Linkage between Fiscal Policy and Poverty Reduction in Nigeria

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Abstract

This study investigates the linkage between fiscal policy and poverty reduction in Nigeria using a descriptive analysis. It explores the effectiveness of fiscal policy tool, especially government expenditure, in addressing the level of poverty and economic growth in the country. The study found that government capital and recurrent expenditures have not significantly reduced the level of poverty in Nigeria because of a weak linkage, which has not allowed fiscal policy to reflect its true opportunity cost. This gap created loopholes in the implementation of the various measures of fiscal policy in the country. The study therefore concludes that the levels of government capital expenditures in Nigeria have weak impact on the level of poverty in the country over the period of time covered. The study therefore recommends the formulation of stable macroeconomic policies that are consistent with the peculiarity of poverty situation in the country. This would promote productivity from which both the poor and non-poor would benefit.

Keywords: Fiscal Policy, Poverty Reduction, Alleviation Programmes, Nigeria, Descriptive Analysis

1. INTRODUCTION

In its general conceptualization, fiscal policy is that policy framework which refers to the way a government influences an economy through revenue collection and spending. In this view, fiscal policy in any economy is the mechanism through which revenue collected through taxes by the government is manipulated in such a way that the performances of some basic macroeconomic variables such as income distribution, aggregate demand, and resource allocation among others are enhanced (Bogdonov, 2010 and Oyeranti and Ishola, 2012).

Particularly, fiscal policy administration through the mechanism of government expenditure plays an important role in poverty reduction, increase per capita income and finally culminates into economic growth and development. In the Keynesian approach, public spending may

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increase the aggregate demand which further stimulates the economic growth and employment. Although reduction in government expenditure may adversely affect the economy, yet excess of government expenditure due to increase in recurrent expenses or unproductive use of the collected tax in the economy creates fiscal deficit. In fact, many economists believe that fiscal deficit is the root cause of every illness in the economy. Thus, fiscal deficit can be harmful to welfare for several reasons, such as: it can lead to inefficient allocation of resources and can crowd out the private investment. Although high fiscal deficit is injurious to the economy since it increases poverty but if the increase is due to development expenditure, it can help reduce poverty in the long run through increase in productivity and employment (Mehmood and Sadiq, 2010).

There exists a consensus in the literature that an adequate and effective macroeconomic policy is critical to any successful development process aimed at achieving high employment, sustainable economic growth, price stability, long – viability of the balance of payments and external equilibrium. This, therefore, suggests that the significance of stabilization policy (fiscal and monetary policies) cannot be overemphasized in any growth oriented economy. Growth and poverty alleviation have a long history of research attention by different scholars, particularly in Nigeria (See, for example, Aigbokhan, 1985, 1998; Obadan, 1997; Ogwumike and Ekpenyong, 1995; among several of such studies). However, none of these studies have attempted to examine the work analytically. Furthermore, previous works on Nigeria have relied on partial frameworks. The differential effects of fiscal policy on various productive sectors and on the different income groups are neither explored nor captured. Most of these studies have preoccupied themselves with presenting poverty profiles in Nigeria. Some of them have attempted to examine the impact of growth on inequality. But it is quite clear from the literature that growth, inequality and poverty can influence, and in turn be influenced by, fiscal policy.

However, in Nigeria, despite the invaluable significance of economic stabilization policy in the actualization of sustainable development, there seems to be dearth of comprehensive study in Nigeria to the knowledge of the researcher that has investigated in particular the effects of fiscal policy on poverty reduction in Nigeria. This study, therefore, seeks to fill this research gap. Thus, the outcome of this study will be relevance for both the private sector and the public policy makers to be aware of policy implications of the level of fiscal policy adjudication in Nigeria. In addition, this study will add to the existing literature on Fiscal policy and poverty reduction as well as economic growth nexus in Nigeria and by extension, the developing countries of the world.

The rest of this paper is structured as follow; section contains the review of poverty reduction various strategies in Nigeria while section three presents the trend analysis of the trajectory of the key fiscal policy variables and poverty reduction in Nigeria. The last section four presents the conclusion and suggested policy recommendations.

