

The Poverty - Democracy Nexus: Evidence from Nigeria

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Abstract

This paper reviews the poverty situation in Nigeria in light of current economic recession and given the 2030 Agenda for sustainable development. The paper is motivated by observations on household expenditures and the expenditures of the national legislature (an index for democracy) which are taken as proxies for the interaction between distribution and growth in reducing absolute poverty. National data for the period 2003-2010 are examined and descriptive statistics are employed to answer the research question. Unsustainable discrepancies exist between household expenditures and the expenditures of the national legislature indicating unacceptable income inequality that help explain high ongoing poverty rates in Nigeria. The Nigerian national legislature consumption expenditure was 67.62% of total resources required to eliminate absolute poverty in 2003-04 and 124.81% in 2009-2010. A single member of the Nigerian legislature on average expended ₦118.17 millions in 2003-04 and ₦533.58 millions in 2009-2010 whereas per capita household consumption expenditure for the same period was a paltry ₦4,029.70 and ₦7,212.30 respectively. The magnitude of disparities indicate each poor Nigerian required only 0.01 % of resources consumed by each member of the Nigerian legislature in 2003-04 and only 0.004 % in 2009-2010. Nigerians have been the poorer since democracy was restored and the current economic recession in 2016 should not be “news”. There is evidence of significant effects of non-income dimensions of inequality in Nigeria and also the suggestion that the growth effect on poverty is greater than the inequality effect. The results also indicate eliminating absolute poverty and the practice of western democracy may be mutually exclusive in Nigeria. The paper recommends Nigeria realistically restructures democratic structures constitutionally in line with country specific economic traditions and patterns as a key channel for poverty reduction.

Keywords:

Poverty, consumption
Expenditure,
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Distribution and
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Background to the Study

The basic root for defining democracy still remains "people power" based on the Greek origin of the words demos, which means "people," and kratia, which means "power." This "people power" usually implies government by the people, exercised either directly or indirectly through elected government. As is common with democratic settings, there are three separate arms of government in Nigeria: the executive branch (President), the legislative branch (National Assembly) and the judiciary (Supreme Court). These branches afford checks and balances expected to prevent abuses of power. The legislative branch is bicameral i.e. made up of two houses—the Senate (Upper Chamber) and the House of Representatives (Lower Chamber). The major duty of the legislative branch is to make laws. The Nigerian democracy can be classified as Liberal or Constitutional democracy which has the form of a constitutional republic. This paper considers the legislative branch of government to be the most grass root people based branch of democracy and hereafter considers the legislature an index synonymous with democracy.

In this respect, it has been reported that the Nigerian legislature (National Assembly) is the highest paid in the world. In an article titled "Rewarding work - A comparison of lawmakers' pay", the Economist magazine (2013) reported that a Nigerian legislator receives an annual salary of about \$189,000, equivalent of N30 million, which is 116 times the country's gross domestic product (GDP) per person. It has also been reported that illegal and reckless spending abounds in Nigeria. For instance, the Auditor General of the Federation in audit report 2009-2014 indicted several government bodies including three prominent ones, the Central Bank of Nigeria (CBN), the National Assembly (NASS) and Nigerian National Petroleum Corporation (NNPC) for failing to remit more than ₦3 trillion into government treasury (Adebayo 2016). The NASS was further indicted for expending ₦9.4 billion without expenditure returns or documentary evidence to account for the expenditure, a clear case of public corruption.

Box 1: Relevant SDGs

SDG 1 End poverty in all its forms everywhere
 SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
 SDG 10 Reduce inequality within and among countries
 SDG 12 Ensure sustainable consumption and production patterns
 SDG 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

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further level of lack of transparency and accountability has been observed regarding these three prominent government bodies indicted by the Auditor General's report. For instance, the CBN reports details of disaggregate government recurrent (consumption) expenditure but only reports percentages of total for capital expenditure (production). Skimping on such details for capital expenditure hampers participation of citizens and/or researchers in analysis of where exactly in the economic segment the government is failing and how it is failing specifically. Citizens are thus denied the means of holding government accountable due to a deliberate lack of transparency by the government bank-CBN. Hence, we may see the disease symptoms but are denied the "blood and urine" samples to test for the specific pathogens causing the diseases ravaging the Nigerian economy so to say. Similarly, the National Assembly (NASS) after its exposure by the Economist magazine in 2013 has now put in place machinery to shield the details of its unsustainable expenditure from public scrutiny and the CBN no longer reports on NASS expenditure.

