THE EFFECT OF INCOME INEQUALITIES ON THE WELFARE OF THE POOR IN NIGERIA

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Abstract:

The study is to examine the scope and dimension of income inequality and its effect on poverty problem in Nigeria. The issue of poverty is a very crucial one due to the prevailing increase in the incidence of poverty in Nigeria. Poverty brings about unemployment in the society which also leads to waste of human resources, in the sense that those people that would have been useful in contributing positively to the growth of the economy are there contributing negatively due to joblessness. This therefore leads to reduction in the level of productivity which consequently brings about a decline in GDP rate of Nigerian economy. The research method employs time series data between 1980 and 2008 using e-view statistical package. The result of the finds reject null hypothesis that income inequality has no significant effect on welfare of poor in Nigeria. Thus, effect of income inequalities on poor is in conformity with the theoretical expectation. It is very important that government should embark on poverty reduction programme like National Economic Empowerment and Development Strategy (NEED) programme, achieve Millennium Development Goals (MDGs) among others.

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I. INTRODUCTION:

Macroeconomic goals include full employment, equality in income distribution, economic growth among others. Likewise, millennium development goals consists poverty reduction or alleviation and so on. But, the persistent income inequality has been since independence but increasing poverty rate started during the oil boom era. This is an elusive concept, which is determined by which ever way one tends to look at it. The eradication of widespread absolute poverty and reduction on income inequality is in the content of redistribution of Economic opportunities, which emphasizes the need to provide and guarantee a decent livelihood to majority of the populace; which include the provision of adequate food, shelter and clothing, access to health facilities and education and greater employment opportunities. Lack of these things is both a symptom and causal of absolute poverty and income inequality. (Todaro, 1989).

Poverty is a global phenomena which affects continents, nation and people differently. It affects people in various depths and levels at different times and stages of existence; the main difference is the intensity and prevalence of this malaise. Poverty relates to a state whereby individual lacks the ability to cater adequately for his or her basic needs of food, clothing and shelter, variable to meet social and economic obligations, lack gainful employment, skills assets and self esteem and also has limited access to social and economic infrastructures such as health, education, potable water and environment protection (CBN- Economic and Financial Review, 1991).

According to Todaro, (1989) defined poverty as the number of people who are unable to command sufficient recourses to satisfy basic need, the total number of people living below a specified minimum level of real income.

Also, world Bank (2000); termed poverty as the lack of what is necessary for material well being which includes food, housing, land and other assets. Invariably, poverty relates to the lack of multiple resources that leads to hunger and deprivation is it economic, physical and political.

Then, Poverty may be viewed in terms of the consequences such as deficient provision of goods and cervices, deprivation and lack of rights such as it affects the girl – child due to made – child preferences, insufficient capability as well as social and economic exclusion mechanisms (CBN Bullion 1999, Volume 23:4). Recently, the World Bank estimated the number of people living below poverty line to be over 71% which invariably portrays higher poverty rate leading to greater income inequality. This tends to lead to the question of who would make the Gross Net Product (GNP) grow. There by creating little or no disparities in income distribution; the few or the many? If the many, they would be its principal beneficiaries and the fruits of economic growth would be appointed by them and poverty and income inequality would continue to worsen (Todaro, 1989). The continuous growth in trend of poverty in Nigeria is a great constraint to its development. Poverty brings about unemployment in the society which also leads to waste of human resources, in the sense that those people that would have been useful in contributing positively to the growth of the economy are there contributing negatively due to joblessness. This therefore leads to reduction in the level of productivity which consequently brings about a decline in GDP rate of Nigerian economy. It is widely known that every government embarks on one form of poverty and income inequality reduction strategy or the other. However, what has remained unanswered is the extent to which these programme have impacted on the poor who are the target population. The poor of the society are frequently powerless to influence the social and economic factors that determine their well-being. Despite the Colossal amount of resources committed to the eradication or reduction of these problems, the poverty and income inequality aggravates and more people fall into the poverty region instead and escaping.

