

## **Deregulation in the Midst of Poverty: The Planning Implications**

**Ola E. Aluko**  
**University of Lagos**

*Deregulation as practiced in most of the developed world had the initial inbuilt support of social security system unlike most of the developing World like Nigeria that will only copy policies without adequately taking care of the side effects on the masses. Deregulation which could be seen as a general move toward reducing the degree of direct government intervention in the economy could not totally be achieved without adequate preparation for the people. As the alarming fact revealed that the poverty level in Nigeria has been extremely high, with about two thirds of the population below the poverty line in 1996 (FOS, 1999) and 75.5 per cent in 2004 (FOS, 2006). When people affected by poverty are unable to lead a decent life, there is no doubt that there will be a decay of the society accompanied by social vices. These issues and many others are the basic consideration of this paper.*

### **INTRODUCTION**

Deregulation is a general move toward reducing the degree of direct government intervention in the economy. In a broad sense, deregulation of an economy may be defined as decreasing the number of administrative obstacles for doing business. Lack of competition is typically the outcome of regulation. Trade liberalization and the information revolution have paved the way for the globalization of financial markets. The pace of financial globalization, however, will depend critically on whether governments get out of the way of the market or whether they try to block the natural course of market forces by erecting new barriers to the globalization of trade and finance. A market-based approach to financial regulation would recognize the self-regulatory aspects of competitive markets and encourage sound institutions while allowing weak ones to fail. There would be little room for political maneuvering. The globalization of trade and finance has tended to weaken the influence of government and to strengthen the influence of the market in determining policy outcomes.

A glance at the relevant literature rapidly shows that there is no general consensus on any meaningful definition of poverty (NISER, 2003; Schubert, 1994). In fact, there are perhaps as many definitions as there are researchers. The former President of the World Bank, Robert McNamara was quoted by Aboyade (1975) to have defined poverty as a condition of life so degrading as to insult human dignity. In the same way Seebom Rowntree was quoted by Abumere (1999) to define poverty as a state of household's command over resources at a level which is insufficient to obtain a basket of goods and facilities judged to be minimum necessities in the contemporary circumstances of the society. The Ninth Report of the Development Policy of the Federal German Government states that people affected by poverty are unable to lead a decent life (BMZ, 1992, 13). The following aspects were listed in the report: "poverty means not having enough to eat, a high rate of infant mortality, a low life expectancy, low educational opportunities, poor drinking water, inadequate health care, until housing and a lack of active

participation in decision - making processes. All these aspects are true reflection of things in Nigeria. While over 70 per cent of Nigerians live below poverty level, over 90 per cent earn below US\$1 per day. The effects of all these are the consequences of deregulation in a global economy.

While most of the developed countries and some developing ones have social welfare packages for their people, there is nothing to rely upon in Nigeria. Only the people in the corridors of power enjoy the affluence of life. The social system contained: old-age pension, support in the case of disability, job accidents, health insurance and unemployment benefit. Can we then say that deregulation is good for the economy of Nigeria?

## **THE TREND OF POVERTY IN NIGERIA**

Poverty level in Nigeria has been extremely high, with about two thirds of the population below the poverty line in 1996 (FOS, 1999) and 75.5 per cent in 2004 (FOS, 2006), which disaggregated into 70.7 per cent for urban areas, and 79.2 per cent for rural areas. The situation would have been worse but for the damping effect the period 1985 to 1992 had on poverty, when the rising trend of the earlier period was reversed, before the upward movement resumed again. Specifically, poverty level went up 50% between 1980 and 1985, going from 28.1% to 46.3%. Between 1985 and 1992, there was a drop of about 4 percentage points to 42.7%. However, by 1996, the level jumped to 65% an increase of more than 50% of the 1992 figures.

During the four survey years spanning sixteen year period, 1980-1996 conducted by Federal Office of Statistics (1999), the proportion of the core poor, moved from 6.2% in 1980 to 12.1% in 1985, increasing slightly to 13.9% in 1992 and then shooting up to 29.3% in 1996. The estimated annual increase in poverty level for the core poor in the first period was 1.2 percentage points, which was almost one quarter of the 4 percentage points recorded for the last period i.e. 1992 - 1996. These figures mean that while only 4.1 million persons were core poor in 1980, the group had increased to 30 million by 1996.

