formal or informal economy. Workers in the formal economy especially those in small and medium enterprises (SMEs) are often under-paid as compared to employees in government parastatals, department and cooperation. Again, disparity also occurs between workers in the organised private and those in the civil service. Most private entities especially in the petroleum sector, banks, construction companies, etc, pay their employees better than government establishments. However, employees' in the informal economy of Nigeria are generally lowest especially at the bottom.

Disability could be responsible for some discrimination that exists between workers in Nigeria. Workers who are physically challenges can be paid less especially the private sector, where the employers' sees such employment as favour rather than call to service. Again, sex also account for income and wage inequality in the informal economy that required physical strength rather than skills or educational qualifications are less needed. In organizations where this is practised, female workers are poorly paid to discourage others from applying and this safe these enterprises of being accused of gender unfriendly.

According to Heinze and Wolf (2010), Goldin (2014) and ILO (2015), there are a number of reasons for gender wage gap, these includes – (a) Family behavioural pattern in most culture and religion which placed women as second class citizens, who are good for domestic activities/talks. (b) In many societies, women are also viewed as economic dependants, and as such need not to equate their wages or income with that of men. (c) Women low representation in labour unions because of their dominance in unorganised sectors of the economy could also be responsible for their poor remuneration as compared to men. (d) The wage structure and administrative mechanism that focuses on workers in males dominated economy could account for the wage marginalisation women face globally. (e) Workplace attributes/characteristics that undervalued women and permits sex segregation could significantly influence their remuneration as compared to men.

Theoretical framework: General theories of income distribution

This study utilised the vantage offered by general theories of income distribution. These theories blend ideas from Ricardian theory, Marxian theory, Neo-classical theory, and Kaldor's model to explain the multiple and complex reasons for wage and income inequality in society. It is an embodiment of four major theoretical postulates that attempts to explain income and wage inequality among individuals, groups, nations, and regions. The general theories of income distribution drew heavily from the works of David Richado (1951), Karl Marx (1867), Nicholas Kaldor (1955), and neo-classical theorists such as John Bates Clark (1899; 1929) and Fritz Machlup (1939).

The general theories of income distribution considered three major factors of production to include land, capital, and labour. Total income is distributed to these factors in terms of rent, profits, and wages. These theories see income as the final result or stage of the entire economic process (Bigsten, 1983). Ricardo posits that when income is shared in favour of landlords, it hinders economic growth. He also observed that, conflict in income sharing revolves around profits and wages. Suggesting that rents are less shared and, less problematic since it is ascribed to landlords.

Marx expanded what constitutes income to include rent, benefits, and interests; he however argues that these sources of income are received by only one class – the capitalists. Marx observes that since these incomes accrued to the capitalists, the worker/labour is continually exploited by the former (capitalists or owners of means of productions). Marx like Ricardo observes that the unlimited labour supply in society allow the capitalists to place wages at a subsistence level. According to Marx, the innovations adopted by the capitalists made labour surplus inevitable unlike the Malthusian theory that ties labour surplus to demographic forces (Cline, 1975; Gillis, et at., 1987). The postulates of Ricardo and Marx suggest that wages and income inequality are products of surplus labour, innovation and the capitalists' exploitative attitude towards workers.

According to Marx, the capitalist system of production comes with laws that rule the corresponding distribution of income in favour of *owners of means of production*. Thus, the collapse of capitalism will lead to handsome income or wages for workers. The collapse will come as a result of dwindling wages/income of workers in the face of massive and primitive accumulation of wealth/income by the capitalists. The Neo-classical or Marginal Productivity theorists spiced up the general theories of income distribution. Clark, Machlud among other neo-classical theorists posit that all factors of production are scares including labour, and all creates value. This position refutes Marxian view that value is only created by labour.

Like Marx, the assumptions of Kaldor's model on income distribution reveals that return to economic processes or production is shared between two major classes: capitalists and workers. Kaldor observed that both the capitalists and workers have the propensity to save, and workers savings are usually lower than that of the capitalists. Kaldor holds that if profits are properly shared, it will help in bridging wages gaps between the capitalists and workers.

The relevance of the general theories of income distributions to this study is remarkable. These theories identified sources of income in society, and how income is shared among the two major class of people in society – the capitalists (owners of means of production) and workers. General theories x-rayed how wages and income inequality causes conflicts between workers and capitalists. It explains how labour surplus influences wages/income accruing to workers. General theories highlight clearly who innovation of means of production by capitalists constitute to labour surplus and encourage capitalists to place wages/income at subsistence level.

