

RESTRUCTURING, INCOME AND POVERTY PROBLEMS IN NIGERIA

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Abstract

This paper examines the present poverty situation in Nigeria. It identifies unemployment, corruption, non-diversification of the economy, income inequality, laziness and poor education system to be some of the key factors contributing to poverty in Nigeria. This study centres more on high population growth rate as a major contributing factor to poverty by using line graph and component bar chart to buttress the research. The finding is that high population growth rate increases poverty in Nigeria. As a way of restructuring the economy, the study recommends that growth should be broad-based cutting across all sectors and inclusive of the large part of the workforce that poor men and women make up. Also that economic diversification and more investments should be made in agricultural sector to drive the economy on the part of growth.

Keywords: Economic Restructuring, income inequality, and Poverty.

Introduction

Restructuring brings about fundamental internal change between different components of an economic system. This change has affected demographics including income distribution, employment, and social hierarchy; institutional arrangements including the growth of the corporate complex specialized producers services, capital mobility, informal economy, non-standard work, and public outlays; as well as geographic spacing including the rise of world cities, spatial mismatch, and metropolitan growth differentials.

Restructuring has divided Nigerian into diverse groups, because it's a multidimensional concept. One group maintained that restructuring would enable the country create fewer and more viable federating unit for rapid economic growth and development, whilst those who are averse to it (restructuring) have commended the national Assembly for refusing to grant the agitators what they said was an immodest request. Yet, there is another group, that is of the view that what the country needs at the moment is not political restructuring, but economic restructuring. In their views, economic restructuring will lead to diversification, thereby ensuring multiple streams of revenue and eventually breaking loose the jinx of mono-cultural identity of the country.

In the last two decades, Nigeria has witnessed various economic reform programmes aimed at fostering economic growth and development. For instance, following the collapse of the world oil market in the late 1970s, there was a drastic reduction in earnings from crude oil

as a result of which the country began to experience a severe economic downturn. Consequently, in 1981, government adopted various austerity measures such as price control and demand management policies. However, by December 1985, it became evident that austerity measures without a proper structural adjustment were inadequate response to the fundamental economic problems confronting the economy. Thus in July 1986, Nigeria embarked on the Structural Adjustment programme (SAP). Its major objectives were to stimulate domestic production, diversify the economic base, achieve fiscal and balance of payment viability, reduce the size of government expenditure as well as improve its efficiency and enhance the growth potentials of the economy.

SAP was an internationally designed and endorsed economic reform package which suffered from low degree of participation and hence widespread public resistance. Under SAP, the economy continued on the brink of collapse with volatility in virtually all major macroeconomic aggregates. The economy was characterized with infrastructural inadequacy, widespread corruption, inefficiency in the public sector and low degree of private sector participation in economic activities. With these features, the hope of meeting internationally agree millennium development goals(MGD) of reducing poverty by half by 2015 continued to diminish.

Learning from this experience, the Obasanjo administration decided in 2004 to adopt a home grown programme styled the National Economic Empowerment and Development Strategy (NEEDS). The NEEDS has as its key targets, an annual growth rate of \$3.Billion in agricultural export by 2007, and reduction in food imports to 5% in 2007. The NEEDS could be seen as heralding a new dawn in the planning and budgeting approach and process in the agricultural sector of the economy next to oil, contributing about 42% to the GDP, and 33% to the non-oil GDP as of 2005 (CBN, 2005). In almost every economic reform programme, the primary objective is to achieve high and sustainable growth. In doing this, the major drivers of growth such as agriculture, manufacturing and services are given adequate attention.

Nigerians had expected that the present socio political and economic restructuring would improve their living standard, but it has instead created more miseries because many people have lost their livelihood. No nation can fight poverty when the people are unemployed; economic prosperity without employment and poverty reduction is a sham. Grave threats to Nigeria's peace and stability lies in the people beset by unemployment and absolute poverty. The United nations Development Programme (2016) report indicates that 70% of the population is poor (a figure the government disputes) and the 2016 report show that standard of living is fast deteriorating. Even at the 57.8% of poverty, which the government has accepted, the level of poverty in Nigeria is beyond pardon, given the resources available in the society.