The moderately poor, similarly had a sharp rise from 21.0% in 1980 to 34.2% in 1985, dropped by about 6 percentage points in 1992 and finally moved to 36.3% in 1996. Thus, the reduction in poverty from 1985 to 1992 manifested only among the moderately poor. Despite this reduction however by 1996, the size of the group had become 37.1 million, up from 14.2 million in 1980. In Nigeria, there has been a consistent increase in poverty among the people. The incidence of poverty increased sharply both between 1980 and 1985 and between 1992 and 1996. However, there was a decrease in poverty level between 1985 and 1992. The figures were 28.1%, 46.3%, 42.7% and 65.6% for 1980, 1985, 1992 and 1996 respectively (FOS, 1999). The 27.2% for 1980 translated to 17.7 million persons whereas there were 34.7 million poor persons in 1985. Despite the drop in poverty level in 1992, the population in poverty was about 5 million higher than the 1985 figure. By 1996, the population in poverty had increased sharply to 67.1 million.

Over the 16-year period, poverty was at a higher level in the rural areas than in the urban areas. But the gap in the levels fluctuated indicating that the two sectors had different experiences in the period. The gap was 11 percentage points in 1980, 13 percentage points in 1985, 8 percentage points in 1992 and 11-percentage point in 1996.

Urban poverty moved from 17.2% in 1980 to 37.8% in 1985 but remained at the same level in 1992. By 1996 it had risen sharply to 58.2% whereas rural poverty rose rapidly between 1980 and 1985, the figures being 28.3% in 1980 and 51.4% in 1985. There was a decrease of above 5 percentage points between 1985 and 1992, but there was a big jump from the 46% in 1992 to 69.3% in 1996.

## **THE ESSENCE OF DEREGULATION**

One of the basic elements of deregulation is the creation of a business environment supportive of enterprise performance and thus leading to significant gains in terms of competitiveness and welfare. The gist of deregulation is the inversion of the existing type of relations between the state and enterprises. The pattern of permission, with enterprises applying for government's favourable decisions on allocation,

must be replaced by the pattern, in which the government provides sufficient capacity for enterprises to take allocation decisions independently. To ensure competitiveness and welfare gains from deregulation, the government must pursue consistent and predictable policies aiming at a creation of reliable institutional framework for enterprise performance. A failure to do so would strongly impede the real sector development and thus throw the country back in crisis.

Why is it so difficult to make an economy more competitive, and deregulation so hard to achieve? In Nigeria, the beneficiaries of regulation feed fat on the profit made with little or no services rendered. While many areas of the economy need to be deregulated like the energy sector, communications, airlines, transport, ports and others, there is need for corresponding provisions of social security since most people would pay for the economic rent of the goods. Most of the industrial countries like the U.S. and the UK have started long ago a process of vast deregulation. New Zealand and Ireland followed their example with flying colours. Other countries as well are proceeding with reform of economic structure. Japan is anxious to tackle its own economic reform, carefully listening to and learning from the successes and failures of other countries.

We are now in the midst of accelerating globalisation of the world economy. In order to ensure that further development of each economy is attained and the global economy runs smoothly, it is imperative that each country's economy functions in harmony with the international community. Lack of competition is typically the outcome of regulation. Taxi cabs in European cities are expensive because the number of licences is strictly controlled. As a result of deregulation, taxis in Ireland are cheap. Public notaries in many countries provide virtually useless services for extremely high fees. Fees are high because access to the profession is tightly controlled by the public notaries themselves—this is how regulation protects them. For some time after US airlines had been deregulated, flying from New York to Los Angeles (a 5 hours flight) was much cheaper than flying from Zurich to Frankfurt (a half-hour trip). And so was the cost of a coast-to coast phone call in the US compared with a domestic long-distance call in France. Regulations create rents; deregulation is about reducing them and redistributing them from overprotected minorities (notaries, taxi drivers, airline pilots and telecom, or electricity workers) to the general public.

One of the benefits of deregulations in Nigeria is the communication sector which got the people out of the stronghold of Nigerian Telecommunications. But at the same time, the deregulation of the oil sector is still a source of concerns to the people as there seem to be no end to fuel prices. Frivolous excuses are given every time to justify the increase and sometimes without any formal announcement again. The pump price of petrol has just been increased arbitrarily from #65 to #80, #90 or even #100 again without any prior notice. The implications of this on the economy are that prices of goods will increase again without any corresponding increase in the income of people, and the poverty continues.

Some commentators, even those who are inclined to agree that in many instances the adverse effects of regulation out-weight its benefits, have suggested that it does not. Deregulation, they say, flies in the face of a long established trend toward increasing government involvement in the detailed workings of the economy. Deregulating product markets has an additional benefit: it makes deregulating the labour market much easier. In the labour market, regulation takes the form of labour protection laws which increase workers' power when they bargain with firms. Bargaining is mostly about the distribution of excess rents between the firm and its workers. In a competitive industry, where there are no excess rents, there is little to bargain about. Evidence gathered by the OECD shows a strong positive correlation across countries between the degree of competition in the product market and the extent to which labour market regulations protect workers.

