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Issues in Redistributive Expenditure Management and Income Inequality in Nigeria

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Abstract
The debate on the level of social inclusion and income inequality is becoming severe globally. That social and political crises are on the rise is unarguable and whether this is a product of widening income inequality is a subject of investigation. Therefore, this review is aimed at highlighting the issues in redistributive expenditure management and its role in mitigating income inequality. A review of literature and documents is adopted in exploring how the application of the principles of public expenditure management (PEM) - fiscal discipline, allocative efficiency, and operational efficiency - can be used to assess the commitment of the governments to redistributive spending geared towards empowering the poor and consequently bridge the income inequality gap. Income inequality seems to lack the desired attention in developing countries like Nigeria. Efforts towards making fund available to redistributive expenditures to empower the poor aimed at reducing income inequality appear to be discouraging. Therefore, to improve the situation, fiscal risk, allocative inefficiency, and institutional weakness in the provision of public goods and services in general and social (education and health) goods and services in particular need to be controlled. There seems to be a lack-lustre commitment on the governments in developing countries in providing a sustainable allocation to social goods and services. Additionally, the resources available for education and healthcare financing appear to be adversely affected by corruption. Nevertheless, empirical research is required to know the strength of these relationships in Nigeria.

Keywords: Redistributive expenditure, income inequality, inclusive development

JEL Classification Codes: D63, H51, H52

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Introduction

The debate on social inclusion and inequality and how these affects harmonious existence in the society appears to have occupied the centre stage of global policymaking. The escalation in inequality is one of the global issues claimed to be responsible for mounting social and political crises (World Bank, 2006). Oxfam (2017a) alerts that the wealth of only eight men equals the value of the poorest half of the population of the world, estimated at 3.6 billion people. Peaceful co-existence in the society with this phenomenon can be a source of concern as the rich are perceived with resentment by the poor. To worsen the situation, the global economy has shown a weak outlook: After more than eight years of experiencing a global financial and economic crisis, recovery has been frail and, the only way out is to adopt co-ordinated policies that are inclusive {International Labour Organisation (ILO), 2016}. However, the level of commitment of the world leaders to the philosophy of inclusivity seems to have generated controversies.

It is noted that "if we are to secure a sustainable economic recovery, we need to ensure that nobody is left behind" (Thyssen, 2017, par. 16). The Global Risk Report by the World Economic Forum involving over 750 experts assessed 30 global risks and 13 underlying trends in the global economy (WEF, 2017a). Rising income inequality and wealth disparity came as number one of the five top risks identified; the other four, based on their severity, are changing climate, increasing polarisation in societies, rising cyber dependency, and ageing population (WEF, 2017a).

Nigeria's income inequality level has remained high (Oldekop et al., 2016; WEF, 2017b) in different parts of the world. Nigeria has been around 48% over the past 7 years and recorded less than 40% for the past 30 years (World Income Inequality Database, WIID3.4, 2017). Its inclusive development index rating has also not improved. Nigeria's inclusive development index (IDI) absolute score in the 2017 report was put at 3.07 (on a scale of 1 representing lowest score and 7 signifying best score), and the 5-year IDI trend was put at -2.99% between 2011 and 2015. The negative 5-year IDI signifies a continuous decline in the level of inclusive growth. In 2016, it was recorded that five richest Nigerians accumulated a total wealth of about $29.9 billion which was more than enough to lift all Nigerians living below the extreme poverty line of $1.90 from poverty in one year (Oxfam, 2017b).. As stated by Aigbokhan (2017), Nigerian experience has shown that the increase in GDP over the years has not impacted the poor. This is likely attributable to pro-rich dimension the economic growth has taken over the years thereby shifting much of the benefits of growth to the rich.

Designing a fiscal policy framework that is anchored on fair redistributive mechanisms are important to social justice (De Muro, 2016). This is to empower the poor and ultimately alter the course of income inequality (Mayer, Lopoo, & Groves, 2016). The outcome is, however, dependent on the disposition of policymakers towards social expenditures and public expenditure management process. As observed by Gates (2018), developing countries like Nigeria pay less attention to human capital development through education and healthcare than physical infrastructures. Also, some critiques see social costs by the government as "a cost of forgone output" arguing that such cost does not add productive returns to the economy (Marinkov, 2015, p.77). This debate is far from ending; therefore, it remains an essential issue in policymaking and research.