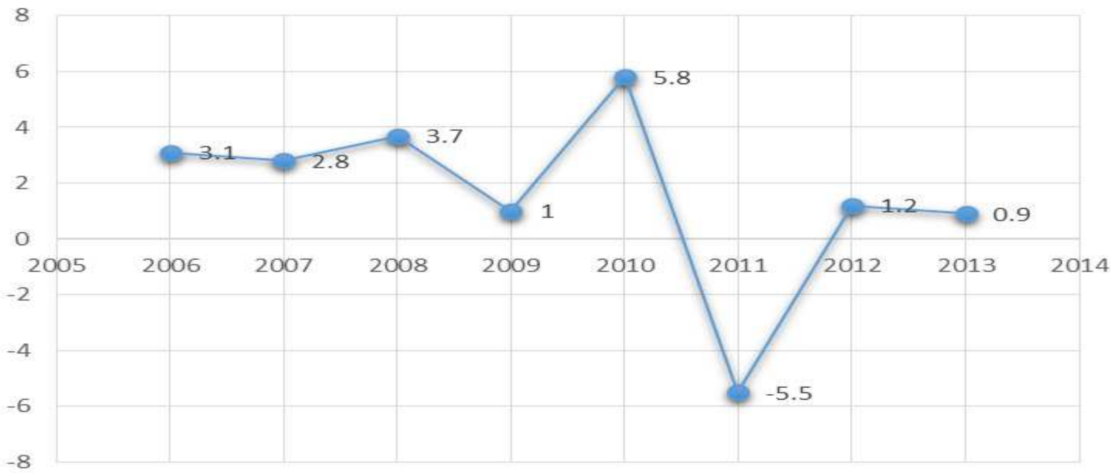
Global trends of wages and income inequality

Wage and income inequality exists in organisations, countries, and regions across the world. However, the wage and income gulf between developed and some emerging/developing economies is remarkable and worrisome. Annual average wage and income growth from 2006 to 2013 in G20-developed countries shows that Africa continent including Nigeria is lacking far behind (see figs. 1 & 2).

Fig. 1: Annual average wage/income growth in G20-developed countries from 2006-2013 (%)

Source: Adopted from ILO (2015:5)

Fig. 2: Annual average wage/income growth in Africa from 2006-2013 (%)

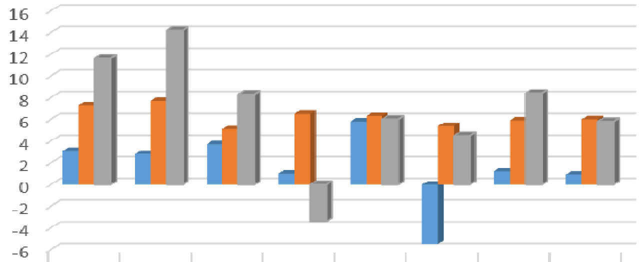


Source: Adopted from ILO (2015:5) and ILO (undated), ILO global wage database. Online available at: *www.ilo.org/gur-figured*. Retrieved 12/7/15.

Data presented by ILO (2015) on annual wage/income growth between G20-developed countries and African countries in figure 1 and 2, shows great inequality among them. It reveals that for 8 years, the average annual wage growth for G20-developed countries is 51.3% as against 13% in Africa. A breakdown shows that in 2006 G20 nations witnessed 8.3% growth in annual wage growth while Africa has only 3.1% growth. In 2007, G20 countries experienced 9.2% growth in annual wage growth as against Africa countries with 2.8% growth. However, Africa was almost at par with G20 nations when she witnessed a growth of 5.8% in her annual wage as against 5.9% in G20 countries. It became worrisome in 2011 when Africa countries wage growth dropped from 5.8% in 2010 to -5.5% in 2011 as compared to G20 countries that recorded a growth of 4.8%.

Figures 1 and 2 further reveal significant difference between wage/income gaps in G20 and Africa countries. For instance, between 2012 and 2013, G20 countries experienced an annual wage/income growth of 6.7% and 5.9% respectively. On the contrary, Africa countries have an annual wage/income growth of 1.2% and 0.9% in 2012 and 2013 respectively.

Fig. 3: Annual average wage/income growth in Africa, Asia, Eastern Europe and Central Asia



	2006	2007	2008	2009	2010	2011	2012	2013
Growth in Africa (%)	3.1	2.8	3.7	1	5.8	-5.5	1.2	0.9
Growth in Asia (%)	7.3	7.7	5.1	6.5	6.3	5.4	5.9	6
Growth in Eastern Europe and Central Asia	11.6	14.2	8.3	3.4	6	4.5	8.4	5.8

Growth in Africa (%) Growth in Asia (%) Growth in Eastern Europe and Central Asia

Source: Adopted from ILO (2015:5)

Comparing Africa countries with that of Asia, Eastern Europe and central Asia shows that the African continent lacks behind. Figure 3 reveals that a wide income/wage gap exists between Africa and the countries of Asia, Eastern Europe and Central Asia. The cumulative of annual wages/income growth in Eastern Europe and Central Asia from 2006 to 2012 stood at 55.4%; while in Asia, the annual wage growth for the same number of years is 50.2%; in Africa, it was only 13%. These figures as compared to that of Africa are worrisome because of its multiplier effect on all fabrics of society.