It is in the light of the above that the objective of the paper is to assess and evaluate the estimated population and compare with the population in poverty in Nigeria, so as to know the sectors of the economy that requires restructuring to create employment and reduce hunger and poverty in Nigeria. To achieve this purpose, this paper is organized into 5 sections: Section 1, is the introduction which encompasses the meaning and why restructuring is needed in Nigeria. Section 2, reviews theories of poverty and section 3, examine trends in poverty and inequality in Nigeria. Section 4, explain some key factors contributing to poverty in Nigeria, while section 5, concludes the paper.

Review of Related Literature

The Concept of Poverty

Social science literature is replete with attempt by economists and social scientist to define the phenomenon of poverty. A concise and universally accepted definition of poverty is elusive largely because it affects many aspects (including physical, material, spiritual, moral and psychological) of the human life. According to World Bank (2011), “poverty is the economic condition in which people lack sufficient income to obtain certain minimal levels of health services, food, housing, clothing and education which are necessities for standard of living”. The various definitions of poverty lead to two perspectives which are “income poverty” and lack of basic need poverty”. Income poverty occurs when an individual does not have enough money to meet up with a certain standard of living while lack of basic need poverty occurs when one is unable to meet some of the basic needs such as food, shelter and clothing as identified by United Nations, Children’s Fund (UNICEF). For this study we are using income poverty as a result of the easy in its measurement and link to unemployment rate of any individual.

Theories of Poverty

In discussing poverty, researchers have come up with individual and economic theory of poverty.

Individual Theory of Poverty

This theory was propounded by Oscar Lewis in 1966. This theory assumes that the individuals are poor because of their actions such as being lazy, not educated, teen parent, single female headed family and many more which makes them unable to compete for economic opportunities. These attitudes of individual becomes a culture for them which they pass on to their next generation leading to “vicious cycle of Poverty” Jordan (2004)

Economic Theory of Poverty

This theory believes that poverty is as a result of employment level and the nature of the distribution of income in the economy. Thus an individual is poor because he is not employed or does not have the opportunity to work. He is made poor as a result of the economic system that denied him his share of the income and inequitable distribution of income.

Empirical Background: Trends in Poverty and Inequality in Nigeria

Literatures on the poverty inequality link are most times connected to growth as a result of the theoretical link between inequality and growth. The literature on the empirical analysis of the relationship between poverty, inequality and economic growth has become quite substantial since early 1980’s. Empirical evidence has been conflicting with contradictory findings as a result of differences in samples used, econometric techniques, and measurement of poverty, specifications and country peculiarities. Earlier studies before the past two decades tend to support Kuznet’s inverted – U curve of an increase in income inequality at the early stage of growth of the economy which will decline as the economy grows. Most of these studies were done on cross-sectional basis.

However, most studies in the last two decades do not support the Kuznet’s hypothesis mostly on country specific factors and some found no methodical relationship between growth and inequality Bourgurgnon(2003); Deininger & Squire 1998; Li et al (1998); Ravallion(1997)

among others. The study carried out by Ravallion (1997) concludes that in the presence of high inequality, poverty may still rise irrespective of the high growth.

In Nigeria, accompanying the rapid growth that had been between 1965 and 1974 there was a serious income disparity that is believed to have widened substantially. Despite past policy interventions to correct this abnormality, income inequality has increased the dimension of poverty in the country. Aigbokhan (1997) found that income inequality worsened after the structural adjustment programme (SAP) of 1986. Similarly, poverty incidences were 28.1, 46.3, and 65.6 percent in 1980, 1985, 1996 respectively (World Bank, 1996).

