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POVERTY, INCOME INEQUALITY AND GROWTH IN NIGERIA: LOOKING BEYOND NOW

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Abstract:
The Nigerian population's well-being is significantly influenced by poverty, income inequality, and economic growth, which are interconnected issues. While addressing the immediate needs of those living in poverty is important, it is equally essential to examine the long run causes of poverty and inequality. This study utilizes the autoregressive distributed lag (ARDL) approach to investigate the impact of poverty and income inequality on economic growth, using data from 1986 to 2020. The study found that income inequality positively affects economic growth, while poverty negatively impacts economic growth in the long run. The study recommends that the government develop comprehensive policies and programmes that create a favorable environment for growth. These policies should be inclusive and address the specific needs of the poor, providing them with opportunities to access education, healthcare, and employment.

Keywords:
ARDL, economic growth, income inequality, poverty.

JEL Classification:
O47, O55, E64, D63, I32

INTRODUCTION

The economic performance of any nation can be gauged by assessing poverty and income inequality, crucial indicators. Nations with improved income distribution and lower poverty rates are considered developed, while those with high income disparity and elevated poverty rates are labeled as underdeveloped or developing countries. The ramifications stemming from the escalating disparity in income on economic, political, and societal equilibrium makes income inequality and poverty continuous subjects of both local and international discussions. This significance aligns with the objectives of the United Nations Sustainable Development Goals, which strive for the eradication of poverty and elevate the incomes of 40% of the impoverished in developing economies.

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Furthermore, the International Monetary Fund (IMF) has underscored the significance of income distribution as both a catalyst and an outcome of economic growth (Ostry, Berg & Tsangarides, 2014).

Indeed, there is a widespread recognition that income inequality assumes a pivotal role in shaping progress and developments and is of great importance because it can slow overall economic growth and can impede the pace at which economic growth translates into alleviation of poverty (Kolawole, Omobitan & Yaqub, 2015). A circumstance characterized by elevated and increasing income inequality with increasing growth can lead to little or no reduction in poverty. If all the growth that countries have seen continues at a similar pace as observed during the preceding two decades, with income distribution remaining unaltered, based on the records, poverty will fall by just 10 per cent by 2030, from 17.7 per cent in 2010 (Oktay & Algan, 2022; Kim, 2014; Perera & Lee, 2013), it was observed that increasing income inequality can diminish the positive consequences of economic growth with regard to the mitigation of poverty, so income inequality and stagnant growth are not just a problem in and of themselves.

The prevailing belief is that economic growth should lead to a reduction in poverty and a decrease in the wealth gap between different social strata. This idea is based on the notion that increased production and income would create opportunities for redistribution through economic rent and access to the means of production. However, various schools of thought have surfaced in the literature, presenting different ideological viewpoints regarding complex relationship between growth, income inequality, and poverty. Some researchers contend that economic expansion results in higher incomes, ultimately leading to a decline in poverty and income inequality (Okafor, 2016).

The adverse effects of income inequality on economic growth are extensively acknowledged. The renewed focus on empirical research regarding income inequality is due to its detrimental effects on fostering a conducive environment for growth. While some may prioritize addressing poverty, it is important to acknowledge that reducing income inequality is equally crucial. In fact, policies aimed at tackling poverty effectively must also include measures to address and reduce income inequality (Ibrahim & Taiga, 2020; Yunqian, 2017).

In Nigeria, the pervasive issue of poverty stems from various factors including sluggish or diminishing economic growth, income disparities, high unemployment rates, rampant corruption, ineffective governance, diversion of funds towards non-productive ventures, misallocation of resources, unsuitable macroeconomic policies, inadequate investment in human capital, burdensome debt (both domestic and international), deficiencies in the labor market due to limited job opportunities, low productivity, meager wages in the informal sector, and insufficient development of human resources (Meagher, 2013).