2. REVIEW OF POVERTY REDUCTION STRATEGIES

To reduce poverty, various schools of thought have advocated a number of measures. For instance, the Mercantilists laid emphasis on foreign trade which according to them is an important vehicle for the promotion of economic growth and poverty reduction. The Classical economists' (Adam Smith, David Ricardo, Thomas Malthus, Karl Marx, etc.) views on poverty reduction brought to fore the social changes brought about by technological changes resulting from the industrial revolution that took place between 1750-1850. The early development economists of the 1940s and the 1950s advocate the theory of forced-drift industrialization via Big push, Balanced growth and Labour transfer (Ijaiya 2002). Chenery, et.al (1974) advocated re-distribution of income. To them, poverty can better be reduced if radical redistribution of income or land is allowed to take place in view of the interlocking power and self-interest of the rich and the bureaucracy in the handling of the nations' resources.

The World Bank (1983; 1990; 1991) emphasizes on the need for stable macroeconomic policies and economic growth. To the World Bank, sound fiscal and monetary policies will create a hospitable climate for private investment and thus promote productivity which in the long-run would lead to poverty reduction (see also Dollar and Kraay 2000; Sandstorm 1994; Edwards 1995). This approach is what is referred to as pro-poor growth approach to poverty reduction. In the world economies, 1980s to the 2000s had witness the introduction of new strategies/approaches to poverty reduction. Key among them are the basic needs and capabilities/entitlements approaches, participatory development, social capital, community self-help, good governance and human right approaches to poverty reduction (Boeniniger 1991; Picciotto 1992; Woolcock and Narayan 2000; United Nations 2002; 2004).

In Nigeria, various efforts have been made by the government, non-governmental organizations and individuals to reduce poverty in the country. Ogwumike (2001) opined that poverty reduction measures implemented so far in Nigeria focused more on economic growth, basic needs and rural development strategies. The economic growth approach paid attention to rapid economic growth as measured by the rate of growth in real per capita GDP, price stability and declining unemployment among others, which are attained through proper harmonization of monetary and fiscal policies. The basic need approach focused on the basic necessities of life such as food, health care, education, shelter, clothing, transport, water and sanitation, which could enable the poor live a decent life. The focus of rural development approach is the total emancipation and empowerment of the rural sector.

Ogwumike (2001) further grouped the strategies for poverty reduction in Nigeria into three eras – the pre–SAP era, the SAP era and the democratic era. In the pre-SAP era, the measures that were predominant included the Operation Feed the Nation, the River Basin Development Authorities, the Agricultural Development Programmes, the Agricultural Credit Guarantee Scheme, the Rural Electrification Scheme and the Green Revolution. In the SAP era the following poverty reduction measures were introduced; the Directorate for Food, Roads and Rural Infrastructures, the National Directorate of Employment, the Better Life Programme, the Peoples' Bank, the Community Banks, the Family Support Programme and the Family Economic Advancement Programme. The democratic era witnessed the introduction of the Poverty Alleviation Programme (PAP) designed to provide employment to 200,000 people all over the country. It was also aimed at inculcating and improving better attitudes towards a maintenance culture in highways, urban and rural roads and public buildings. By 2001 PAP was phased out and fused into the newly created National Poverty Eradication Programme (NAPEP) which was an integral part of the National Economic Empowerment and Development Strategy (NEEDS).

Despite these programmes and policies targeted at poverty reduction, the level of poverty in the country is still very alarming. These policies were not potent enough to address the veracity of the poverty situation in the country. It is either the policies were structurally defective or there was no proper implementation plan to capture the peculiarity of the poverty situation in the country.