This is curious. It is an anomaly when an employee (National Assembly) pays itself from the coffers of the employer (the citizens of Nigeria) and then bars the employer from knowing the details of how much it costs to maintain the employee in its employment. Citizens are again denied the means of holding government accountable due to a deliberate lack of transparency and accountability by the political arm of government.

Given this scenario, Nigeria could not meet any of the eight Millennium Development Goals (MDGs) by 2015; including the goal of elimination of poverty. In the current post-2015 development Agenda 2030 with 17 Sustainable Development Goals (SDGs), like with the MDGs, eradicating poverty is one of the overriding development objectives and the topmost SDG is "End poverty in all its forms everywhere". This paper investigates issues that have to do with SDGs 1, 8, 10, 12 & 16 as listed in Box1.

The contributions of the paper include providing a novel way of studying poverty incidence especially in the Nigerian economy. Secondly, the analysis contributes to a broad and growing literature on poverty. Following this introduction, Section Two discusses some relevant issues in literature to bring out the objectives of the paper. Section three presents the methods and materials while Section Four discusses the results. Section Five concludes with some policy recommendations.

Review of Literature

Defining Poverty

Classic study of poverty is based on household income and expenditure surveys and conceives poverty to be low consumption and low achievement in education and health. This concept emphasizes the income perspective and associate poverty with income-deficiency thereby defining poverty as the deprivation of financial resources. Thus, poverty reduction from this viewpoint is understood as income-boosting and economic growth. However, given the changed global context, significant academic effort has been applied to improve the definition of poverty and to search for more appropriate measurements giving rise to studies that explore the multidimensionality of poverty (Bourguignon and Chakravarty 2003, Ghosh 2010). This multidimensionality implies that measurement of poverty requires a number of diverse scales to capture each element.

Thus, and by the definition of the World Bank, “Poverty is pronounced deprivation in well-being with many dimensions including not only material deprivation (measured by an appropriate concept of income or consumption) and low levels of education and health but also vulnerability and exposure to risk—and voicelessness and powerlessness” (World Bank 1990, 1991, 2000). Poverty is also said to be a fluid state and not a stable characteristic and that the “constant, day-to-day hard choices associated with poverty in effect “tax” an individual’s psychological and social resources and further that this type of “tax” can lead to economic decisions that perpetuate poverty” (World Bank 2015).

Development and Poverty Dynamics

According to the United Nations Development Programme (UNDP 2007, 2012, 2015), human development is “about expanding the choices people have to lead lives that they value”. The UNDP also defines sustainable development as “development that is likely to achieve lasting satisfaction of human needs and improvement of the quality of life”.

Hence, the emphasis on growth in development theories based on the assumption that its benefits will automatically “trickle down” to the poor is being reviewed increasingly. Development thinkers now question the legitimacy of economic growth as the only measure of development having realized over the years of history that the economic growth paradigm does not capture some aspects of development now seen to be important. The trickle down growth paradigm is being challenged on the basis that poverty is not purely a deprivation of income or basic needs but that it is a human development problem since human beings are both agents and beneficiaries of development.

Recently, however, the frequent question in discussion on development is whether the focus of development strategies should be growth, or poverty, and/or inequality (Bourguignon 2004; Fuentes 2005; Abbas and Djeto 2006).

The Dynamics of Growth, Inequality and Poverty Reduction

The dynamics of the triangular relationship between distribution, poverty and growth postulates that poverty can be reduced through increases in income, through changes in the distribution of income, or through a combination of both. Poverty, inequality and growth are theorized to relate with one another via a set of links which often influence one another leading to indirect effects. For instance growth can indirectly influence inequality as inequality affects poverty and poverty in turn influences growth.

This dynamics is usually expressed in terms of the Poverty-Growth-Inequality Triangle, of which three variants have emerged as simplified hereunder.