Furthermore, studies have shown that a high level of income disparity exist between Nigeria's rural and urban areas (Etukudo, 1978; UNDP, 2001). This is largely because most rural communities depend on agriculture; while urban engage mostly in paid jobs. This lopsided development in income distribution has often times resulted in discontents, violence, and corruption, hence as part of macroeconomic objectives, government always gives equitable distribution of income a priority. This is important because income inequality is closely related to poverty (Abayode, 1983) and a careful study of it gives some insight into the incidence of poverty.

Using 1983/84 and 1991 data, Aigbokhan (1997), examined poverty and poverty alleviation in Nigeria in a micro data analysis that links macro model to micro analysis. He found that inequality was found higher in the rural areas and during the Structural Adjustment Programme period. Inequality was also higher amongs males in urban areas but higher among females in the rural areas.

Aigbokhan (2000) also extended his studies analyzing the profile of poverty in Nigeria based on the introduced structural policy reforms in 1986 and the reversal introduced in January 1994. He made use of national consumer survey data sets for 1985/86, 1992/93 and 1996/97 from the National Bureau of statistics on the food energy intake (FEI) variant of the consumption- based method in poverty analysis. He also examined the polarization of income distribution. The study found evidence of increased poverty, inequality and polarization in distribution for the period of study. Poverty and inequality was found higher among male-headed households, in rural areas and the northern geographical zones. It was also found that the country experienced positive real growth in the period with rising poverty and inequality thus the "trickle down" hypothesis was not supported. Nigeria is a West African country with about 170 million people (as of 2016). It is by far the most populous country in the whole of Africa. Although Nigeria's GDP per capita has been increasing through the course of time in nominal US dollar term, many Nigerians are still living in poverty. Poverty has been a continuous rise in the country. Figure 1 depicts the situation.

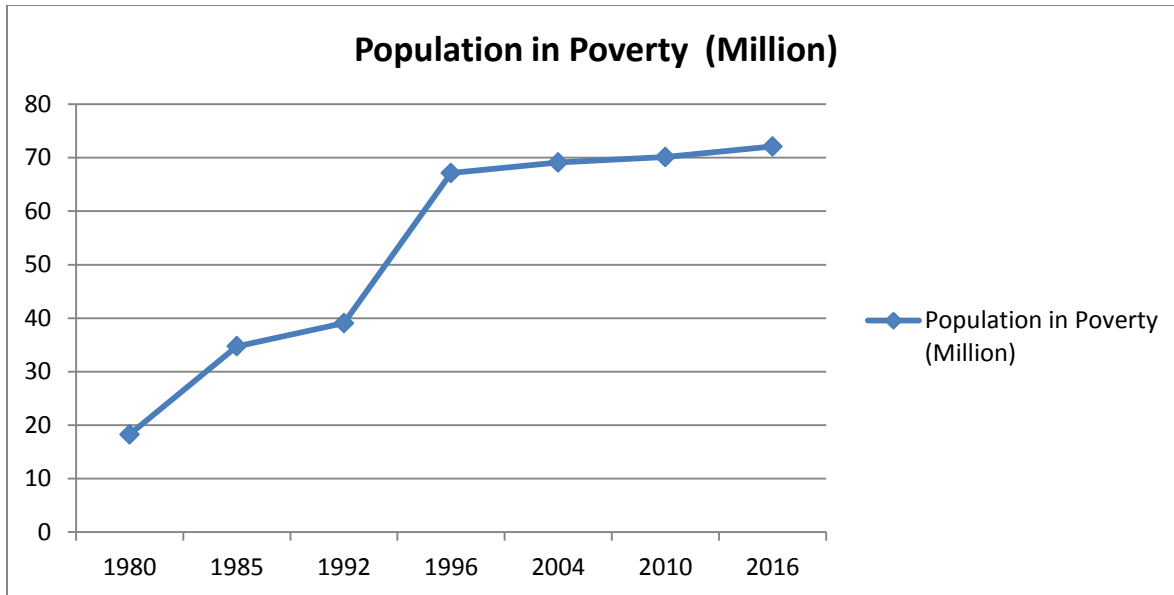


Fig. 1: Nigerian Poverty Profile (1980-2016)