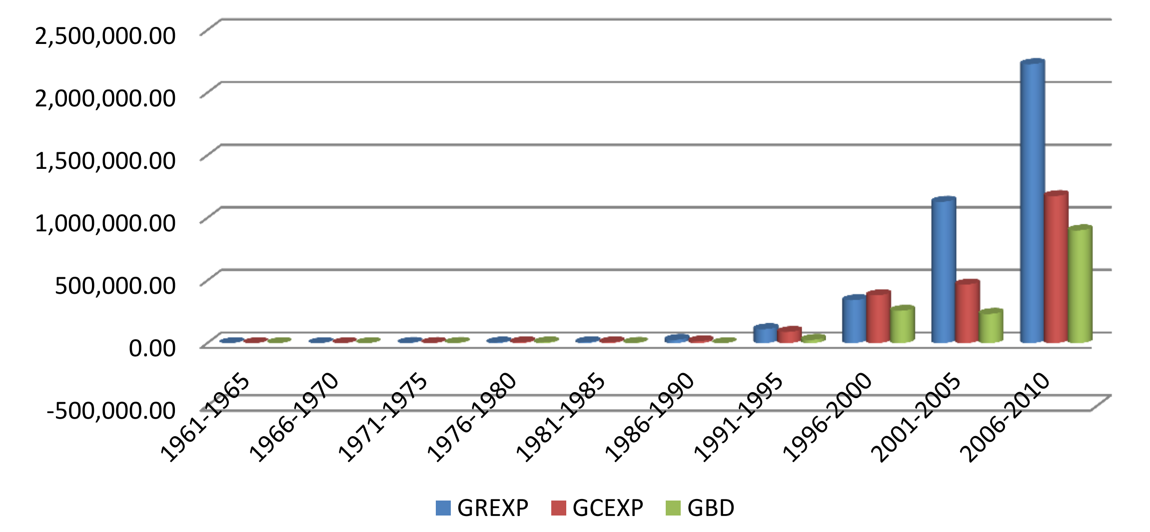
3. DYNAMICS OF POVERTY AND FISCAL POLICY IN NIGERIA

This section presents the trend analysis of the dynamics of poverty incidence in Nigeria. It also examines the dynamics of some key fiscal policy tools or variables employed with the hope of establishing the nexus between fiscal policy and poverty reduction in Nigeria.

3.1 Trends in Government Expenditures and Budget Deficit

Figure 3.1 below shows the trends in government capital and recurrent expenditures as well as budget deficit from 1961-2010. The graph reveals that the trends in the movement of the variables take a geometric pattern because there is phenomenal increase in the level of government capital expenditures and recurrent expenditures during the period.

Fig. 3.1: Trends in Govt.Expenditures and Budget Deficits (1961-2010)



Source: Graphed by the Authors, 2012.

The trends show that in recent times, fiscal policy expenditures have geometrically increased. Despite this increase, it is still doubtful whether such increase has appropriately reduced the level of poverty in Nigeria. This can be substantiated by the further analysis of the structure of poverty profile in the county and the behaviours of other selected fiscal policy variables.