The objective of this paper is to examine the dimension of income inequality and its effect on poor in Nigeria. The remaining part of this paper is divided into four sections. Section II presents literature review, Section III provides the methodological issues while Section IV analyses the results. The last section (Section V) recommends and presents the concluding remarks.

II. LITERATURE REVIEW:

INTRODUCTION

Recently, the depth and severity of extreme poverty in Nigeria has been alarming. And over the years, the government under took some poverty reduction policies with the aim of reducing it, if not totally eradicating poverty. The study of scope and dimensions of income inequality and its effect on poverty in Nigeria can not be over emphasized. Thus, one of the controversies in the study of poverty is whether it is a social, economic or political problem or a composite of all three. (Aboyade, 1975)

Given its often complex nature however, the composite treatment has been found to be the most appropriate complemented with sectoral analysis usually undertaken within the frame work. (Akeredolu-Ale and Onimode, 1975)

Despite Nigeria's physical and human resources potentials, the inability of its socio-economic and political situation for more than two decades has adversely affected the welfare and poverty of its population it is surprising that despite the huge resources (both human and materials) that have been devoted to poverty situation in Nigeria by succeesive government no success.

There is no doubt that the attempts made above to define poverty have given inkling to the causes of poverty will be discovered in the subsequent paragraphs. Despite these difficulties, there is "compromise" definitions of poverty generally recognized and used by different people. it may be sufficient to take just the following three:

The central Bank of Nigeria (1999:1) view poverty as "a state where an individual is not able to cater adequately for his or her basic needs of food, clothing and shelter; is unable to meet social and economic obligations, lacks gainful employment, skills, and economic infrastructure such as education, health, portable water and sanitation, and consequently, has limited chance of advantage of his or her welfare to the limit of his or her capabilities."

The World Bank (2002) utilized inductive approach to uncover dimension of poverty and therefore define poverty using indices. One of such definitions is that poverty is "the lack of what is necessary for materials well-being especially food, housing, land and other assets. In other word, poverty is the lack of multiple resources that leads to hunger and physical deprivation. Nuhu O. Yaqub (2002) define poverty as a condition of privation or want in which a poor individual is incapable of satisfying the minimum basic human life or existence". There is also the non material dimension to poverty, which is manifested in capacity to participate fully in the political and socio-cultural activities of one's community. Simply put, poverty is powerlessness.

CONCEPTUAL ISSUES:

INCOME CONCEPTS

Concepts of poverty have revolved around low income as the criterion. Income represents "command over goods and services to meet minimum needs." So the lack of income also means poverty in terms of basic needs (such as food, shelter, and clothing). (Ornati 1967: 168-169). An agreed-upon budget for basic needs for a society is called a poverty line. The World Bank has adopted about $1 a day as a global poverty line below which people "are struggling to survive" (WDR 1990), i.e. poor. Higher poverty lines from $2 to $14.40 a day have been used for richer countries. (UNDP HDR 1997).

Relative poverty measures the income "gap" or "economic distance" between the poor and the non-poor. Instead of measuring poverty according to an absolute standard (the poverty line), the situation of the poor is compared to that of more affluent groups. "When most Americans have a great deal, those who have much less are poor regardless of their absolute level of income." (Fuchs 1969, quoted by Gordon 1972: 4).