That:

1. Inequality = f (growth, poverty) i.e. the Kuznets hypothesis.
2. Poverty = f (growth, inequality) i.e. the Datt-Ravallion decomposition.
3. Growth = f (inequality, poverty) i.e. Zhang & Wan etc.

One relevant question in this controversy concerns the extent of relative inequality and how it is related to the extent of poverty. This paper attempts to investigate this question for Nigeria by way of the nexus of democracy or legislature expenditure and its impact on poverty with a

view to drawing policy lessons from the findings. Academics and policymakers can benefit from stylized facts about how democracy or legislature expenditure impacts poverty in Nigeria.

Methods and Materials

Observations on household expenditures and the expenditures of the national legislature (an index for democracy) are taken as proxies for the interaction between distribution and growth in reducing absolute poverty.

National data for the period 2003-2010 are examined and descriptive statistics are employed to answer the research question. The mostly unbalanced panel data of four rounds, 2003, 2004, 2009 and 2010 is obtained from the National Bureau of Statistics; Central Bank of Nigeria and pertinent derivatives there from.

Results and Discussions

The findings for this study are presented and discussed below.

Democracy and Poverty in Nigeria

Resources Required Eliminating Poverty: NASS vs. the People

From Table 1, the Nigerian national legislature (consumption) expenditure was 67.62% of total resources required to eliminate absolute poverty in 2003-04 and 124.81% in 2009-2010. A single member of the Nigerian legislature on average expended ₦118.17 millions in 2003-04 and ₦533.58 millions in 2009-2010 whereas per capita household consumption expenditure for the same period was a paltry ₦4,029.70 and ₦7,212.30 respectively.

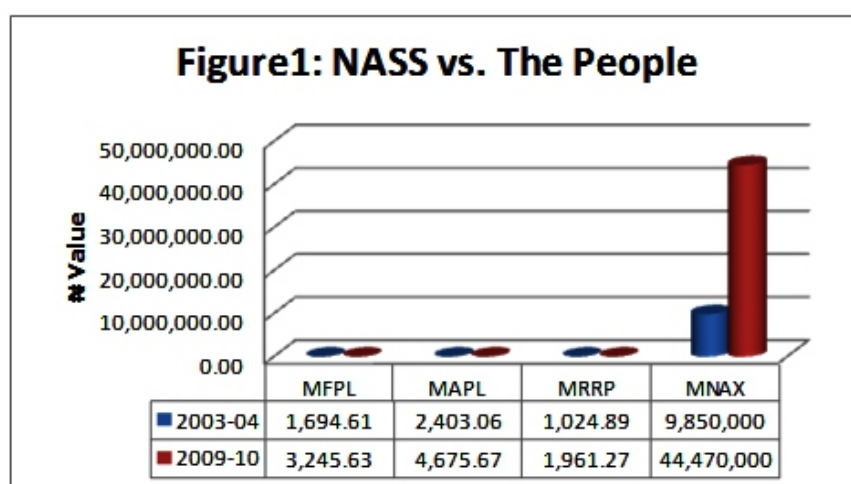
Similarly, a single member of the Nigerian legislature on average expended ₦10 millions monthly in 2003-04 and ₦44 millions monthly in 2009-2010 whereas monthly food poverty line was a paltry ₦1,694.61 and ₦3,245.63; monthly absolute poverty line a paltry ₦2,403.06 and ₦4,675.67 for the same period respectively. Furthermore, the number of the extreme poor increased by 26 % while the number of food poor increased by 24 % at a time each member of the national legislature was expending ₦44 millions monthly. On the whole, each poor Nigerian required only 0.01 % of resources consumed by each member of the Nigerian legislature in 2003-04 and only 0.004 % in 2009-2010.