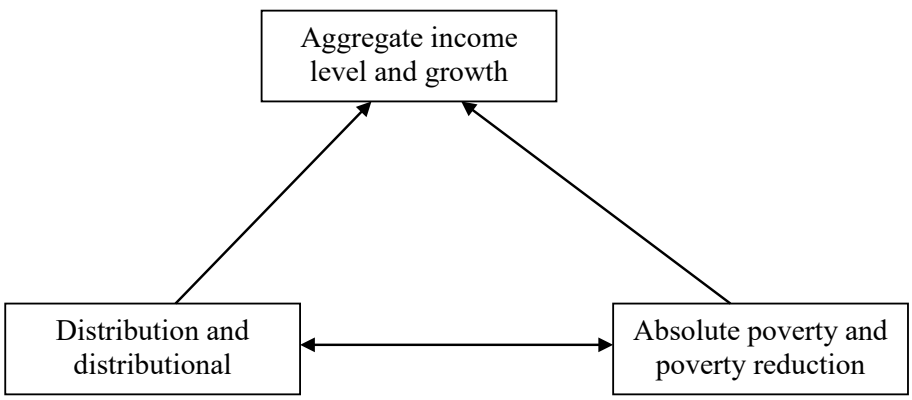
Recently, there is a lack of studies that specifically explore the interplay between income inequality, poverty, and economic growth in Nigeria. Consequently, there is a significant knowledge gap that needs to be addressed to inform policy decisions effectively. To bridge this gap and contribute to the understanding of the current state of affairs in Nigeria, this paper intends to delve into the investigation of how poverty and income inequality influence economic growth. The study will utilize data spanning from 1986 to 2022 to conduct a comprehensive analysis.

LITERATURE REVIEW

The authors' interest extends beyond studying solely the relationship between income inequality and economic growth. They are keen on understanding the role of poverty in the broader macro-level context. Despite the wealth of existing literature that explores the connection between income inequality and growth, the authors aim to shed light on how poverty factors into this intricate relationship. By examining poverty in conjunction with income inequality and economic growth, the study seeks to provide a more comprehensive understanding of the variables of interest within the context of developing countries. Following the poverty-inequality-growth triangle (Osinubi, 2020; McKnight, 2019; Dhrifi, 2015)

The concept, first introduced by Bourguignon (2004), is referred to as "growth incidence curves." It highlights the idea that a country's variation in absolute poverty can be entirely explained by changes in its income growth and income inequality. In other words, the pattern of income growth and how it is distributed among the population directly influences the changes in poverty levels within that country. It can be deduced from developing countries that the income inequality gap led many to a poverty trap which affects growth as described in the figure below.

Figure 1. The poverty-inequality-growth triangle



Source: Adapted from Bourguignon (2004)

Figure 1 likely portrays how fluctuations in income inequality influence the connection between poverty levels and a country's overall economic growth. By analyzing the distribution of income in conjunction with economic growth, the figure probably highlights how changes in income inequality can either magnify or alleviate the impact of economic growth on poverty alleviation or exacerbation. Gaining a deep understanding of this intricate relationship is vital in crafting effective policies that tackle both poverty and income inequality, leading to sustainable economic development.

Certainly, delving into the interrelation between poverty, income inequality, and economic growth is an intriguing field of study, and numerous researchers have delved into it. Nevertheless, despite thorough research efforts, a unanimous agreement on the precise nature of this relationship has yet to be reached. One noteworthy study in this field was conducted by Fosu (2009). The study employed unbalanced panel data encompassing 86 countries during the timeframe spanning from 1977 to 2004, comparing Sub-Saharan Africa (SSA) to non-SSA countries. Based on the analysis, the author concluded that the impact of economic growth on poverty reduction is contingent on the level of initial inequality, with a decreasing trend observed.

Moges (2013) conducted a comprehensive investigation into the interplay among economic growth, income inequality, and poverty within developing nations. This study harnessed a fresh and nationally representative dataset extracted from household surveys. The results highlighted the significant impact of both economic growth and income inequality on poverty reduction within the context of developing economies. Similar work has also been pursued by Bakare and Ilemobayo (2013) whose study confirmed a direct relationship between economic growth and poverty in Nigeria. Some similarities can be found with the work of Ncube, Anyanwu, and Hausken (2013) found that income inequality negatively impacted economic growth and positively affected poverty in the MENA region from 1985 to 2009. However, Nurudeen and Ibrahim (2014) did not find evidence of a long-term relationship between the variables using the ARDL technique. The results are controversial due to insufficient evidence.