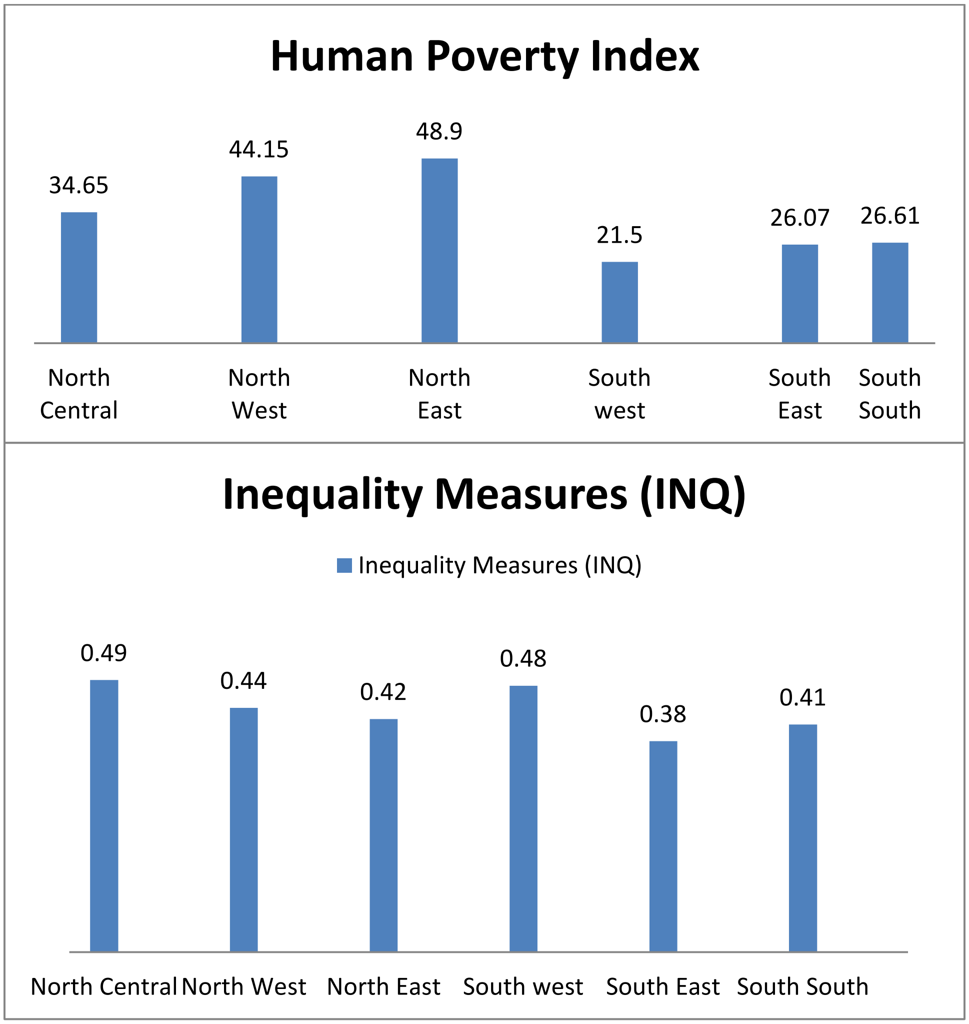
3.2: Poverty profile in Nigeria

The Nigerian economy is basically characterized by large population of rural dwellers whose major occupation is agriculture and by a smaller urban capital intensive sector, which has benefited most from the exploitation of the country's resources and from the provision of services that successive governments have provided. The existence of this economic duality or the real sector duality has contributed to the persistence of different level of poverty in the country. A fundamental problem with Nigeria's past pattern of development was the incentive regimes, which prevailed for most of the last two decades, tended to favour the urban modern sector. Nevertheless, the poor in Nigeria are not a homogeneous group. They can be found among the six geo-political zones in Nigeria.

For instance, figure 3.2 below shows the distribution of poverty of Nigerian masses based on the geopolitical division in Nigeria. The graphs show the level of poverty and inequality across the six geo-political divisions in Nigeria. It can be deduced from the graph that North- Eastern zone had the highest poverty index in the country of about 49 percent. This trend is followed by North western zone with 44.12 percent, North central 34.65%), south-south (26.61%), south-east (26.07%) and south-west with 21.5 %. On the other hand, south west which hitherto had the lowest level of poverty index exhibits high level of inequality (0.48). This is followed by north central (0.49%), North West (0.44), north east (0.42%), south-south (0.41%) and south-east (0.38%). It can be deduced from the above graphs that the level of poverty and inequality in Nigeria varies across the six geo-political zones in Nigeria.

Poverty in Nigeria is partly a feature of high inequality which manifests in highly unequal income distribution, differing access to basic infrastructure, education, training and job opportunities. High inequality could undermine the country's prospects of achieving the MDGs. It is often said that the true barometer for measuring the impact on poverty is the Gini coefficient index of inequality. Many recent studies and statistics have shown that poverty is evidenced in inequality. And in Nigerian situation, inequality basically indicates high levels of institutional failures in the provision of equal opportunities for all to have access to education and other social infrastructural facilities.

Figure 3.2: Nigeria's Human Development Summary Statistics by Zones



Source: Graphed by the Authors, 2012

3.3. Nigerian Poverty Indicators/Incidence and Severity

The levels of household expenditures vary from one individual to another, and this formed the basis of relative measures of poverty. Thus, the classification of poverty into poor, non-poor and moderately poor using the mean per capita household expenditure is the poverty line. In this regard, Poverty line measure separates the extreme or core poor from the rest of the population. The accumulation of the core poor and moderate poor gives the poor population while the non-poor are the population greater than two-third of the population.

In the course of computing the poverty profile for Nigeria using the Harmonized Nigeria Living Standard Survey 2009/2010, money-metric measure of poverty have been adopted. To achieve that National Bureau of Statistics have been adopting per capita expenditure (Total Expenditure/Household Size) just for consistency since the 2003/2004 to measure the level of Relative Poverty in the country. NBS, (2010) further classify the poverty line using the money-metric measures into:

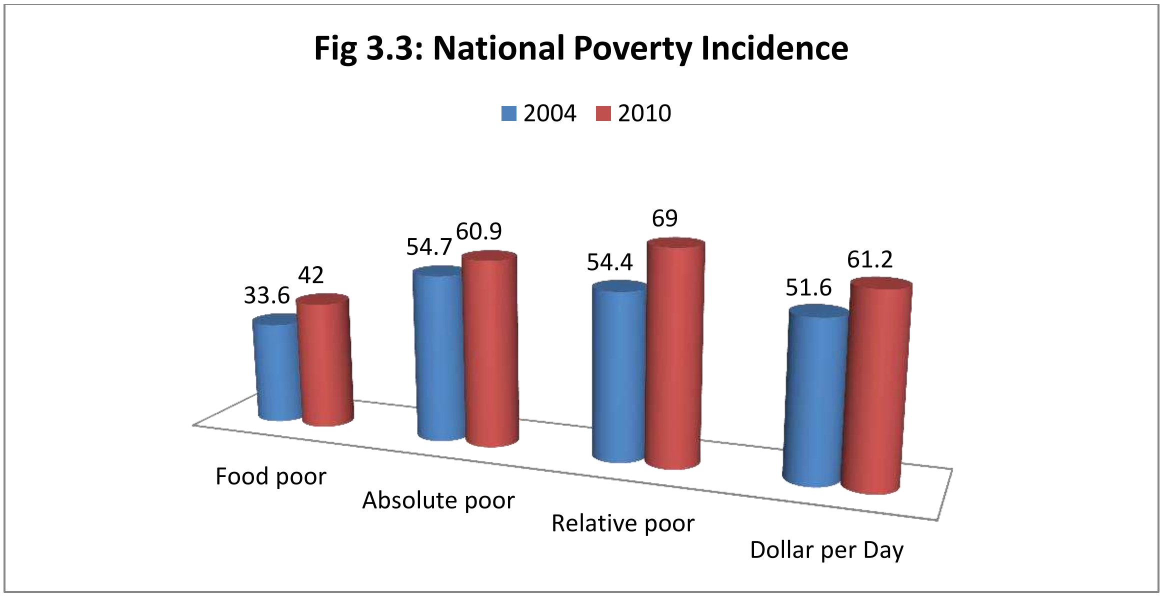
i) Food Poverty line is N39, 759.49. This Food Poverty is an aspect of Absolute Poverty Measure which considers only food expenditure of the Households.

ii) Absolute Poverty line is N54, 401.16. This is the second step in Absolute (Objective) Poverty measure. Here, this method considers both food expenditure and non- food expenditure using the per capita expenditure approach

iii) The Relative Poverty line is N66, 802.20. This line separates the poor from the non-poor. All persons whose per capita expenditure is less than the above are considered to be poor while those above the stated amount are considered to be non-poor.

iv) The Dollar Per day Poverty line is N54, 750. This measures, consider all individuals whose expenditure per day is less than a dollar per day using the exchange rate of Naira to Dollar in 2009/2010.

v) The Subjective Poverty Measure is the perception of the citizenry. It is neither related to Per Capita Expenditure of household nor the Country adult – equivalent scale. From the survey result, the core poor is 46.7 percent, Moderate poor is 47.2 percent while the non-poor is 6.1 percent.



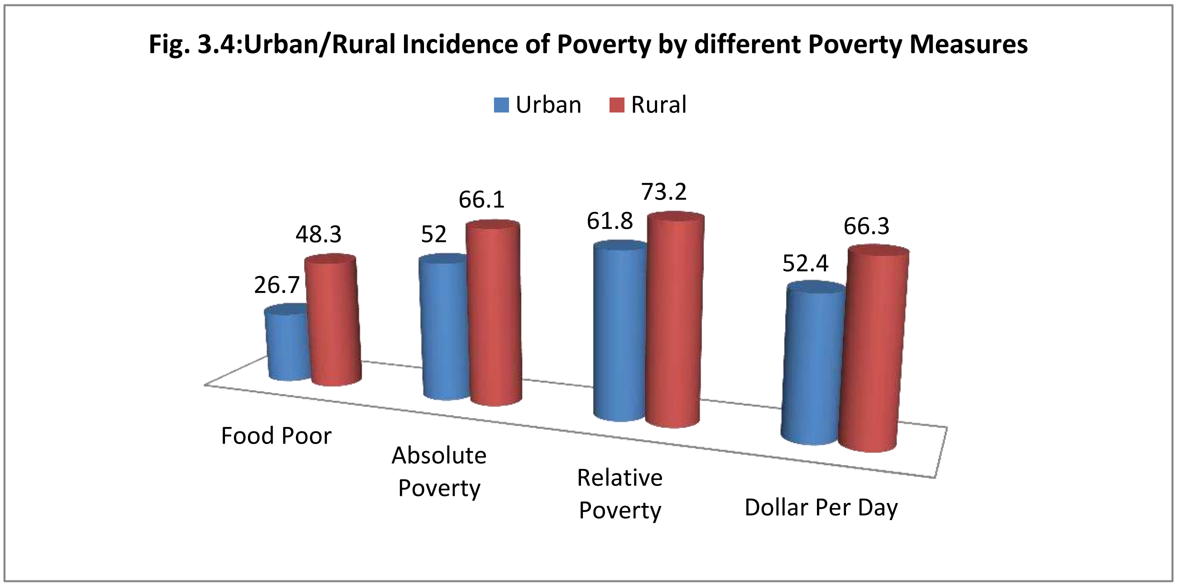
Source: Graphed by the Authors, 2012.