In some cases, however, regulation works in the opposite direction: it keeps the price of public services artificially low, rather than too high. This is the case, for instance of railway fares throughout continental Europe, which are subsidized by the government: fares are too low, but taxes too high. Here again, winning the battle for deregulation requires convincing consumers that they stand to benefit: railway fares will be higher, but taxes lower. So only those who actually use trains will pay the costs, rather than the non-travelling taxpayer. The general believe is that piecemeal deregulation is destined to fail. To gather enough political support, deregulation must hit the entire economy, not selected industries, one by one. And, to the extent that deregulation eliminates subsidies to minorities, it should be

accompanied by tax cuts for all. The possibility of this general believe is very doubtful in Nigeria as the nature of the economy is different from that of the developed world.

## **DEREGULATION AND POVERTY IN NIGERIA**

The Nigerian economy is not based on the industrial nature of the developed countries and therefore there are no bases for comparison and total adaptability of the deregulation policy. The abject poverty is too high for people to grapple with. And again there are no social welfare packages to cushion the effects of economic rents. The recent increase in the fuel prices has been termed an invitation to chaos by the Nigerian Labour Congress (NLC) President. One of the problems of deregulation in Nigeria is that while more profits are made from the different sectors, the gains are not felt by the people. There is more corruption in the corridors of power. The rich continues to enjoy the affluence of life while the poor become poorer. Sometimes ago a Governor was caught with #300million at an airport in London, yet no State in Nigeria could be declared to have satisfied his people with all necessities of life. Every time the government in power would continue to appeal to the people to bear with their stringent policies, promising things would soon be better, but for over 40 years the suffering continues. Promises every time but no end to the suffering of the people.

All the arguments for deregulation and privatization of the economy in Nigeria include better maintenance of the basic infrastructure and the struggle against poverty.

- more confidence in the private sector
- higher efficiency
- better allocation of resources
- more freedom by more individualism and pursuit of profit without state control
- more *eqidad* by equal participation of the market
- more jobs opportunities

That corruption would be consistently fought by means of more transparency and predictability of the government's decisions. The energy sector has defied all solutions as opposition from the workers continues to frustrate government efforts. The question is, is there a way to weaken this opposition? Public utilities offer a good example. Whenever a government attempts to liberalize the electricity industry, unions and firms join forces in opposing deregulation. Workers, as well as management, oppose deregulation because it eliminates their greedy collection of bribes. But what if the government, instead of fighting the electricity industry alone, liberalizes all markets at once with a big bang? Then electricity workers will realize that what they stand to gain, as consumers, from lower prices throughout the economy, more than compensates their anxiety and loss of jobs.

## **IMPLICATIONS ON PLANNING**

Poverty and environment are often seen as inextricably linked, with the need to eradicate poverty as an initial step to protecting environment. In all the various definitions of poverty, some of the most notable features are the consequences that it imposes on the environment, which the physical planners have to combat. The condition of life so degrading as to insult human dignity often result to slums and ghettos. When people affected by poverty are unable to lead a decent life, there is no doubt that there will be a decay of the part of the city. And when there are inadequate and unfit housing, there will be the disaster of homelessness, unplanned and sprawl nature of city growth.

In physical planning, when we talk of development control, one of the most notable features of many Nigerian cities is the very disorderly nature of the cities. There has been a phenomenal growth of urbanization resulting in our major cities growing and expanding in an unplanned manner. The central parts or core areas of most cities are decaying while the sections are increasingly becoming slums. Many buildings have been and are being constructed without approved layouts, illegal structures springing up arbitrarily, open spaces are

disappearing fast and many parts of Nigerian cities lack access. Some of these acts are the consequences of poverty. For it is a well know idea in planning that the well laid out areas occupied by the high income people are the best maintained and well kept parts of the cities. The high cost of land, rent and property enjoyed by the neighbourhood is due to the nature of the environment. So we can easily discern the relationship between environment and poverty.

Compounding the problems especially in our urban areas is the alarming rate at which urban sprawl has been developing haphazardly. The household's inability to provide sufficient income to satisfy its needs for food, shelter, education, clothing and transportation as poverty is defined often result in cities continued growth at a rate faster than the types of facilities initially installed. In essence some of the problems of the environment is as a result of poverty. The rapid population growth and physical expansion of cities have been accompanied unplanned urban sprawl, environmental pollution, deterioration, deficiencies in modern basic facilities such as water, electricity, hospitals, sewage municipal and community facilities, and general urban decay As increased poverty and urbanization exert more pressures on urban facilities, most Nigerian cities tend to have lost their original dignity, social cohesion and administrative efficiency.