The distinction between absolute and relative poverty suggests that trends in income levels and distributions can take different directions; the poverty gap can widen amid economic growth. The distinction also seems useful in setting policy goals. Most international programs aim merely at "poverty alleviation", while absolute poverty can be "eliminated." But does this mean that relative poverty will always be with us? That seems likely, given the wider dimensions of poverty

INEQUALITY

Is a situation when the income of an individual in the society is distributed unevenly, Many analysts claim that world income inequality fell sharply in the second half of the 20th century, especially in the final quarter. But in the past several years world income distribution has become a hot topic of debate in international economics and in sociology, and there is now even less agreement about the trend of income distribution than about the poverty numbers. Whereas we could get better data on the poor to the extent that the numbers would command general agreement, the issues in the measurement of inequality do not admit of best solutions even in principle. The answer to the question, "What is happening to world income inequality?", depends on choices among the following: alternative measurements of income (GNP per capita converted to US dollars using market exchange rates or GNP per capita adjusted for differences in purchasing power across countries); alternative samples of countries and alternative weightings of countries (each country weighted as one unit or by population); alternative measures of distribution (the Gini or other average coefficient of inequality or ratios of the income of the richest decile of world population to that of poorer deciles or average income of a set of developed countries to that of a set of developing countries; national income accounts or household income and expenditure surveys. These choices make a big difference to the results, and there is no single best measure.

POVERTY

It is viewed in terms of insufficient income for securing the basic necessities of life such as food, potable water, clothing and shelter. Poverty is more easily recognized than defined. Hence, a universally acceptable definition of the term has remained elusive but from a social perspective, poverty means the denial of choice and opportunities for a tolerable life (UNDP, 1997).

Poverty could denote a state of deprivation as in not having enough to eat, high rate of infant mortality, low life expectancy, low educational opportunities, poor drinking water, inadequate health care, poor sanitation, poor nutrition, poor environmental conditions, low level of energy consumption, lack of productive assets, general lack of economic infrastructure, unfit housing and lack of active participation in the decision making process, either as it affects the individuals or in national arena be it management or political (CBN Bullion 1999, volume No.4).

According to the World Bank report (1990), poverty relates to the inability to allow a minimum standard of living.

UNEMPLOYMENT AND UNDEREMPLOYMENT:

Employment is a key determinant of poverty. Gainful employment is important for individual to earn income and escape from income poverty while generally in countries of the world the non-poor suffer from transitional or involuntary unemployment, the poor are faced with problems of structural unemployment due to lack of skills of extremely low education levels, medical problems geographical isolation etc. Further, underemployment occurs largely in the informal sector and results in low income of an important segment of the labour force particularly in the rural area. Unemployment is due more to low economic growth than to the direct effect of imperfections in the labour markets, although, regulations effecting the formal sector.

FACTOR MILITATING AGAINST POVERTY REDUCTION IN NIGERIA:

The factors accounting for the disappointing performance of the economy and the ability to grapple with the problems of poverty reduction include, political crisis economic mismanagement particularly lack of fiscal transparency, accountability and substantial depreciation of the exchange role of the domestic currency resulting in un-competitively high cost of imported spare parts and other productive inputs for the domestic industries and serious infrastructural inadequacies.

POLITICAL INSTABILITY:

The protacts period of military misadventure into the Nigeria political terrain characterized magnitude of corruption and stealing of public funds and bad governance crowned with poor economic management reflects in lack of transparency and accountability is fiscal operations, left the economy in a state of disappointing performance with unimpressive (slow) growth with lack of development.

MACROECONOMIC PROBLEMS:

These include high inflation, high unemployment exchange rate, instability (persistent depreciation), public debt burden especially the huge external debt overhang and external resources constraint.

SECTORAL PROBLEMS:

These are manifested in over-dependence on the petroleum industry neglect of agricultural development, lack of industrial development due largely to lack of technology breakthrough and inadequate infrastructure.

INADEQUACIES OF EXISTING POVERTY REDUCTION PROGRAMME:

These include lack of consistency, continuity and co-ordination of the innumerable so-called poverty alleviation programmes that have emerged over the past decade and a half. Apart from competing with the available merger resources, they are in most cases poorly conceived and formulated and lack of transparency in the application of the funds mobilized.

STRUCTURAL CONSTRAINTS:

Lack of local technology know-how and entrepreneurial talents to engineer industrial and agricultural revolution that can propel the economy into self sustaining growth, strong enough to impact favourably on poverty reduction; represent serious constraint on the transformation of the Nigeria economy.