Table 1: Summary Statistics of Resource Transfers Required Eliminating Absolute Poverty

Parameter	2003-04	2009-10
Food Poverty Line (₦)	20,335.30	38,947.50
Monthly Food Poverty Line (₦)	1,694.61	3,245.63
Absolute Poverty Line (₦)	28,836.70	56,108.04
Monthly Absolute Poverty Line (₦)	2,403.06	4,675.67
National Poverty Gap (inequality)	0.3898	0.4164
Total Population (millions)	124.65	163.40
Total Resources to Eliminate Absolute Poverty (₦M)	81,957.06	200,497.10
Absolute Poverty Rate (%)	64.15	62.56
Number of Absolute Poor (millions)	80	102.2
Number of Extreme Poor (millions)	54.8	68.9
Number of Food Poor (millions)	100.0	123.6
Resources Required by Each Poor Person (₦/month)	1,024.89	1,961.27
Per capita Household Consumption Expenditure (₦)	4,029.70	7,212.30
Nat'l Assembly-NASS (Consumption) Expenditure (₦M)	55,420	250,250
Number of National Legislature Members	469	469
Per capita NASS (Consumption) Expenditure (₦millions)	118.17	533.58
Resources Consumed by Each NASS Member (₦M/month)	9.85	44.47
Resources Required by Each Poor Nigerian Compared to Resources Consumed by Each NASS Member (%)	0.01	0.004
NASS (Consumption) Expenditure Compared to Total Resources to Eliminate Absolute Poverty (%)	67.62	124.81
Per capita Household Consumption Expenditure Compared to Per capita NASS (Consumption) Expenditure (%)	0.003	0.001

Note:- The poverty gap adds up the extent to which individuals on average fall from the poverty line, and expressed as a percentage of the poverty line. Slightly better off than 2003-04 but still large.

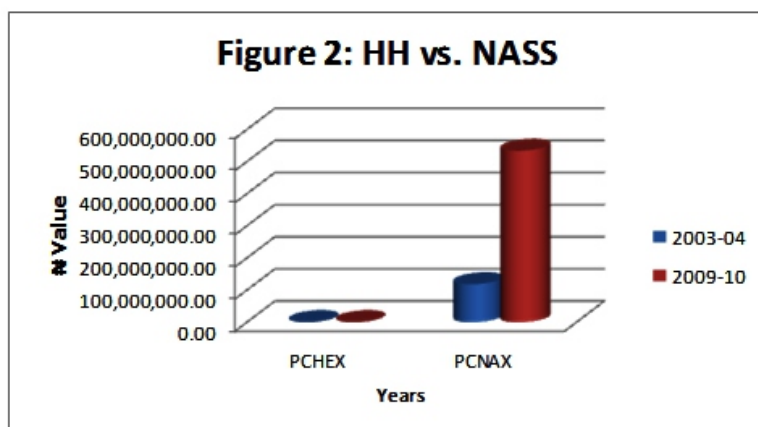
Source: Compiled and computed by Author from NBS Abstracts and CBN Statistical Bulletin



Source: Author, 2016

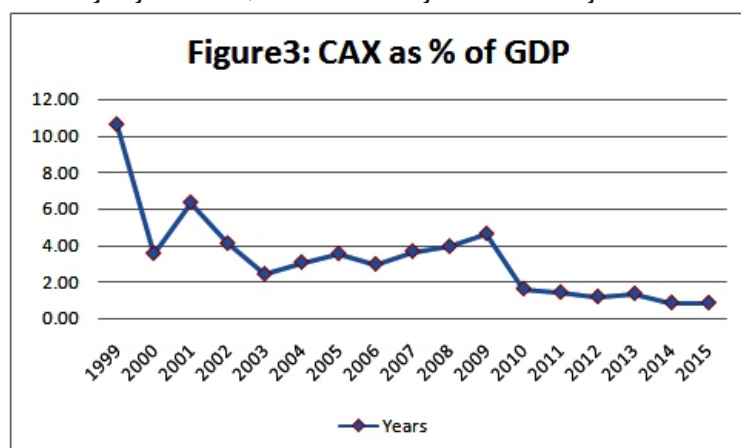
Our research concerns the extent of relative inequality, and how it is related to the extent of poverty in Nigeria. To better comprehend the magnitude of the disparities at play, Figure1 above visually displays disparities between monthly food poverty line (MFPL), monthly absolute poverty line (MAPL), monthly resources required by each poor person (MRRP) and the resources consumed by each NASS legislature monthly.

