CHAPTER 6

SUMMARY, CONCLUSION AND POLICY RECOMMENDATIONS

6.1 INTRODUCTION

This chapter presents a summary of the study, the major conclusions and important policy recommendations. The purpose of the study was to develop an explicit and robust macro-econometric model that will analyse the persistence in the growth-poverty divergence in the Nigerian economy and to design appropriate policy remedies. This is performed through the application of the various policy simulations in order to determine their effects on the key macroeconomic variables in the economy.

6.2 SUMMARY AND MAIN FINDINGS OF THE STUDY

Analysing the Nigerian growth-poverty divergence, the study was divided into six main chapters.

Chapter one presents the introduction and background of the study by firstly trying to highlight the importance of macro-econometric modelling in making sound economic policies and the major setbacks encountered by the developing economies in designing a sound macro-econometric model. It also highlights the major problem of structural inadequacies that is evident in the Nigerian economy which are the major hindrances to the achievement of the laid down developmental objectives. The major problems of the economy are therefore regarded as supply-side constraints and which can only be tackled from the supply-side of the economy.

The literature analysis in Chapter two focuses on the theoretical and empirical growth and poverty models. The implication of the neoclassical growth model which was analysed shows that the long-run growth path will be exogenously determined and the economy can be predicted to converge towards a steady-state growth rate. This depends on the rate of technological progress and labour force growth. Criticism of the assumptions of the neoclassical growth theory surfaced as the endogenous growth theory started gaining popularity in the growth literature. The main argument of the endogenous growth theorist about the long run growth path is that it is not dependent on exogenous factors but rather on accumulation of human capital. This led to the tremendous popularity of the endogenous growth models and leads to the perception that human capital development is the catalyst to reduce poverty. A substantial number of theoretical pro-poor growth (poverty trap) models exist, although empirical studies in this regard are limited. Most of the pro-poor growth (poverty trap) models have enabled explanations for some countries remaining poor and why others experience increases in overall welfare. It is evident that an economy that can sustain solid long-term growth is most likely to achieve a significant reduction in its level of poverty over the long term. The poverty trap models believe that the threshold level of equilibrium that an economy starts from is crucial in achieving its developmental objectives. An economy that operates at the lower steady-state equilibrium is likely to be trapped in poverty. But the use of macro-econometric models in addressing the devastating poverty level in developing economies is still fairly rare in the literature.

Chapter three commences with an analysis of the growth-poverty performance of the Nigerian economy in the last few decades. It reveals significant socio-economic constraints as the predominant impediments to high and sticky levels of poverty in the country. It also discusses the enormous resource endowment of the country and the potential it has to be the leading economy in Africa and also in eradicating poverty among its citizenry. The performance of the Nigerian economy over the last four decades is in total contrast with the given level of human and natural resources that it has. The trends in the major macroeconomic variables have not been impressive and are highly unpredictable. This is caused mainly by the mismanagement of the country's resources and the various policy regime shifts that were experienced as the economy evolved. The long-run sources of economic growth revealed by the growth accounting exercise show that productivity from labour and capital have been very low over the years. This gives an indication why the high level of poverty still persists in the country. The profile of poverty analysed shows the severity of poverty in the major parts of the country. Despite the various strategies introduced to combat poverty in Nigeria, the majority of its population is still living below the poverty line. But the basic problem of lack of good governance, corruption, and lack of attention to basic human needs are still the country's major poverty challenges.

The model specifications and estimation techniques adopted in this study were presented in Chapter 4 while Chapter 5 gives the detailed analysis of the empirical results. The production function is disaggregated into two main parts (oil sector and rest of the economy) in Model A. Model A and B consist of about 19 and 16 behavioural equations respectively, which are consistent with economic theory. The models are estimated with time series data covering the period 1970-2006 using the Engle-Granger two-step technique. The simulation process combines both the short-run and long-run versions of the equations which in turn solved from 1979 to 2006 and this is due to the various lags employed in the short-run equations.

The models covered the four sectors of the economy and the level of disaggregation adopted is considered sufficient in analysing the growth-poverty divergence and other necessary policy scenarios. But this is dictated to a large extent by the availability of data.

The series of dynamic simulations performed reveal the importance of the policy analysis of the study. Policy impacts are derived by shocking selected exogenous variables in the system in order to determine the elasticity for every endogenous variable. A 10 per cent shock was applied to all the selected exogenous variables. The simulation with regards to fiscal policy was also evaluated. The fiscal shock involved was total government expenditure. The level of governance was also evaluated by shocking the level of government effectiveness. The external shocks simulated revealed the vulnerability of the domestic economy to shocks from the global economy.

Based on the historical performance of the economy and the results from the models developed, the study concludes that a macro-econometric model capturing structural supply constraints (Model A) will greatly assist in devising appropriate policies to address the high and sticky level of poverty in the Nigerian economy.