Different studies (Muinelo-Gallo & Roca-Sagales, 2013; Afonso, Schuknecht, & Tanzi, 2010; Li, Xie, & Zou, 2000) have established a link between redistributive spending and income inequality. However, Korpi and Palme (1998) have posited that paradox exists in redistribution as the more the policies are targeted at the poor, the less likely the poverty level is. Huber and Stephens (2012) found otherwise in Latin America and, by extension, in developing economies because of dependency trap (Marx et al., 2013), redistributive inefficiency (Van Oorschot, 2002), and Robin-Hood paradox (Wong, 2017). It can be deduced that government's priority in investing in the social sector is key in realising social objectives.

Various challenges exist in public expenditure management (Kasim, 2016). Some of these arise from fiscal risk due to fiscal indiscipline (PwC, 2017), inappropriate allocations to social spending, and poor accountability and transparency emanating from poor institutional quality in the operational implementation of budgets (Tommasi, 2009). Weak institutions perhaps could make the government derail its set social objective.

From the foregoing, the paper is aimed at reviewing related literature to highlight policy issues in redistributive expenditure management of government and its influence on income inequality. The remainder of the study is divided into the concept of income inequality, the concept of redistributive expenditure management and its connection with income inequality, practical issues in redistributive expenditure management and income distribution, and conclusion and implication of the study.

Income Inequality

Inequality, one of the key elements of social inclusion, has assumed the centre stage of global discourse. This is seemingly connected to its relevance in entrenching peace in the face of mounting social and political concerns (World Bank, 2006). What then is "inequality"? The term is somewhat complicated because it can prompt a reasonable number of the observers' varying ideas based on criteria such as training, dispositions, and prejudices. Nevertheless, a few perspectives about inequality are considered herein.

According to Powell (2011, p.1), inequality unarguably represents "a departure from some idea of equality". It gives an idea of discrimination or dichotomy between individuals, households, and countries. Many inequality perspectives are income inequality, wealth inequality, inequality of standard of living, inequality of rights, and inequality of opportunities (De Muro, 2016). Similarly, Cox (2017) opines that inequality can take different shapes, which include class, gender, race, ethnic identity, and economic inequality. Economic inequality can be further broken down into income inequality, wealth inequality, expenditure inequality, and inequality of opportunity (Liu, 2005; Neckerman & Torche, 2007; Powell, 2011; WEF, 2017a; Frankfurt, 2015).

Economic and political research tends to dwell most on income inequality. De Muro (2016) opines that this is attributable to income inequality's overarching role as other forms of inequality are believed to be related to it. The pivotal position of income inequality in relation to other forms of inequality has placed it in attention (International Monetary Fund [IMF], 2014; Joumard, Pisu, & Bloch, 2012) thus makes it a vital issue of discourse. Income inequality denotes a gap in earnings between households and, as noted by Fadda and Tridico (2016) and Zhou and Qin (2012), represents the distribution of income based on both functional and personal dimensions. While functional inequality is centred on capital and labour income distinctions, individual inequality or personal inequality shows the distribution or dispersion of income across households (Fadda & Tridico, 2016). Income inequality based on household, which is the more studied income inequality type, is normally indicated by a ratio adopted by Corrado Gini known as Gini Coefficient; where a higher coefficient signifies more income inequality.

Redistributive Expenditure Management and Income Inequality

Redistributive expenditure as a component of fiscal policy is a redistributive tool that governments have used to achieve some welfare objectives. One of these objectives is income inequality, prompting adopting the right fiscal policy mix to address the imbalance in income distribution. Sarantides and Kammas (2016) define fiscal redistribution as the efforts to reduce income inequality via taxation, transfers and public spending. Fiscal redistribution of income is undoubtedly a subset of overall fiscal policy. Lopez, Thomas, and Wang (2008) note that fiscal policy is an essential tool for allocating resources to ensure a balance between human capital, physical capital and natural capital. This is because the economy needs these three vital assets in the right mix for sustainable growth. Lopez *et al.* (2008) also note that tax policies and public spending profile determine the accumulation and depletion of these key assets.