Conversely, on the opposing side, a study by Akanbi (2016) on the relationship between economic growth, poverty, and inequality in 9 South African provinces from 1995 to 2012. The study used unique variables to proxy poverty and inequality, including income poverty, non-income poverty, education inequality, and land inequality. The results showed a long-term relationship among growth, poverty, and inequality. Likewise, Lucky and Achebelema (2018) employed diverse approaches to gauge poverty, including methods like the food poverty line, absolute poverty line, subjective poverty measure, and the dollar-per-day poverty line. They used the Gini coefficient to measure income inequality in Nigeria and found that a significant proportion of the population lived below the poverty line with a wide gap between the rich and the poor.

Numerous investigations have generated varied outcomes concerning the relationship among economic growth, inequality, and poverty, employing an array of methodologies. For instance, Breunig and Majeed (2020) utilized the system GMM estimation technique and discovered a negative relationship between inequality and economic growth. They further observed that the adverse impact of inequality on economic growth was more pronounced in countries with high poverty rates. Conversely, Khemili and Belloumi (2018) presented findings indicating a positive relationship between income inequality and poverty. Nonetheless, in the short term, they observed a positive relationship between inequality and the escalation of poverty.

These discrepancies in findings underscore the complexity of the subject, leaving the relationship among poverty, inequality and economic growth, an area of ongoing research with varying conclusions based on the methodologies used and specific contexts being studied.

METHODOLOGY

In pursuit of the objective of this study, this study adopts a methodology similar to that of Khemili and Belloumi (2018) to investigate the relationship among growth, inequality, and poverty. Such that:

$$rgdp=f(lab,pov,gini,pop,totsec) \tag{1}$$

Consequently, we transform the relationship expressed in equation (1) above into a log-log model. All the variables enter the model in their log forms, the study formulates the long-run model to examine the relationship among growth, inequality, and poverty. This model is designed to capture the underlying dynamics and interdependencies between these variables over an extended period.

$$rgdp=\alpha_o+\beta_1 lab+\beta_2 pov+\beta_3 gini+\beta_4 pop+\beta_5 tsec+\varepsilon_t \tag{2}$$

Where *rgdp* is real gross domestic product per capita, *lab* is the labour force, *pov* is the poverty rate, *gini* is gini coefficient (a measure of income inequality), *pop* represents population growth and *tsec* denotes total school enrolment (a measure of literacy level), ε is the error term.

The logarithmic conversion of equation (2) yields the structural form:

$$logrgdp = a_0 + \beta_1 \overset{+}{Inlab} + \beta_2 \overset{-}{pov} + \beta_3 \overset{-}{gini} + \beta_4 \overset{+}{Inpop} + \beta_5 \overset{+}{lntsec} + \varepsilon_t \tag{3}$$

Due to the order of integration of the variables, equation (3) is re-specified in the ARDL form as follows:

$$\begin{aligned} \Delta Inrgdp_t = {} & \beta_0 + \beta_{1i}\sum_{i=1}^{n}\Delta rgdp_{t-1} + \beta_{2i}\sum_{i=1}^{n}\Delta lnlab_{t-1} + \beta_{3i}\sum_{i=1}^{n}\Delta pov_{t-1} + \\ & \beta_{4i}\sum_{i=1}^{n}\Delta gini_{t-1} + \beta_{5i}\sum_{i=1}^{n}\Delta lnpop_{t-1} + \beta_{6i}\sum_{i=1}^{n}\Delta logtsec_{t-1} + \\ & \varphi_1 Inrgdp_{t-1} + \varphi_2 lnlab_{t-1} + \varphi_3 pov_{t-1} + \varphi_4 gini_{t-1} + \varphi_5 lnpop_{t-1} + \\ & \varphi_6 Intsec_{t-1} + \mu_t \end{aligned} \tag{4}$$

This study is grounded in the analysis of yearly time series data encompassing real GDP, income inequality, and poverty rates from 1986 to 2020.

The data were collected from various sources, including the Central Bank of Nigeria Statistical Bulletin and the World Development Indicators (2020).