Therefore, a supply-side policy intervention is required. A new paradigm for policy making has to be developed for the Nigerian policy environment. To enable the proceeds from the oil endowment to trickle down to the rest of the economy where poverty and unemployment is predominant, the need to address the socio-economic impediments that will give rise to employment creation and reduction in poverty should be the primary focus of any government policy intervention. Policy interventions should aim at increasing economic growth from the supply-side by absorbing the potentially productive population which will further eradicate the structural impediments embedded in the economy.

6.3 POLICY RECOMMENDATIONS

It is evident from the results presented in Model A that the major impediments to the achievement of set developmental objectives in Nigeria are predominantly supply constraints. In order to achieve the optimal objectives of a sustained economic growth and reduction in poverty, a well-structured and coordinated policy mix is needed because of the set of interrelationships that exists within the system. Based on the long-run response analysis and the conclusions drawn from the previous sections, the following policy proposals are suggested in addressing the growth-poverty divergence in Nigeria.

- There should be improvement in the quality of government spending. Fiscal policy expansion should tend towards increasing the component of government expenditure that will lead to sustained growth and also an improvement in the standard of living of the citizens. Expenditure on social development should be channelled correctly to areas where it can be seen as significant investment in the development of human capital and physical infrastructure which will eventually generate employment and increased economic growth. Over the years, fiscal policies in Nigeria have been subjectively decided by the political leadership (which lack consultation and transparency) and government expenditure has been tilted to those components where corruption is not visible.

- The Nigerian monetary sector is still globally uncompetitive. The country's financial system needs to be further strengthened in order to enhance the effectiveness of the interest rate as a monetary policy tool in achieving the long-run macroeconomic objectives. An effective financial system will serve as catalyst to achieving a pro-poor growth through its role as an intermediary in distributing wealth and creating domestic credit within the economy. This will however help boost domestic investment which eventually leads to employment generation in the economy. The financial institutions need to be equipped with a stronger capital base that will enable them to provide sound and reliable credit to the public.

- In order to reap the benefits of a positive external shock, there is an urgent need to increase the level of competitiveness and the productive capacity of the country. The role of infrastructure in boosting the supply-side of the economy cannot be overemphasised. Therefore, investment in basic infrastructure such as power and roads are crucial at this stage of the Nigerian economy's development. With a favourable socio-economic environment, more inflows of capital will be attracted into the country that will ensure a favourable balance of payments position and also stability in the country's currency. A revamp of the non-oil exports is very crucial at this stage of the Nigerian economy. A boost in the manufacturing base will serve as a catalyst to rising levels of employment and a reduction in poverty in the country.

- Poor governance has been the major feature of the Nigerian economy over the past few decades. This aspect serves as a major stumbling block in achieving positive outcomes from any policy intervention. The existence of bad governance can restrict the productive capacity through the level of investment and productivity in the economy. There is an urgent need to refocus the government's role in some certain critical areas of the economy. Government institutions need to be strengthened by improving the coordination that exists within the government structures. The political environment needs to be more stable to attract more private investment. The maintenance of public order, ensuring property rights, and a sound regulatory structure should be prioritised by government. Creating a framework that will increase the consistent provision of public goods and services and the maintenance of infrastructure is also urgently required to achieve the set macroeconomic objectives.

6.4 AREAS FOR FURTHER RESEARCH

It is imperative to note the difficulties encountered in analysing poverty using a macro-econometric model. The study has addressed the major objectives outlined in Chapter 1 by providing a snapshot of the Nigerian economy and the major constraints that exists therein. The study however, acknowledges areas that need further investigation.

The major limitation of this study is the unavailability of quality data for some key macroeconomic variables and these have created a major obstacle in the estimation process. This problem was circumvented through the use of generated indices and dummy variables as proxies for the unavailable data. This has also resulted in limiting the scope of specification of some equations in the model. There is however, a need for improvement and extension of the database. It is also imperative to investigate further in later research some of the specifications adopted in this study.

6.5 FINAL CONCLUSION

This study has revealed empirically that a model with structural constraints will be appropriate in addressing the persistence in growth-poverty divergence in the Nigerian economy. The demand-side fiscal and monetary policy intervention aiming at accelerating domestic production will be more effective in an economic environment with limited or no structural constraints impeding the productive capacity of the economy in absorbing labour employment. Given the past experiences of the Nigerian economy it is evident that there are socio-economic/capacity constraints contributing to the sticky and high level of poverty. Achieving a pro-poor economic growth in Nigeria means designing and implementing a policy framework that focuses on the supply-side of the economy where growth in the long run comes through a boost in capital accumulation or domestic investment which leads to employment generation.

To achieve this, the role played by institutions cannot be overemphasised. Correct institutional framework needs to be put in place through a good leadership structure. With this, an efficient and coordinated policy mix that will boost the growth and development of the country can be achieved. A conducive socio-economic environment through infrastructural development will be a major breakthrough in boosting the productive capacity of the country at this point in the economy.

Moreover, the adoption of the structural supply constraint model as the appropriate model that can address the socio-economic problems in the country means that policy intervention by government should be geared towards boosting the supply-side of the economy.