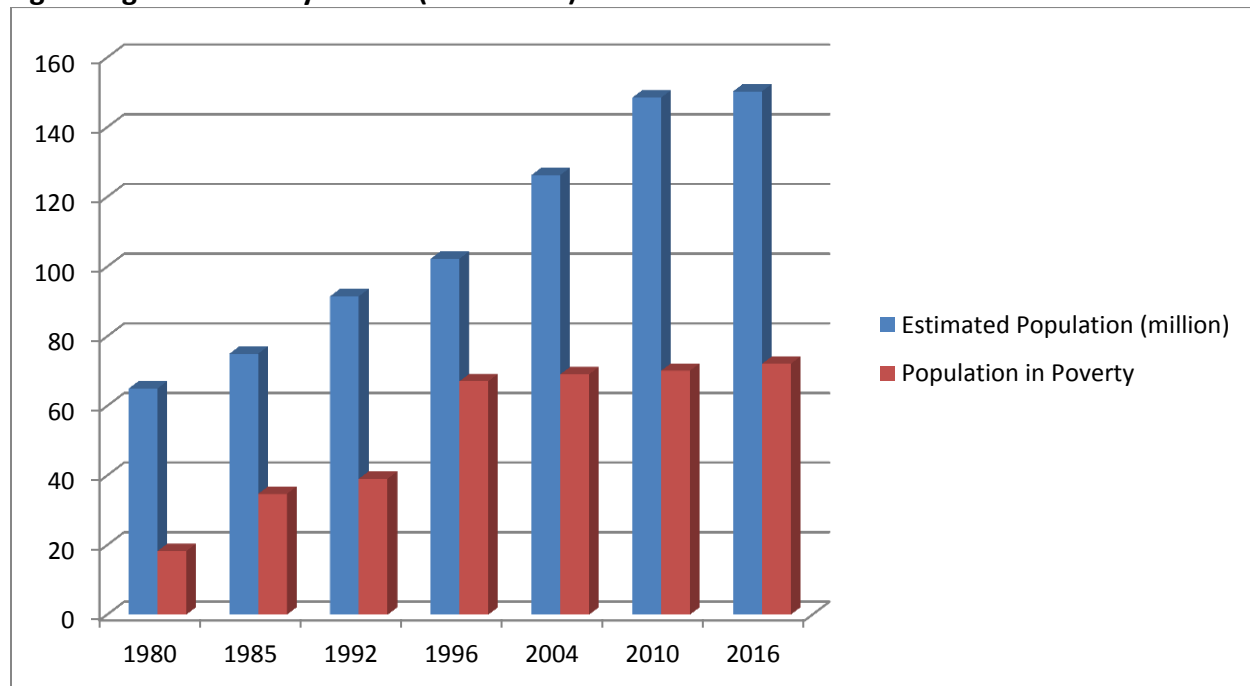


Fig. 2: Nigerian Poverty Profile-estimated population versus population in poverty

The percentage of Nigerians living in poverty is growing. Poverty in Nigeria has substantially risen between 1980 and 2016. Figure 2 shows that the estimated population in poverty has been on the increase with increase in general population. A cursory look at figure 2 indicates that poverty level has been on the increase in Nigeria when compared to its level in 1990 which is the reference year of the MDGs

The link of income inequality with poverty in some other countries

Lin (2003) reported China’s experience during the period of 1985-2001. It was reported that economic growth effectively reduced poverty. However, at the same time,

the increasing income inequality that was created by the economic growth decreased the effectiveness of the effort to reduce poverty. Ravallion (2006) studied the effects of income inequality on poverty in India and China in 1980-2000. He found that, similar to Lin's findings, economic growth reduced poverty in the two countries, and income inequality reduced the effectiveness of poverty reduction. Furthermore, he also reported that poverty reduction needed a combination of economic growth, a sort of "Pro-Poor" pattern of economic growth, and income inequality reduction.