Table 1. Descriptive Statistics

	lrgdp	*ltsec*	*pov*	*lpop*	*llab*	*gini*
Mean	12.94	15.33	55.96	18.68	17.57	45.59
Median	12.97	15.22	55.21	18.70	17.57	45.10
Maximum	13.61	16.01	66.90	18.99	17.92	56.00
Minimum	12.22	14.87	46.30	18.27	17.19	39.20
Std. Dev.	0.43	0.40	5.05	0.23	0.22	4.60
Skewness	-0.14	0.27	0.31	-0.23	-0.06	0.60
Kurtosis	1.49	1.35	2.69	1.68	1.75	2.55
Jarque-Bera	3.42	4.36	0.71	2.84	2.02	2.40
Probability	0.18	0.11	0.69	0.24	0.36	0.30

Source: Authors' Computation (2023)

Table 1 presents the characteristics of the variable series, indicating that most of them are normally distributed and exhibit platykurtic tendencies, along with positive skewness, except for economic growth, population, and labor, which display negative skewness. The Jarque-Bera statistic, which is an asymptotic test conducted at a chosen 5% significance level, shows that the computed probability values for the series are mostly higher than the 5% chosen probability values. This suggests that the null hypothesis is affirmed, indicating that the series in the table are indeed normally distributed.

Results of the Correlation Analysis

In Table 2, the correlation analysis results are displayed, indicating the level of association among the variables used in the study. The findings demonstrate that the correlation coefficients between these variables are moderate, suggesting a discernible level of association. Moreover, these variables can coexist in the same model, implying that they are not strongly interdependent but exhibit meaningful connections that can be considered in the analysis.

Table 2. Correlation Matrix

	lrgdp	*ltsec*	*pov*	*lpop*	*llab*	*gini*
lrgdp	1.00					
ltsec	0.88	1.00				
pov	-0.27	-0.29	1.00			
lpop	0.91	0.54	-0.09	1.00		
llab	0.88	0.64	-0.05	0.68	1.00	
gini	-0.37	-0.30	0.62	-0.14	-0.09	1.00

Source: Authors' Computation (2023)

Result of the Unit Root Test

This study utilized the Augmented Dickey-Fuller (ADF) test to ensure reliable and consistent results. The test assessed the stationarity of the variables, a critical aspect for accurate analyses. The findings revealed that all variables, except for population, became stationary after first differencing. Therefore, it was established that all the variables are characterized by either being integrated at order one (I(1)) or integrated at order zero (I(0)). Next, the analysis proceeded to conduct the cointegration test. Cointegration analysis helps identify whether a long-term relationship exists among the variables, which is vital for understanding their interdependencies in the long run.

Table 3. Augmented Dickey-Fuller (ADF) Test

Variable	Test Statistic Z(t)	1% Critical Value	5% Critical Value	10% Critical Value	MacKinnon approximate p-value for Z(t)	Level Form-*i*(0)	First Difference *i*(1)
lrgdp	-1.510	-2.453	-1.696	-1.309	0.0705	Not	
d.lrgdp	-9.019	-3.702	-2.980	-2.622	0.0000	stationary	Stationary
ltsec	-2.084	-3.696	-2.978	-2.620	0.2509	Not	
d.ltsec	-6.720	-3.702	-2.980	-2.622	0.0000	stationary	Stationary
pov	-0.900	-3.696	-2.978	-2.620	0.7881	Not	
d.pov	-6.468	-3.702	-2.980	-2.622	0.0000	stationary	Stationary
lpop	-3.171	-3.696	-2.978	-2.620	0.0217	Stationary	
llab	-1.929	-3.696	-2.978	-2.620	0.3183	Not	
d.llab	-6.650	-3.702	-2.980	-2.622	0.0000	stationary	Stationary
gini	-3.587	-3.696	-2.978	-2.620	0.0060	Stationary	

Source: Authors' Computation (2023)

Cointegration Analysis Result and Interpretation

Cointegration results in Table 4 confirmed the presence of a long-run relationship among the variables. This finding aligns with Akanbi's (2016) study, which also supported a long-run relationship among poverty, income inequality, and economic growth.

Table 4. Result of the Cointegration Analysis using Bounds Test

Test Statistic	Value	K
F-statistic	5.41	6
Critical Value Bounds		
Significance	i(0) Bound	i(1) Bound
10%	2.26	3. 35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: Authors' Computation (2023)

Lag Length Selection for ECM

In Table 5, the selected Error Correction Model (ECM) includes one lag of both the independent and dependent variables. This choice was determined based on various criteria, including LR (Likelihood Ratio), FPE (Final Prediction Error), SC (Schwarz Criterion), and HQ (Hannan-Quinn) criteria. These criteria collectively indicate that one lag of both variables is the most appropriate for the ECM model.