THEORETICAL FRAMEWORK:

Defined by modern standards, poverty had existed long before people became aware of this condition. As Massey notes, "Poverty is old news. For thousands of years the great majority of human beings have lived and labored at a low material standard of living." (Massey 1996). Awareness became increasingly acute with wars of conquest and colonization and with the industrialization, capitalist development, and urbanization of recent centuries. Great thinkers have pondered the causes as well as consequences of poverty and inequality. Still, in the West after World War II, poverty came as something of a surprise; indeed, poverty was "rediscovered" time and again (Polanyi 1944, 1957; Harrington 1962, 1967; Gordon 1972; Rees 1998; Cotter 2002). Postwar poverty in underdeveloped countries came onto the global policy agenda because of the Cold War (Myrdal 1971).

Since the World Bank, IMF, and UN agencies focused their programs on poverty, a great deal more thought, information and resources have been devoted to it. Yet, despite the material progress that many countries have enjoyed in recent decades, poverty, inequality, and misery seem (from at least one viewpoint) to have persisted and increased worldwide, in rich as well as in poor countries. Moreover, international aid agencies disagree about the trends, the magnitudes, and the efficacy of the policies involved in the "wars" declared on poverty. (Therien 1999).

III. RESEARCH METHODOLOGY:

This section deals with the methodology employed in the course of this research.

This study involves largely the use of data. The utilized consist of annual observation of GDP, interest rate, unemployment rate, per capital income and inflation rate. The research design will be analytical in nature. The data utilized consists of annual observation on income inequality and welfare of poor for 29 years i.e. (1980 – 2008). The data was obtained from various issue of the: National Bureau of Statistics (NBS), digest of statistics and abstract of statistics from CBN, Publication of Ministry of Labour and productivity statement of account and annual reports, the publications of the Nigerian Institute of Social and Economic Research (NISER).

In order to quantity the importance of economic variable that are assumed to with directly and or indirectly responsible for the incessant increase in the Nigeria poverty level, the econometric techniques are to be applied and e-view statistical package will be used. Specifically ordinary least square of econometric techniques will be employed to establish the relationship that exists among the economic variables employed.

This section presents macro econometric model (that permits the empirical analysis of he relationship that exist between poverty incidence and the factors affecting it on one hand and the effect of the poverty level in Nigeria economic growth of the other hand.

The model equation specified below in measuring the poverty incidence is adopted from Morls (1997). It measures how well societies satisfy certain specific "life-serving social characteristics, or achieve well-being" (Doessel and Grounder, 1994). The model was first used in Indonesia.

The model equation specified thus

P_1=F (IM, LE, Lit)……………………………………………..….i

$P_1 = oc_0 + oc_1 R + oc_2 If + oc_3 PCL + oc_4 L_{it} + oc_5 Ue + Ni$ … ………….ii

$RGDP = \beta_o + \beta_1 P1 + N2$ ……………………………………………iii

Where RGDP = Real Gross Domestic Product; P_I= Per capital income; IM= Infant mortality index; LE= Life expectancy rate; L_{it}= Literacy index; R= Interest rate; If= Inflation rate provided by consumer price index; Ue= Unemployment rate; Z=Error Term

Then;

$GDP = \beta_o + \beta_1 PCI + \beta_2 R + \beta_3 If + \beta_4 CPI_{+} Z$

Where gGDP = Growth Rate of Gross Domestic Product (Proxy Poor rate); R= Interest rate; If= Inflation rate provided by consumer price index; PCI= Per capital income (GDP by Compensation of employee / GDP @current price); CPI= Consumer Price Index;

Z = Error Term

From the specified model equation above, the dependent variable is poverty incidence and the exogenous variables are inflation per capita, income, unemployment rate and interest rate. For the model equation and dependant variable is Red Gross Domestic Product and the independent variable is poverty incidence.