Le (2008) examined the relationship between poverty and growth on the one hand and initial inequality on growth on the other hand in the provincial level of Vietnam. Poverty was negatively related to growth while there was no relationship between initial inequality and later growth. Poverty and inequality was found to be positively linked thus reducing one entails the reduction of other. Poverty reduction and inequality was also found to be determined by human capital, investment, GDP growth rate and trade openness. He concluded that policy on poverty reduction in the country will bring about more equitable society.

Some Key Factors Contributing to Poverty in Nigeria

- a) **Unemployment:** Unemployment is a key determinant of poverty in Nigeria. There is a strong correlation between unemployment and poverty. When people are unemployed, their source of livelihood depletes over time. There are many people in Nigeria who lack the opportunity of being employed. As reported by Teshome (2008), the then newly released African Development indicator report of the World Bank showed that "education, once seen as the surest, undisputed gateway to employment, no longer looks so certain". The fact that you are an educated Nigerian is no guarantee that you will be employed.
- b) **Corruption:** This is the abuse of entrusted power for private gain. In Nigeria, government funds are being misappropriated on a daily basis by the leaders, who only put the interest of their family and friends at heart while ignoring the masses. In Nigeria, the government's income is generated mostly from natural resource revenues. This income, instead of being used for development purposes, is then circulated among the political office holders and their families leaving the rest of the people to wallow in poverty. In any case, it is clear that Nigeria's corruption has increased poverty and inequality as well as contributed to high crime rates.
- c) **Non-Diversification of the Economy-Oil over Dependency:** In Nigeria, non-diversification of the economy can be seen as a major factor. According to Coollier (2007), resource wealth sometimes contributes to a conflict trap and the surplus from natural resource export reduces growth. At this stage, poverty and social indicators worsened as most of the revenues generated were used for servicing Nigeria's external debt.
- d) **Inequality:** Inequality has to do with differences in the share of something between/among two or more persons where the share of one/some is greater than that of the others. According to Ray (1998) economic inequality occurs when one individual is given some material choice/resources and another is denied the same

thing. Inequality can be in income, consumption, wealth, gender, employment, health variables and many more. But for this study we are interested in income inequality. Income inequality is defined as the inequitable distribution of income among the members of a particular group, an economy or society.

- e) **Laziness:** In Nigeria, almost everyone wants to be comfortable but they are not ready to work towards it. This often leads to greed where people will do whatever they can to keep the family wealth for themselves. In most families, everyone depends on the bread winner, who works so much to keep the family going and when he dies the family is likely to become poor because of mismanagement of funds.
- f) **Poor Education System:** Education can play a major role in reducing poverty. According to the World Bank, education is central to development. It promotes economic growth, national productivity and innovation, and values of democracy and social cohesion. In Nigeria, the population with no education account for most of the poor. The education system in Nigeria can be regarded as a failure compared to other countries in the world.

Conclusion

Despite that Nigeria is among the top oil producers in the continent of Africa and richly endowed with human and material resources, indicators of poverty level in the nation give a difference conclusion. Though the Federal Government of Nigeria has made several commendable efforts aimed at the eradication of extreme poverty and hunger through its various initiatives, incidence of poverty in Nigeria is still as high as 70% in 2016 as against 42.7% in 1990. The effect is that poverty has been on the increase despite all efforts of the government.

To reduce poverty and improve the quality of life in Nigeria will require serious family planning to check population growth and sustenance economic growth. However, the extent of poverty reduction would depend on the degree to which the poor participate in the growth process and share in its proceeds. Improvements in human, physical and social capital of the poor are key fundamentals to increasing their ability to participate in growth.

A factor that is very critical for restructuring Nigeria economy is the need for economic diversification. As the Niger Delta Crisis suggests, if there is a problem in the oil sector, the whole country is facing economic and social problems as oil contributes about 97 percent of Nigeria's export revenues. Also, the restructuring process should involve more investments in the agricultural sector and other promising sectors of the economy.

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