Table 5. Lag Length Selection

Lag	*LogL*	*LR*	*FPE*	*AIC*	*SC*	*HQ*
0	-34.09602	NA	6.40e-07	2.765243	3.048132	2.853840
1	120.4027	234.4118*	1.92e-10*	-5.407081*	-3.426859*	-4.786900*
2	141.1790	22.92566	7.79e-10	-4.357176	-0.679621	-3.205412

Source: Authors' Computation (2023)

Long Run and Short Run Estimates

According to our findings presented in Table 6, population has a significant and positive impact on economic growth in Nigeria, with a coefficient of 2.33. This aligns with the theoretical expectation that a larger and educated population contributes to increased productivity and, subsequently, economic growth. On the other hand, income inequality was found to have a negative and significant effect on economic growth in Nigeria. This indicates the substantial disparity between the rich and the poor in the country hampers overall economic growth, corroborating earlier studies by Lucky and Achebelema (2018). Lastly, the result suggests that poverty has a neutral, albeit negative, effect on economic growth in Nigeria. This implies that while poverty may not directly hinder economic growth, it does not positively contribute to it either.

Table 6. Long Run Results

Variable	*Coefficient*	*Std.Error*	*t-Values*	*Prob.*
ltsec	-0.24	0.25	-0.96	0.3441
pov	-0.00	0.01	-0.01	0.9863
lpop	2.33	0.77	3.02	0.0059***
llab	-0.19	0.73	-0.26	0.7925
gini	-0.02	0.01	-2.48	0.0203**
C	-22.29	4.94	-4.50	0.0001***

Note: 1. *, **, and *** show the statistical significance level at 10%, 5%, and 1% respectively
Source: Authors' Computation (2023)

In the Table 7, the error correction term (ECT) is portrayed as the velocity of the adjustment mechanism, illustrating how the variables converge to equilibrium in the dynamic model. The coefficient of -1.0166, with a significance level of 5%, exemplifies the lagged ECT, highlighting the rate at which the variables readjust toward equilibrium. As anticipated, this coefficient possesses a statistically significant negative sign. Furthermore, Azman-Saini (2013) posits that a remarkably significant error correction term signifies a steadfast long-term relationship, denoting that any disequilibrium within the system will be rectified within a year. In this context, the ECT coefficient is negatively and significantly significant at a 1% probability level, further validating our earlier conclusion that the variables in our study are indeed co-integrated (Pesaran & Pesaran 2009). This suggests a stable long-term relationship among population, income inequality, and economic growth in the context of Nigeria.

Table 7. Short Run Results

Variable	*Coefficient*	*Std.Error*	*t-Values*	*Prob.*
dlog(tsec)	-0.24	0.26	-0.94	0.3561
d(pov)	-0.0001	0.01	-0.01	0.9863
dlog(pop)	2.36	0.91	2.60	0.0156**
dlog(lab)	-0.19	0.74	-0.26	0.7921
d(gini)	-0.02	0.01	-2.50	0.0196**
ect(-1)	-1.01	0.20	-4.99	0.0000***

Note: 1. *, **, and *** show the statistical significance level at 10%, 5%, and 1% respectively
Source: Authors' Computation (2023)

Diagnostic Tests

Based on the results of the Breusch-Godfrey Serial Correlation LM tests, it appears that there is no evidence of serial correlation in the regression models. The p-values for both models were greater than 0.05, indicating that the models are robust and the explanatory variables have a significant impact on economic growth. Therefore, the null hypothesis of the absence of serial correlation was not rejected. Additionally, most of the test results were successful, except for the Jarque-Bera normality test, which indicated that the model was not normally distributed. However, this issue was addressed and corrected.

Moreover, the Ramsey RESET stability test was passed successfully, further reinforcing the reliability and stability of the model. These robustness tests provide confidence in the validity and soundness of the conclusions drawn from the analysis.

