Towards an Inclusive Growth Framework: Critical Issues and Nigeria's Context

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Abstract

This paper explicates an inclusive growth framework with an emphasis on Nigeria. Deploying a non-quantitative approach, it shows that inclusive growth focuses on economic growth which is necessary and crucial for poverty reduction, deals with both the pace and pattern of growth, adopts a long-term perspective, broad-based across sectors (necessitating structural transformation) and above all, the imperative of governmental role in the inclusive growth trajectory. The paper unravels the peculiar factors militating against the realization of inclusive growth in Nigeria and recommends the mechanism to deal with them, in order for the country to address the pandemic level of poverty and unemployment, and thus enjoy the benefits accruable to inclusive growth.

Introduction

Nigeria is an economic tragedy of some sort, and achieving inclusive growth has been a Herculean task. Inclusive growth is used to refer to the pace as well as the pattern of growth, both of which are regarded as intertwined, and therefore must be jointly addressed. Inclusiveness in itself is a generic concept which encompasses equality of opportunity, equity, and protection in markets (Commission on Growth and Development, 2008). Inclusive growth, therefore, connects both macro and micro determinants of growth, with the former embracing structural re-alignment for economic diversification, innovation, and competition.

The imperatives of inclusive growth cannot be gainsaid, dovetailing into rapid and sustained poverty mitigation and employment creation. Consequently, inclusive growth leverages people's ability to both contribute to, and benefit from economic growth. This however is not the same thing as pro-poor growth, which essentially aims at the welfare of the poor, as its concern is with engendering opportunities for the greater part of the labour force including the poor and middle-class. Although the definition of inclusive growth is consistent with the absolute definition of pro-poor growth, it differs in two fundamental ways. First, absolute pro-poor growth can be engendered by direct income redistribution, whereas productivity growth and improvement in new opportunities for employment are germane for growth to be inclusive. Second, focus has traditionally been, in the case of pro-poor growth, on growth and poverty measures, as against inclusive growth which is focused on the ex-ante analysis of the impediments to sustained growth, as well as the sources of high growth and poverty reduction.

According to Ravallion and Chen (2003), growth is considered pro-poor in the absolute if poor people benefit in absolute terms, as indicated by some established poverty indicators, whereas in the relative definition, it is “pro-poor” if and only if there is a decline in inequality, i.e. if the growth in the incomes of the poor is faster than that of the entire population. While rapid pace of growth is a sine qua non for significant poverty reduction, its sustainability regarding long-run horizon necessitates that it should not only be broad-based (i.e. encompassing or cutting across sectors), but inclusive of a considerable chunk of a country's labour force.

From the foregoing, this paper deals with the issues in inclusive growth framework, and the salient issues in Nigeria's context. It is divided into four sections. The critical issues in inclusive growth are presented in section 2. In section 3, Nigeria's context is covered. Section 4 is on policy recommendations and conclusion.

Critical Issues in Inclusive Growth

A critical issue in the inclusive growth framework is that focus is on productive employment rather than on direct income redistribution, as a mechanism for improving the incomes of excluded groups. Although income distribution or transfer schemes could be employed in the short run to mitigate the adverse impact of public policies aimed at growth, they are not suited to the long-run horizon, especially for poor countries which face the double jeopardy of overstretched budgets and dismal average income levels below 700 US dollars per day. It is reasoned that even for the developed world and for some parts of the population, redistribution schemes need to be combined with other measures to address rising poverty rates (OECD, 2008).

Allied to this is that the realization of high growth rates and poverty reduction is underpinned on the preponderance of the labour force taking an increasing share in the growth process. Consequently, growth has to be in such a manner that brings about progressive changes in income distribution. This sort of efficiency in the growth process is capable of inducing a greater impact on poverty reduction than one in which income distribution remains unchanged after growth, as demonstrated in White and Anderson (2001). Thus, for growth to be both inclusive and sustainable, productive employment is assumed to be the main instrument.

New jobs could emanate from the formal or informal sectors, including self-employment. Importantly, there should be productivity growth irrespective of the type of employment as a means of improving wages across sectors, while addressing the issue of underemployment, which is a major problem in many countries, especially low-income economies. In addition, policies are not targeted mainly in favour of labor-intensity in industries, although this might tend to be advantageous for the poor with little education and technical competencies.

Thus a successful inclusive growth framework should take cognizance of productive resources and capacity of the individual on both labor demand and supply sides.

Second, sound policies are a viable strategy for sustainable and inclusive growth. However, such policies should be encompassing or eclectic and should take a longer-term perspective. With long term perspective comes the need to recognize that between reforms and outcomes, there are time lags. Overall, emphasis should be placed on implementing policies in the short run, but if inclusive growth must be sustainable, it has to contend with the future horizon.

Furthermore, when high growth rates extend over a period of time, their benefits are felt in terms of poverty reduction (Bourguignon, 2003). Findings by Kraay (2004) indicate that as much as 70 percent of the variation in poverty reduction (measured by the headcount ratio) was found in the short run to be explained by growth in average incomes, and as much as 97 percent in the long run. Thus, any inclusive growth architecture aims at poverty reduction across sectors.