Figure 3.3 above demonstrate the level of poverty incidence and severity based on the classification of the poor into the different level of poverty lines. From the graph above, it can be deduced that the level of poverty across the different indicators was high in 2010 survey more than was obtainable in the 2004 survey. In the year 2004, the level of Absolute poverty was higher than all other indicators of about 55 percent. This is followed by relative poverty of about 54.4 percent, Dollar per day measure (52%) and food poverty of about 34 percent. On the other hand, we reckoned that the incidences of poverty in the above table for the 2010 take a higher trend. It is shown that relative poverty has the highest percentage of 69 percent. This is followed by dollar per day poverty which amount to 61.2 percent, Absolute poverty (60.9), and food poverty is 42 percent.

In term of comparison, we found that there is general economic growth slow-down in Nigeria with reference to the incidence of poverty as illustrated above. Particularly, we found that the level of consumer or household welfare reduces in 2010 as compared to 2004 because the incidence of poverty was higher in 2010 across the four measures.

3.4: Urban/Rural Incidence of Poverty by different Poverty Measures

Apart from the national poverty incidence as shown in figure 3.3 above, the harmonized living standard survey of 2010 by the Nigerian Bureau of Statistics also classified the poverty incidence based on the four measured into urban and rural incidence as shown in figure 3.4 below.



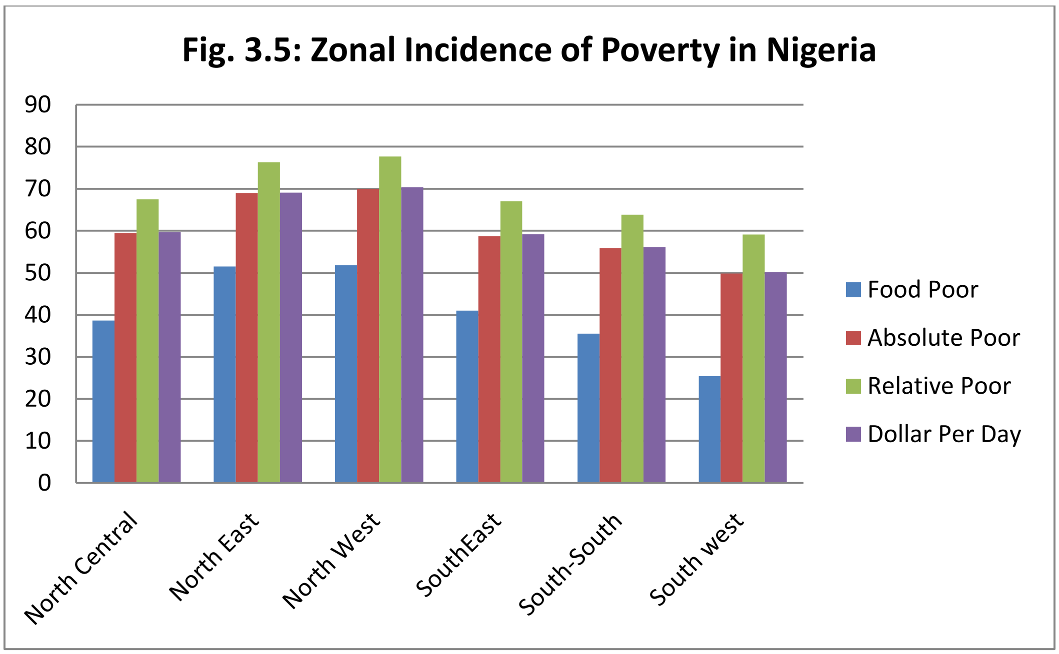
Source: Graphed by the Authors, 2012

It can be seen from the graph above that the level of rural poverty in Nigeria is greater than that of urban poverty across the four measures. Relative poverty has the highest incidence of relative poverty of about 73.3 percent in the rural areas of Nigeria. This is followed by the incidence of dollar poverty per day of about 66.3 percent in the rural area. Absolute poverty takes the next level of trend with about 66.1 percent in the rural areas in Nigeria as well. Lastly, food poverty takes the lowest poverty incidence ratio in the rural areas of Nigeria with about 48.3 percent. In comparison with the above scenario of rural poverty, the table revealed that the levels of urban poverty incidence are lesser than that which is obtainable in the rural areas. For instance, relative poverty of about 73.3 in the rural areas was 61.8 percent in the urban areas. Dollar per day poverty in the urban area is put at 52.4 percent as against 66.3 in the rural area.