Table 8. Result of the Diagnostic Tests for the ARDL model

Tests	Jarque-Bera	LM Test	BPG Test
Value for J-B	106.3488		
F-statistic		2.079	3.042
Prob. F		(0.163)	(0.073)
p-value	[0.000]		[0.087]

Source: Authors' Computation (2023)

Stability Test Result

The investigation of the CUSUM and CUSUMQ tests revealed that both remained within the 5 per cent critical lines throughout the entire period of assessment. This suggests that there is no evidence of structural breaks in the regression models, and the models are reliable for predicting economic growth. Figures 2 and 3 depict the plots of CUSUM and CUSUMQ test statistics. This consistent behaviour indicates parameter stability over the course of the analysis. Therefore, the long-run coefficient of economic growth with respect to the independent variables in the ARDL model was confirmed to be stable, in line with the findings of Adekoya and Abdul Razak (2017). This outcome further reinforces the robustness and reliability of the model.

Figure 2. CUSUM test

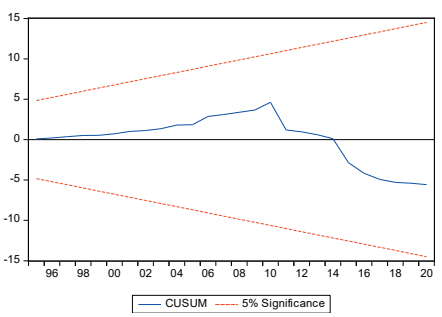
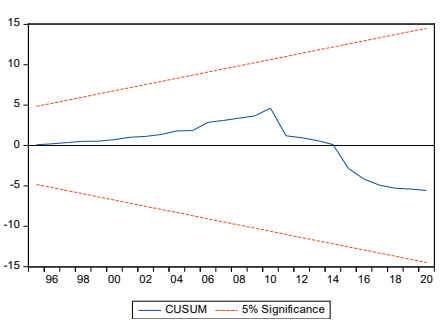


Figure 3. CUSUM of Squares test



CONCLUSION

The study aimed to investigate the relationship between income inequality, poverty, and economic growth in Nigeria from 1986 to 2020. To analyze the data, the Autoregressive Distributed Lag (ARDL) Bounds test approach was employed to cointegration. The dependent variable was economic growth, while the explanatory variables were population, labor force, poverty, income inequality, and total school enrollment. The study found that all the coefficients are negatively associated but only income inequality was significant with economic growth except for population which was positive and significant.

Indeed, this study has demonstrated that population growth has contributed to promoting economic growth in Nigeria, similar to developments observed in the South and East Asian regions, particularly in the case of China, which underwent a remarkable economic transformation. The positive impact of population growth on economic growth in Nigeria aligns with the experiences of other successful economies that have harnessed their demographic trends to drive economic development and progress.

Thus, the concern should not only be in the population but how each of the members of the population through their income contributes to economic growth. Though, the neutrality of poverty and the inequitable distribution of income has not assisted to achieve economic growth. To foster inclusive and sustainable development, the government should formulate comprehensive policies and programmes that specifically target the impoverished population. By providing numerous opportunities for the poor to enhance their well-being, the government can create a more equitable and thriving society, ensuring that the benefits of economic growth are distributed more fairly among all segments of the population.

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SIROMAŠTVO, NEJEDNAKOST PRIHODA I EKONOMSKI RAST U NIGERIJI: POGLED U BUDUĆNOST

Rezime:

Na blagostanje nigerijske populacije značajno utiču siromaštvo, nejednakost prihoda i ekonomski rast, koji su međusobno povezana pitanja. Iako je rešavanje neposrednih potreba onih koji žive u siromaštvu važno, podjednako je neophodno ispitati dugoročne uzroke siromaštva i nejednakosti. Ova studija koristi autoregresivni distribuirani lag (ARDL) pristup za istraživanje uticaja siromaštva i nejednakosti u prihodima na ekonomski rast, koristeći podatke od 1986. do 2020. Studija je pokazala da nejednakost prihoda pozitivno utiče na ekonomski rast, dok siromaštvo negativno utiče na ekonomski rast na duge staze. Studija preporučuje da vlada razvije sveobuhvatne programe koji stvaraju povoljno okruženje za rast. Ovi programi treba da budu inkluzivni i da se bave specifičnim potrebama siromašnih, pružajući im mogućnosti da pristupe obrazovanju, zdravstvenoj zaštiti i zapošljavanju.

Ključne reči:

ARDL,
ekonomski rast,
nejednakost prihoda,
siromaštvo.

JEL klasifikacija:

O47, O55, E64, D63, I32