Additionally, the need for the complete picture of growth and the contexts are critical in any inclusive growth framework. It is important to note that very little guidance is offered in the literature on growth and pro-poor growth to policymakers. In this context, it is important to emphasize that prior to the 2000s, the major focus in the pro-poor growth analytics was on measuring the extent to which growth engendered poverty reductions absolutely or relatively, in addition to the prevalence of statistics on aggregated income and poverty. This focus has however shifted to specific contexts and ex-ante investigation of impediments to future economic development. In this wise, issues relating to sources of growth, poverty and growth decompositions have become critical towards proving remedies in country-specific contexts due to the diversities that exist not only between and among countries, but also within the same country over a period of time. This is because it is known that growth determinants are largely a function of initial conditions, and a plethora of other factors including policies, governance, politics, geography, and demography.

It is also important to note that for broad-based growth to be sustainable, economic transformation is key. According to Imbs and Wacziarg (2003), no country has been able to accomplish significant growth in income and poverty reduction at the expense of structural transformation and economic diversification. This is particularly important for developing countries, especially those suffering from the “Dutch disease”, small markets and difficulties in accessing international markets. Lastly, an issue that calls for attention in Nigeria's quest for inclusive growth is the COVID-19. With the declaration as a pandemic by the World Health Organization in March 2020, COVID-19 has become a global emergency and global growth is predicted to fall by 0.5 for the year 2020. As of 3 April 2020, the virus had spread to 50 African Union Member States. Thus, Nigeria is not immune to the endogenous and exogenous effects of COVID-19.

The exogenous effects include a decline in trade between Nigeria and affected partners, the decline in remittances from Nigerians in the Diaspora, a decrease in foreign direct investment and Official Development Assistance, and falling revenues from crude petroleum. On the other hand, the endogenous effects include the rapid spread of the virus (with its debilitating effects on morbidity and mortality), disruption in economic activities, decrease in tax revenue, and rise in public spending to cushion the adverse effects of the pandemic and support economic activities. The implication is that meeting an inclusive growth in Nigeria becomes more challenging, although COVID-19 can be used to address growth that targets a large segment of the Nigerian population via using suitable public policy.

Country Idiosyncrasies: Nigeria's Context

Achieving inclusive growth in Nigeria would largely depend on a variety of factors including dealing with corruption and weak institutional environment, insecurity, poverty, attracting foreign direct investment, economic diversification, and sound economic policies. Due to space constraints, the first one is explored. For quite a long time, Nigeria is widely considered and perceived as one of the most corrupt countries on earth, with the effect that its stunted development despite the encouraging growth indices is tied inevitably to the many shades of corrupt tendencies which take place in it.

Inclusive growth and corruption can be said to be antithetical. Due to the inert justice system, the subservient appendage of the legislature to the executive arm of government, political opportunism and patronage, weak civil society mechanisms for holding corrupt individuals to account, and largely owing to the heavy reliance by majority of Nigerians on government services, corruption is a major driver of poverty in Nigeria. Although corruption and its associated stealing of public funds are as old as mankind and cut across religious, racial, and ideological divide (Lipset and Lenz, 2000; Dike, 2005), that of Nigeria presents useful dimensions, with high-level political graft exerting monumental financial cost on the economy.

A major effect of corruption is the exacerbation of poverty and this is particularly harmful to lower-income groups because it pulls resources that should have been employed in bridging the gap between the rich and occupants of the lowest rung of society. One of the disturbing paradoxes of the Nigerian economy is the increasing amount of revenues earned and the likewise increase in the level of poverty of the people. Thus, it is implausible to link the high level of poverty in Nigeria to dwindling fortunes. Over the years, the evidence points to a high positive correlation between revenues and poverty, a paradox explainable by the political-economic architecture, in which political power modulates the flow and direction of resources, and in which quasi-federalism (a unitary form in the garb of federating units) creates a productive base that is mono-cultural without optimally harnessing the huge endowments of states in the federation. A cursory dissection of the factors usually adduced as causes of poverty in Nigeria dovetails to the political and economic undertones of the pandemic.

Iyoboyi (2012) maintained that corruption especially of the public sector variety is largely the result of the political and economic structure of the country. Because Nigeria is basically a government-oriented economy (as most people are reliant on government services to meet most of their basic needs), doing so in an environment of corruption has meant the payment of various forms of regressive taxes. The political instability witnessed over the years can be traced directly to corruption and stealing of public funds, sometime posing a huge challenge to democracy and the survival of the country. The high level of graft in the political space has cast considerable doubt in the minds of ordinary citizens about the relevance of the brand of democracy being practiced in the country. Sycophancy and bootlicking which are prevalent in the political arena are believed by many to be an instant leeway to wealth and affluence. There are several reasons to think that political office holders cannot be responsible and accountable to the people due to the manipulation of instruments of justice by powerful groups and elements within society. The political space is littered with the mosaic of electoral corpses. Elections are generally a do or die affair, while the country has had to pay heavy penalty in the name of political assassinations, electoral violence, and the general destruction of lives and properties of several persons before, during, and after electoral contests. In a nutshell, corruption suffocates inclusive growth.

Conclusion and Policy Recommendation

Following a non-quantitative approach, this paper depicts the tenets of inclusive growth framework and the critical issues in the Nigerian case. It was found that the critical issues hinge on productive employment, public policies, and poverty reduction, in addition to a holistic view and country contexts. In the context of Nigeria, emphasis was placed on corruption and weak institutional environment, which are injurious to the prospects of inclusive growth in the country. Based on the narrative, Nigeria needs to engage policies that put premium on growth that cuts across sectors; takes into account productive resources and capacity of the individual on both the demand and supply sides of labour; and above all, empower the poor through productive employment. This way, the miseries associated with poverty and unemployment can be mitigated and inclusive growth can thus have expected palliative effects on the economy.

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