In general, we noticed that poverty incidences are higher in the rural areas than in the urban areas. Thus, the frequent phenomenon of *rural–urban* migration in Nigeria by young school leavers may not be unconnected with this factor. Rural economic and infrastructural development should be the focus of the government in Nigeria to bridge the wide gap of economic dualism and rural-urban dichotomy in Nigeria for equal development and poverty reduction.

3.5: Zonal Incidence of Poverty by Different Poverty Measure

Similarly, poverty incidence is also classified by the six (6) geo-political fiscal arrangements in Nigeria. We found from Figure 3.5 that revealed that North western zone exhibits the highest level of poverty incidence across the four measures. North east was the next zone in the high trajectory of poverty incidence across the four measures. It is also glaring that except for food poverty where South east had 41 percent as compare with 38.6 percent in the north central, North central had the next level of high poverty incidence.



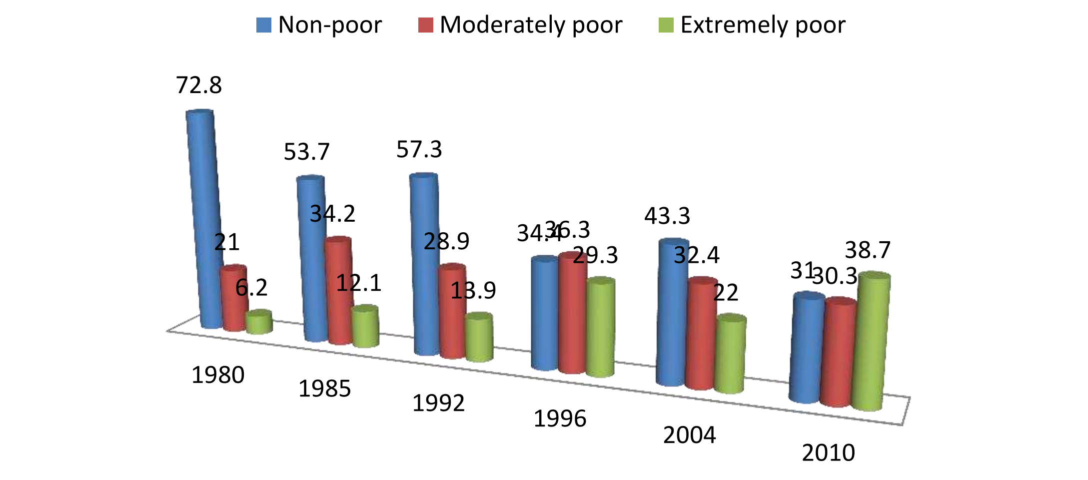
Source: Graphed by the Authors, 2012.

Indeed, we can deduce from the graph that south east; south-south and south west followed suit in the top down flow of the incidence of poverty in the country across the six zones. In other word, south western states had the lowest level of poverty incidence using the four measures across the six zones.

3.6 Relative Poverty in Nigeria.

Distributing the population into extremely poor, moderately poor and non-poor, Fig. 3.6 below shows that the proportion of the core poor (extremely poor) increased from 6.2 percent in 1980 to 29.3 percent in 1996 and then came down to 22.0 percent in 2004. For the moderately poor, the picture was quite different as the proportion recorded increased between 1980 and 1985 from 21.0 percent and 34.2 percent respectively. It went down between 1996 and 2004, from 36.3 percent to 32.4 percent. On the other hand, the proportion of non-poor was much higher in the country in 1980 (72.8 percent) compared to 1992 (57.3 percent) and 1996 (34.4 percent). Although it rose to 43.3 percent in 2004, it dropped to 31 percent in 2010.

Fig. 3.6: Relative Poverty in Nigeria.