## CONCLUSION

This paper has tried to review the economic policy of deregulation in Nigeria by examining the issues vis-a vis the poverty implications. It noted that deregulation as practiced in most of the developed world had the initial inbuilt support of social security system unlike most of the developing World like Nigeria that will only copy policies without adequately taking care of the side effects on the masses. Deregulation which could be seen as a general move toward reducing the degree of direct government intervention in the economy could not totally be achieved without adequate preparation for the people. As the alarming fact revealed that the poverty level in Nigeria has been extremely high, with over two thirds of the population below the poverty line. When people affected by poverty are unable to lead a decent life, there is no doubt that there will be a decay of the society accompanied by social vices.

## REFERENCES

- Aboyade, A. (1975) "On the Needs for an Operational Specification of Poverty in Nigerian Economy", *Proceedings of the 1975 Annual Conference of the Nigerian Economic Society (NES)*, pp. 25-34.
- Abumere, S. I. (1999) "Spatial Dimension of Inequality and Poverty", *Graduate Studies Capacity Building Programme*, CEAR, U.I, Ibadan.
- Aigbokhan, B. E. (1999) "The Evolution of the Concept of Poverty and its Measurement in Economic Thought", *Graduate Studies Capacity Building Programme*, Centre for Econometric and Allied Research, University of Ibadan, Nigeria.
- Aluko, Ola, (2008) *Housing and Urban Development in Nigeria*, Kins, Ibadan .
- Aluko, Ola (2008) Gender, Poverty and the Environment, paper presented at EBAN Conference, October 17<sup>th</sup> - 18<sup>th</sup> .
- Aluko, Ola, (2007) "*Housing Provision and Development in Nigeria: The Dashed Hope of the Poor*", paper presented at National Conference on Challenges of Shelter and Environment for Nigeria in the Coming Decades, organized by College of Engineering and Environmental Sciences (CEENACON), Imo State University.

Aluko, Ola (2007) "The Effects of Globalization on the Construction Industry in Nigeria" a paper presented at the 1<sup>st</sup> International Conference on Globalization and Capacity Building in the Construction Industry of Developing Nations on the Theme Challenges of Globalization and Indigenous Capacity Building in the Construction Industry of Developing Economies, at Nigerian Institute of Advanced Legal Studies, University of Lagos, Akoka, Lagos, between 1<sup>st</sup> and 5<sup>th</sup> December.

Bardhan, Pranab (1996) "Efficiency, Equity and Poverty Alleviation: Policy Issues in Less Developed Countries", *The Economic Journal*, 106, September, 1344-1356.

Baulch, Bob (1996a) "The New Poverty Agenda: A Disputed Consensus", *IDS Bulletin*, 27:1, 1-10.

Baulch, Bob (1996b) "Neglected Trade-Offs in Poverty Measurement," *IDS Bulletin*, 27:1, 36-43.

Beneria, L. and Bisnath, S. (1997) *Gender and Poverty: An Analysis for Action Gender in Development*, Monographs Series, 2, New York: UNDP.

BMZ (1992) Federal Ministry of Economic Co-operation and Development: Ninth Report on German Government Development Policy, Bonn.

Dasgupta, P. (1998) "The Economics of Poverty in Poor Countries," *Scandinavian Journal of Economics* 100:1, 41-77.

Federal Office of Statistics (1999) "Poverty Profile for Nigeria 1980 - 1996".

Federal Office of Statistics (2006) "Poverty Profile for Nigeria 1996 - 2006".

Greeley, M. (1994) "Measurement of Poverty or the Poverty of Measurement"? *IDS Bulletin* 25:2, 50-57.

Mabogunje A. L. (2007) *Developing Mega Cities in Developing Countries*, being text of a lecture delivered at a Colloquium organized by the 2007 Graduating Class, Department of Geography, University of Lagos on Wednesday, 12 September, 2007.

Montgomery, Mark R., Richard Stren, Barney Cohen and Holly E. Reed (eds.) (2004), *Cities Transformed: Demographic Change and its implications in the Developing World*, (London: Earthscan) 529pp.

Ogwumike, F. O. (1991) "A Basic Needs Oriented Approach to the Measurement of Poverty in Nigeria", *NJESS*, Vol. 33, no 2, 105-119.

Schubert, Renate (1994) "Poverty in Developing Countries: It's Definition, Extent, and Implications" *ECONOMICS FRG*, Vol. 49/50.

Sen, A. K. (1981) *Poverty and Famines: An Essay on Entitlements and Deprivation*, Oxford: Clarendon Press.

UNDP (1990) Human Development Report, Oxford University Press, New York.

UNDP (1995) Human Development Report 1995, Oxford University Press, New York.

UNDP (1997) Human Development Report 1997, Oxford University Press, New York.

World Bank (1994) Enhancing Women's Participation in Economic Development, *Policy Paper*, World Bank, Washington D.C.

World Bank (1995) World Development Report, Washington D.C.

World Bank (1995a) Social Dimensions of Adjustment: World Bank Experience, 1980-1993, Washington D.C.