It is further argued that "fiscal policy is powerful enough to influence macroeconomic expansion and contraction and to affect intergenerational transfers through debt, social security, taxation on extractable resources and pollution, and subsidies and expenditures on mitigation and adaptation" (Lopez *et al.*, 2008, p. 17). Similarly, the fiscal policy framework is anchored substantially on tax policy and government policy on public expenditures (Mankiw, 2003; IMF, 2014). Benabou (2000) argues that the economy benefits if the government spends on redistributive spending on health and education, which is said to improve human capital quality. Similarly, Saint-Paul and Verdier (1993) assert that redistributive mechanisms that mitigate the losses attributable to market imperfection are favourable to growth and welfare. Income inequality is undoubtedly one of the components of social welfare.

The spending policy on social expenditures is part of the overall public expenditure policy of the government. This makes public financial management in general and public expenditure management (PEM) in particular crucial. Public expenditure management is an aspect of public finance that deals with all public spending policies that revolve around three key objectives of fiscal discipline, allocative efficiency and operational efficiency (Tommasi, 2009, Compos, 2001). PEM differs from conventional budgeting (CB) tool in several ways. However, the striking distinction is that while the desired outcome to society is the utmost concern of PEM, CB's major objective is to legalistically implement the budget based on rules to achieve output without recourse to the ultimate outcomes (Compos, 2001). Therefore, redistributive expenditure management is a key budgeting approach to adopt since the major objective of social cost budget is not output but also to ensure that the welfare outcomes (one of which is bridging income inequality) are achieved.

The income gap in some countries is a serious matter for policymakers (Bamford, 2015). Redistributive mechanisms are thus necessary to curb its excesses when the state incurs social costs for the good of the poor (Muinelo-Gallo & Roca-Sagales, 2013). The level of fiscal redistribution is largely dependent on the strength of market inequality (Fadda & Tridico, 2016). Studies have been carried out on fiscal redistribution and income inequality in different jurisdictions. For instance, Aziz, Laila, and Prihantono (2016) found that redistribution is negatively related to income inequality, but Saint Paul and Verdier (1996) showed that higher inequality might not attract more redistribution of income. Woo (2011) reported that higher income inequality leads to more volatility in fiscal redistribution policy. This shows that redistributive expenditures can significantly lower income inequality in both developed and developing countries.

Redistributive spending plays more role in redistribution than direct cash transfer (Goni, Lopez, & Serven, 2011). Cash transfers have been a subject to abuse as it is always difficult, most especially in developing countries, to get it across to "poorest segment of the society without corruption and other leakages" (Komolafe, 2016, par. 19). Consequently, government spending on education, healthcare, and other social goods is vital to achieving favourable income distribution (Brandolini & Smeeding, 2009; Garfinkel, Rainwater, & Smeeding, 2006). In-kind benefits can alter the inequality of market rewards (IMF, 2014). Also, increased access of citizens to education and health is contended to have the potential of reducing income inequality by reducing disparity in education outcomes and market earnings (De Gregorio & Lee, 2002; Roll & Talbott, 2002; Harberger, 2003).

Conceptually, government actors are supposed to be accountable to the public in managing the resources entrusted to them for optimal results. This is not always the case, perhaps as a result of institutional failure, one of which is corruption. Corruption which is generally believed to be the use of public office for personal benefits

(Dincer & Gunalp, 2011). Dincer and Gunalp (2011) opine that corruption influences both the rate of growth in income and income inequality because, as noted by Gupta, Davoodi, and Alonso-Terme (2002), the proceeds of corruption are always likely to go to the rich income group who are politically connected and economically powerful than the poor. It is further argued by Uslaner (2008) that economic inequality and low trust is responsible for the inequality trap as corruption leads to low trust and low trust, in turn, leads to more inequality.