Additionally, Figure2 below displays disparities between per capita household expenditure and per capita national legislature expenditure. These observations on household expenditures and the expenditures of the national legislature are taken as proxies for the interaction between distribution and growth in reducing absolute poverty in Nigeria and amply demonstrate why Nigeria could not meet the MGDs and may also not meet the SDGs by 2030 if necessary measures to correct such huge distortions in the economy are not firmly applied.



Source: Author, 2016

Democracy Dynamics, the Economy and Poverty



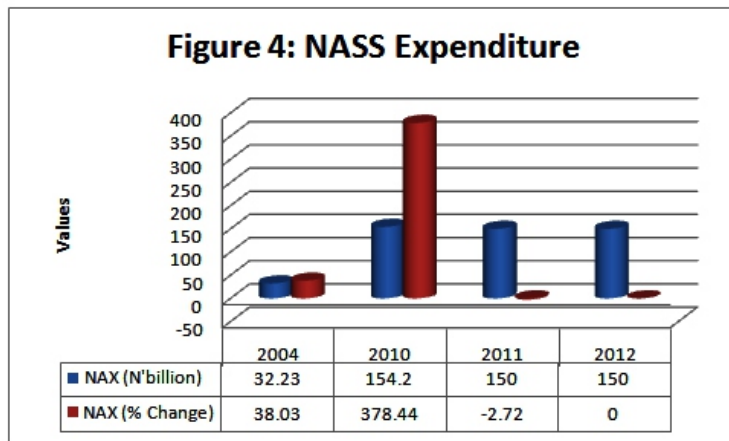
Source: Author, 2016

From Figure3, it appears that the impact of democracy on economic growth and by extension poverty reduction has been largely negative in Nigeria. Government capital expenditure which is expected to grow productive segments of the economy fell sharply from about 11% to

3% of GDP immediately after restoration of democracy in 1999. This expenditure has remained below 10% of GDP in the past fifteen years and is currently less than 1% of GDP.

That the Nigerian economy has been run aground by democracy and “democrats” and is currently officially in a recession in 2016 should really not be “news”.

Unsustainable National Legislature



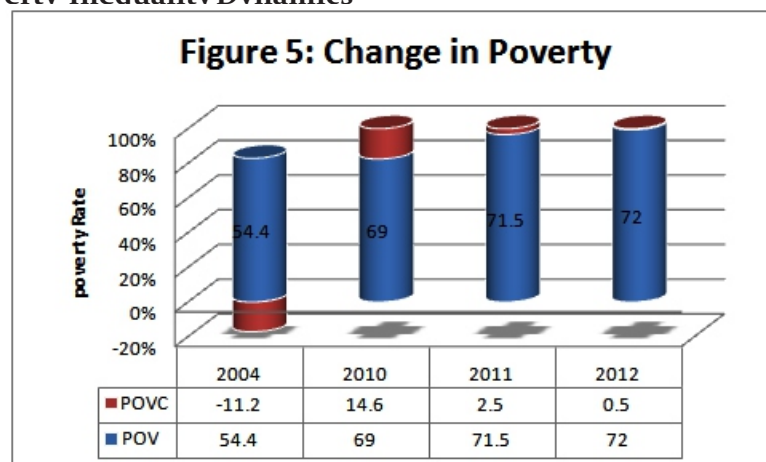
Source: Author, 2016

From Figure 4, the expenditure of the NASS which was a “mere” ₦6 billion at inception in 1999 grew by 38% to ₦32 billion after five years of democracy and by ten years of democracy, this expenditure had grown by 378% to ₦154 billion. The expenditure is assumed to currently maintain a zero growth rate at ₦150 billion annually.

Changes in Poverty

From Figure 5, poverty growth declined 11% in 2004 but by 2010, poverty had grown by about 15% to a poverty rate of 69% to stabilize at 72% poverty rate by 2012. Nigerians have been the poorer since democracy was restored.