Details of the wage gaps as depicted in figure 3 reveals that Eastern Europe and Central Asia witnessed between 2006 and 2007 an annual wage growth of 11.6% and 14.2% respectively as against 3.1% (2006) and 2.8% (2007) in Africa. Within the same period, Asia excluding Central Asia witnessed an annual wage/income growth of 7.3% and 7.7% respectively. Similarly, between 2012 and 2013, Eastern Europe and Central Asia witnessed an annual wage/income growth of 8.4% and 5.8% respectively (see fig. 3). Asia between 2012 and 2013 respectively experienced 5.9% and 6.0% annual wage/income growth. In the same period under consideration (2012 and 2013), African countries witnessed the least annual wage/income growth of 1.2% and 0.9% respectively. The consequences of these inequalities are enormous and demand urgent attention.

Effects and lessons from global trends of wages and income inequality

Wage and income inequality placed far greater parts of society in poverty and misery. According to Adam Smith (1884), no human society can be happy and flourishing when a great number of its members are poor and miserable. ILO (2015) observes that high income inequality levels can adversely affect socio-economic wellbeing of society. It can negatively affect social cohesion as well as obstruct medium and long-time economic growth.

Wage policies that promote inequality among workers either at organisational or national levels propels industrial conflict (Fashoyin, 1999; Otobo, 2000; Agba, 20007). Plethora of studies revealed that wage discrimination accounts for the unprecedented industrial disputes in Nigeria (Agba & Ushie, 2013). Wage gap between political office holders in Nigeria and civil servants induced strikes and other labour related disputes in Nigerian Universities (Agba, 2007). Wage discrimination in Nigerian hospitals is also responsible for the perennial strikes in the health sector. Medical doctors in the health sector are well-paid than paramedical or other medical staff, thus, quest or agitations from other employees of the same educational qualifications or who receives less remunerations than doctors ends up in strikes (Agba & Ushie, 2013).

Wage and income inequality occasioned high labour turnover in most organisations especially in private bodies where pension, gratuity, insurance cover are not or near absent. However, some government establishments also lose staff to well-paid private organisations in the petroleum sector. Within the private (sector) organisations in Nigeria and elsewhere in Africa, wage and income inequality informs turnover and the trend is towards well-paid entities. This suggests that wage and income inequality can cause well-paid organisations to have surplus workers, and this is not without consequences. The positive side is that such organisations could employ the right workers; but it could also cause them to reduce the remuneration of workers. According to Agba, Nkpoyen and Ushie (2010), once income/wages are reduced, employees' commitment, effectiveness and motivation drop drastically, and this could affect productivity at individual and organisation levels. Similarly, Agba, Mboto and Agba (2013) argue that wage/income is a significant determining factor of workers motivation and performance in an organisation; thus reduction of wage/income means low employees' performance.

Brain drain experienced in the medical and educational sectors in Nigeria and other African countries is not unconnected to wage and income inequality. Wage and income gap between the West and Africa (Nigeria) is largely responsible for the exodus of medical experts especially doctors and nurses from Nigeria to Britain and the United States of America. It was recorded in 2005 that there were 2,393 Nigerian doctors practicing in the US and another 1,529 in the UK (WHO, 2007; Agba, Ushie & Osuchukwu, 2010).

Income and wage discrimination is largely responsible for age falsification among workers who will not want to miss the token they receive as salary. Chizueze, Nwosu and Agba (2011) argued that poor remuneration in Nigeria as compared with advanced nations and even some emerging economies creates an ambiance of disturbance among workers in Nigerian civil service. This inequality makes workers to see life after retirement as one of the most dreaded period of their existence on earth.

Rising wage and income inequality obstructs household purchasing power. It impoverished many households and adversely affect their nutritional state. Corak (2013) posit that wage and income inequality is an obstruct to social mobility, since it obstructs equality of opportunity. It damage workers perception of fairness at workplace and society at large; this according to Jencks (2002) adversely affect social cohesion. IMF (2014) report on fiscal policy and income inequality revealed that wage and income discrimination impedes the pace and sustainability of economic growth. Wage and income inequality also promote social and economic exclusion wherever it is practiced.

Inequalities in wages and income encourage the transfers of wealth in society from the poor to the rich. It makes *the rich get richer* and *the poor get poorer*. It is a major source of social upheavals in many societies. It is largely responsible for the upheavals in the Niger Delta region of Nigeria. This is because, the social and economic exclusion of host communities by government and oil multinationals from the wealth created from the region informed militancy and other forms of vices in that part of Nigeria. ILO (2015) observes that wage and income inequality account largely for the borrowing orientations that characterised poor families in most part of the world. This is because, affected families have to borrow beyond their capacity to make-earns-meet and maintain their consumption status. Where loan facilities are not available, the tendency of such family heads to engage in bureaucratic and other crimes becomes very high. It suggests that wage and income inequality significantly affect crime at organisational and societal levels.