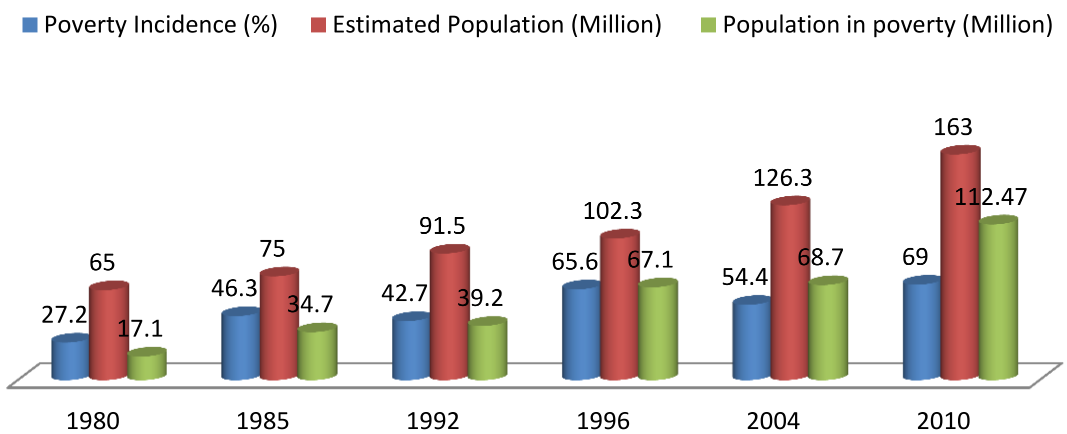
Source: Graphed by the Authors, 2012.

Generally, we found from the graph above that there is constant fluctuation; like a trend of business cycle, in the overall trend of poverty classified by the non-poor, moderately poor and extremely or core poor. In the 1980s the rate of non-poor was higher than what is obtainable in the recent years, especially in the 19th to 21st century in Nigeria. Significantly too, we found that the rate of extremely poor population increased in the recent years than what was obtainable in the 1980s. To support this, the graph showed that the core or extremely poor population ratio was put at 38.7 percent compared to 6.2 and 12.1 percent in 1980 and 1985 respectively. In fact, there is exhilarated growth in poverty ratio in the recent years in Nigeria.

3.7 Relative Poverty Headcount from 1980-2010

To support the above description, we notice that despite the fact that Nigerian economy is paradoxically growing, the proportion of Nigerians living in poverty is increasing every year as shown in Figure 3.7 below. In the table, the proportion of the population living below the poverty line increased significantly from 1980 to 2004

Fig. 3.7: Nigeria Estimated Population and Poverty Incidence (1980- 2010)



Source: Graphed by the Authors, 2012.

We can deduce from the above graph that it in 2010 that the number of the population living in poverty has increased from 68.4 million 2004 to 112.5 million in 2010. The gap is wide and it shows the level of underdevelopment of the Nigerian economy which warrants incessant increase in poverty ratio. In fact the graph shows that the level of the population living in poverty progressively increased from the period of time shown in the table above. Although on the part of poverty incidence itself, we notice some fluctuation. For instance, poverty incidence in 1992 (42.7) was less than that which was obtainable in 1985. Lastly, the incidence of poverty in 2004 (54.4) was less than that of 1996 (65.6), but in 2010, we notice that the incidence of poverty was the highest. Thus, poverty incidence in Nigeria fluctuates in a random manner. By implication, the government should be interest in frantic effort at reducing the incidence of poverty to the barest minimum in Nigeria.

4. CONCLUSION AND RECOMMENDATION

The question of whether or not fiscal policy stimulates growth and appropriately reduces poverty has dominated theoretical and empirical debate for a long time. One viewpoint believes that government involvement in economic activity is vital for growth, but an opposing view holds that government operations are inherently bureaucratic and inefficient and therefore repress rather than promotes growth and reduce poverty. In the empirical literature, results are equally mixed. This study examined fiscal policy-poverty reduction nexus in Nigeria for the period of 1980 to 2011 and reiterated some of the major challenges that poverty has caused in Nigeria. The study found that government capital and recurrent expenditures as well as budget deficits do not significantly reduce the level of poverty in Nigeria. We further found that there are two opposing blocks on the effectiveness of fiscal policy tool, especially government expenditure, in addressing the level of poverty and economic growth in general. To take our stand based on the trend analysis, we conclude that there is a weak potency of fiscal policy in addressing the challenges of poverty in Nigeria due to poor policy formulation or implementation which fails to take into consideration the peculiarity of the Nigerian poverty structure.

4.1 Recommendations

Based on the above submission, a sound macroeconomic policy, which is robust enough to handle the peculiarity of poverty in the country and promote productivity that the poor and non-poor would benefit, is desirable.

Secondly, profitable government expenditures in ventures that would emphasis on labour-intensive strategy given its ability to reduce poverty by increasing employment and improving the opportunities for productive activities among the poor are necessary because this will lead to increase in productivity and improve wages of the poorest segments of the society.

Thirdly, efficient and sound legal and regulatory framework that would necessarily ensure that both domestic and foreign investors are effectively protected against sudden and arbitrary changes in the economic environment and the rules of the game is highly recommended here.

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