IV. EMPIRICAL ANALYSIS:

MODEL ESTIMATION & ANALYSIS

The result of the estimated model that examines the effect of income inequalities on the welfare of the poor in Nigeria from 1980 to 2008 is presented in the table below.

Dependent variable: GDPGR

Method: Least square

Sample: 1980-2008

	C	PCI	IR	INFR	CPI
Coefficient	14.04158	0.012890	-2.34E-06	-1.77E-06	0.119155
Std.Error	2.430875	0.005394	3.73E-06	8.37E-07	0.060770
t-stat	5.776346	2.389888	-0.626236	-2.116062	-1.960741
Prob	0.0000	0.0251	0.5371	0.0449	0.0616

R-Square= 0.274762 **Adjusted R-Square**= 0.153889

F-Statistic= 2.273143 **Durbin-Watson stat**= 1.056933

Prob(F-Stat)= 0.090980

The estimated model reveals that inflation rate (INFR) and interest rate (IR) exert negative influence on poor in Nigeria, although per capita-income and consumer price index used for income inequalities are still positive coefficient. But, the effect of income inequalities on poor is in conformity with the theoretical expectation as there is positive relationship between them.

The t-statistic is used to test for the individual significance of the estimated parameters for the regressors. The result reveals that intercept, per capita-income variable of inequalities and inflation rate have partial significant effect on poor as it is proxy by growth rate in Nigeria while the result of the F-statistic shows that the interaction of explanatory variables have simultaneous significant effect on poor in Nigeria during the review period. Also, the adjusted R-square shows that 15% of the total variation in poor over the years is explained by explanatory variables in Nigeria.

The Durbin-Watson statistic reveals that there is no serial correlation among the residuals incorporated in the analysis to amount for other significant explained factors.

The unit root test result reveals that all the time series variables (all explanatory variables) are non-stationary at level for both intercept and deterministic trend.

In level, second difference GDPGR is stationary at 1%, as all the series are found to reject the null hypothesis of no-stationary at first difference. Therefore, all the series are taken to be stationary at second difference for unit root models with intercept. Hence, income inequalities increase poverty with increase in inflation rate and interest rate.

V. CONCLUSION AND POLICY RECOMMENDATION:

CONCLUDING REMARKS

An attempt is made to validate or refute apriori expectation that continuous income inequality causes wide gap between rich and poor accumulation of huge poverty.

Subject to expectation, the regression analysis reveals that negative relationship exists between inflation rate, interest rate and growth rate but positive relationship with consumer price index and per capita-income in Nigeria. Thus, as interest rate increases, people will not be able to borrow from bank and denying their effort to invest in the economy and it also increase inflation rate.

From the analysis, second order test confirm the effect of income inequality on the poor in Nigeria. The result of this study therefore shows that income inequalities widen the gap between employee that received compensation- employed and unemployed, so also the poor as thus affect growth rate. The overall effect of this is that it has negative effect on the standard of living of the people in the economy.

POLICY RECOMMENDATION

Since income inequality is attributed to poverty, high cost of living (inflation), high interest rate couple with the failure on the part of the government to provide basic social amenities for the citizenry, these suggest that government should stabilize the prices of goods and services in order to reduce the inflation rate and cost of living. National Economic Empowerment and Development Strategies (NEEDS) and other macroeconomic objectives should be fulfilled. The issue of corruption is visible in public and private sectors, federal, state and local government in

Nigeria which create wide gap in income distribution as poor are poorer and rich are richer. It is imperative not only to have a better understanding of the corruption-income inequalities poverty interconnections but also to substantiate there consequences economically, socially and politically with the view to design appropriate strategies to remedy the situation. And in order to make more meaningful attempt to solve income inequality and poor problem, it is crucial for poverty reduction programmes and measures to be implemented within the framework of rapid broad-base economic growth with equity, sound economic management and good governance among others.

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