Ways to minimise wages and income inequality in Nigeria

The direct and multiplier effect of wage and income inequality is eloquent. Its negative effects obstruct growth in all spheres of society. It is an obstacle to socio-economic and political advancement of nations. It is largely responsible for the dwindling performance of most organisations and the unprecedented rate of industrial disputes in many formal entities across the world. These unpleasant consequences demands urgent and concrete actions; we therefore made the following suggestions as progressive convergence towards reducing wages and income inequality in Nigeria and elsewhere in Africa:

(i) Fiscal policies should be used to address wages and income inequality in Nigeria. Fiscal policies should be directed to redistribute wages and income through transfers and taxations. Fiscal policies that takes less from the poor and ensure redistribution of wealth in society should be encouraged by government at all levels.

(ii) Collective bargaining should be encouraged in private and public establishments. Government in Nigeria should put mechanism in place that enables employees and employers to deliberate effectively on wages to reach acceptable bench-mark. Collective bargaining should be used to fix general or minimum wage. This suggests that legislative apparatus should be put in place to ensure compliance from all parties.

(iii) Government through much consultation with stakeholders can fix a minimum wage level that bridges gaps. Minimum wage policy can also be used by government in cases where collective bargaining fails or impasse occurs. When employees and employers fail to reach agreement, government can fix a minimum wage bench-mark to guide future remuneration deliberations.

(iv) Social and insurance policies should be provided by government to bridge wage and income gaps in the country. The national health insurance scheme (NHIS), housing and other schemes should be strengthened to include the most vulnerable in society. The least paid should be well covered by social and insurance schemes of government. Laws should be made that mandate the private sector to make good welfare schemes for their employees. The social protection systems of government should be inclusive and embracing, covering workers in the private and public sectors.

(v) Opportunities and great access should be created for all Nigerians to have gainful employment. This will significantly reduce income inequality in the country. It entails creating more jobs and ensuring that no one is excluded from accessing such employment opportunities. This means that government should have good control of the labour market by making policies that reduces unemployment and encourage specialization in some rare fields.

(vi) Government should make a law called *non-discriminatory employees' law.* The law should ensure that workers are not discriminated based on physical disabilities, sex, nationality, marital status, etc. Existing laws in this area should be revamped with the aim of eliminating all forms of discrimination and wage inequalities.

Conclusion

The growing global and income gap in the past one decade commands the attention of this study. In the course of our review, existing data shows that wage and income inequality is adversely affecting the wellbeing of workers and social cohesion in Nigeria and elsewhere in Africa. Plethora of studies also reveals that wage and income inequality reduces medium and long-term economic growths in Africa. Meaning that for Nigeria to maintain her economic status as leading or largest economy in Africa, wage and income inequality must be addressed drastically. The study also uncovers that, wage and income growth in Nigeria and indeed Africa is the least as compared to other emerging economies and G20 countries. This suggests that Nigeria and indeed African is not far from the time bomb of the negative consequence of wage and income inequality that is eminent socio-economic and political collapse. We therefore recommended policy options as a panacea. We suggested among others that government should use fiscal policies, collective bargaining, insurance scheme, social protection policies, minimum wages and job creation to reduce if not totally eliminate wage and income inequality in the country.

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APPENDIX 1

Fig. 1: Annual average wage/income growth in G20-developed countries from 2006-2013

S/N	Year	Annual average wage/income growth (%)	
1	2006	8.3	Total = 51.3 %
2	2007	9.2	
3	2008	6.5	
4	2009	4.0	
5	2010	5.9	
6	2011	4.8	
7	2012	6.7	
8	2013	5.9	

Fig. 2: Annual average wage/income growth in Africa from 2006-2013

S/N	Year	Annual average wage/income growth (%)	
1	2006	3.1	Total = 13 %
2	2007	2.8	
3	2008	3.7	
4	2009	1.0	
5	2010	5.8	
6	2011	-5.5	
7	2012	1.2	
8	2013	0.9	

Fig. 3: Annual average wage/income growth in Africa, Asia, Eastern Europe and Central Asia

S/N	Year	Growth in Africa (%)	Growth in Asia (%)	Growth in Eastern Europe and Central Asia
1	2006	3.1	7.3	11.6
2	2007	2.8	7.7	14.2
3	2008	3.7	5.1	8.3
4	2009	1.0	6.5	-3.4
5	2010	5.8	6.3	6.0
6	2011	-5.5	5.4	4.5
7	2012	1.2	5.9	8.4
8	2013	0.9	6.0	5.8
Total for 8 years		13%	50.2%	55.4%