Poverty-Inequality Dynamics



Source: Author, 2016

Table2: Absolute Poverty Trends

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Year	Headcount (Incidence)	Poverty Gap (Depth)	Poverty Gap Squared (Severity)	Inequality (Gini)
2003-04	64.2	27.4	15	0.3898
2009-10	62.6	26.2	14.2	0.4161

Note: The poverty gap adds up the extent to which individuals on average fall from the poverty line, and expressed as a percentage of the poverty line. Slightly better off than 2003-04 but still large. Source: NBS Abstracts

Table3: Extreme Poverty Trends

Year	Headcount (Incidence)	Poverty Gap (Depth)	Poverty Gap Squared (Severity)	Inequality (Gini)
2003-04	44.0	15.9	7.9	0.3898
2009-10	42.2	15.0	7.3	0.4161

Note: per capita measure; Source: NBS Abstracts

Table4: Food Poverty Trends

Year	Headcount (Incidence)	Poverty Gap (Depth)	Poverty Gap Squared (Severity)	Inequality (Gini)
2003-04	80.2	41.4	26.4	0.3898
2009-10	75.7	36.6	22.1	0.4161

Note: per capita measure; Source: NBS Abstracts

From Tables 2-4, the depth and severity of poverty improved in 2009-10 but inequality increased. This is contrary to theory which expects that changes in income distribution that improve the depth and severity of poverty would reduce inequality (Wodon, 1999).

It appears large distributional changes did occur over relatively short period of time (the national legislature effect) but income distribution deteriorated. Gini coefficient for Nigeria increased by 6.3 percentage points, which greatly aggravates the effects of current negative growth on poverty in the country. This suggests evidence of significant effects of non-income dimensions of inequality in Nigeria, the knowledge of which is very limited and insufficiently understood. It may also suggest that in Nigeria, the growth effect on poverty is greater than the inequality effect. Further research in this area is therefore required to understand their effects on the different dimensions of poverty in Nigeria.

Conclusion

The paper reviews the poverty situation in Nigeria in light of current economic recession and given the 2030 Agenda for sustainable development. The paper is motivated by observations on household expenditures and the expenditures of the national legislature which are taken as proxies for the interaction between distribution and growth in reducing absolute poverty. National data for the period 2003-2010 are examined and descriptive statistics are employed to answer the research question.

Unsustainable discrepancies exist between household expenditures and the expenditures of the national legislature indicating unacceptable income inequality that may help to explain the pattern of high ongoing poverty rates in Nigeria. The Nigerian national legislature (consumption) expenditure was 67.62% of total resources required to eliminate absolute poverty in 2003-04 and 124.81% in 2009-2010. A single member of the Nigerian legislature on average expended ₦118.17 million in 2003-04 and ₦533.58 million in 2009-2010 whereas per capita household consumption expenditure for the same period was a paltry ₦4,029.70 and ₦7,212.30 respectively. The current economic recession support the results and indicate Nigerian economy cannot afford the current western democratic structures in place. The results also indicate eliminating absolute poverty and the practice of western democracy may be mutually exclusive in Nigeria.

Evidence suggests significant effects of non-income dimensions of inequality in Nigeria; the knowledge of which is very limited and insufficiently understood and that in Nigeria, the growth effect on poverty is greater than the inequality effect.

Recommendations

To the extent that democracy or legislature expenditure is a determinant of poverty in Nigeria, a broad evaluation of what drives it is crucial to identify and address related policy issues. A poverty reduction strategy for Nigeria would therefore require a wide-range of public policy measures that offer a comprehensive approach to sustained growth, improved distribution, and greater participation in social advancement. Nevertheless, the specific range of policy options recommended by the paper includes to:

1. Alter the functional distribution regarding the size and consumption pattern of the Nigerian legislature. The paper recommends Nigeria realistically restructures democratic structures constitutionally in line with country specific economic traditions and patterns as a key channel for poverty reduction;
2. Correct unsustainable systemic distortions identified;
3. Ensure fiscal and monetary responsibility and accountability;
4. Enhance transparency and timeliness in political and economic reporting by the Central Bank of Nigeria and the National Bureau of Statistics to allow agents and stakeholders to actively and effectively partake in economic progress.

Further research in the subject nexus is also required to more fully understand the effects of democracy on the different dimensions of poverty in Nigeria.

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