Research has been done on this phenomenon (Gupta et al., 2002; Chong & Calderon, 2000; Li, Xu, & Zou, 2000). It is a serious governance issue with grave effects on government spending through "rent extraction of bureaucrats and rent-seeking of private agents" (Dzhumashev, 2014, p.404) thereby distorting the efficiency and effectiveness of public spending arising from the flawed budget processes (Blackburn, Bose, & Haque, 2006; Keefer & Knack, 2002; Mauro, 1998). Spending in government is believed to be suboptimal because of corruption (Dzhumashev, 2014). Similarly, some researchers such as Aidt (2003) and Celentani and Ganuza (2002) studied the effect of institutions on the effectiveness of governance. Some of these studies' recurring themes are on the effectiveness and efficiency of bureaucratic components, law and order, and democratic institutions. Aidt (2003) and Celentani and Ganuza (2002) showed that the degree of corruption is a function of governance structure's effectiveness.

Similarly, Dzhumashev (2014) argues that the institutional structure's ability to curb weaknesses or otherwise of the system determines its cost – the costs of corrupt behaviour to the culprit. Institutional quality appears to have occupied a significant position in public spending and its outcomes. Since the strength of institutions differs from country to country, there is a need, therefore, a need to investigate this further.

Issues in Redistributive Expenditure Management and Income Inequality in Nigeria

For any government to achieve its roles to its citizens, two things are essential: (i) sufficiently and appropriately collecting resources from the economy and (ii) allocating(distributing) and applying the resources collected in a responsive, efficient, and effective manners (Richard & Daniel, 2001). While these two objectives relate to public financial management, Richard and Daniel (2001) note that it is the application of resources that pertains to PEM which is concerned with using the money collected directly and indirectly from the public in ways that represent the preferences of the people.

Tommasi (2009) observes that public expenditure management entails expenditure policy of the government and societal choices and as a budgetary tool, planning, management, and control of public expenditure are necessary processes that can enhance the achievement of desired outcomes. The unsustainability of conventional or incremental budgeting has resulted in a paradigm shift to PEM, which adopts new, improved budgeting approach such as zero-based and performance budgeting system (Campos, 2001).

The three objectives of PEM are aggregate fiscal discipline, allocative efficiency, and operational/technical efficiency. These key objectives are explained thus:

(i) Maintenance of aggregate fiscal discipline: Fiscal discipline relates to setting up fiscal controls aimed at setting expenditure ceiling. As noted by Richard and Daniel (2001), total public expenditure ceiling ensures that government has disciplined totals which allow for macroeconomic stability, sustainability, and efficient management of fiscal risks. It is important to note that one aspect of sustainability relates to budget deficits and the attendant amount of borrowing and the inherent interest servicing costs, and how favourable this can be in short-term, medium-term and long-term periods.

(ii) Allocation of resources in line with government priorities: The allocation efficiency of the budgetary process deals with distributing the resources of government in accordance with priorities and needs of the people (Richard & Daniel, 2001). There are actually competing sectors and the political dimensions as to who gets what determines how successful this objective can be.

(iii) Operational and technical efficiency: Promoting efficient delivery or output is dependent on the capacity to implement the set programmes and achieving results at the minimum costs (Richard & Daniel, 2001; Tommasi, 2009). In managing expenditures at this level, the key element necessary for its success is institutional quality, which includes the level of corruption and nature of bureaucracy in a country.

The medium-term expenditure framework (MTEF) has been adopted and is critical in adopting the PEM framework. It is believed to be a strategic policy and expenditure framework that provides better input for taking decisions on budgetary allocation based on the public's priority (Anipa, Kaluma, & Muggeridge, 1999).

As opined by Kasim (2016), a well-implemented MTEF should provide a linkage between governments' priorities and budget as well as ensuring that plans are within a sustainable spending limit with a clear indication of any trade-offs between the competing public objectives, linking budgets with policy preferences, and enhance outcomes through increased accountability, transparency and more certainty of resource availability. Figure 1 depicts the PEM framework's clear view and its practical difficulties in achieving fiscal discipline, allocative efficiency, and administrative accountability in Nigeria.

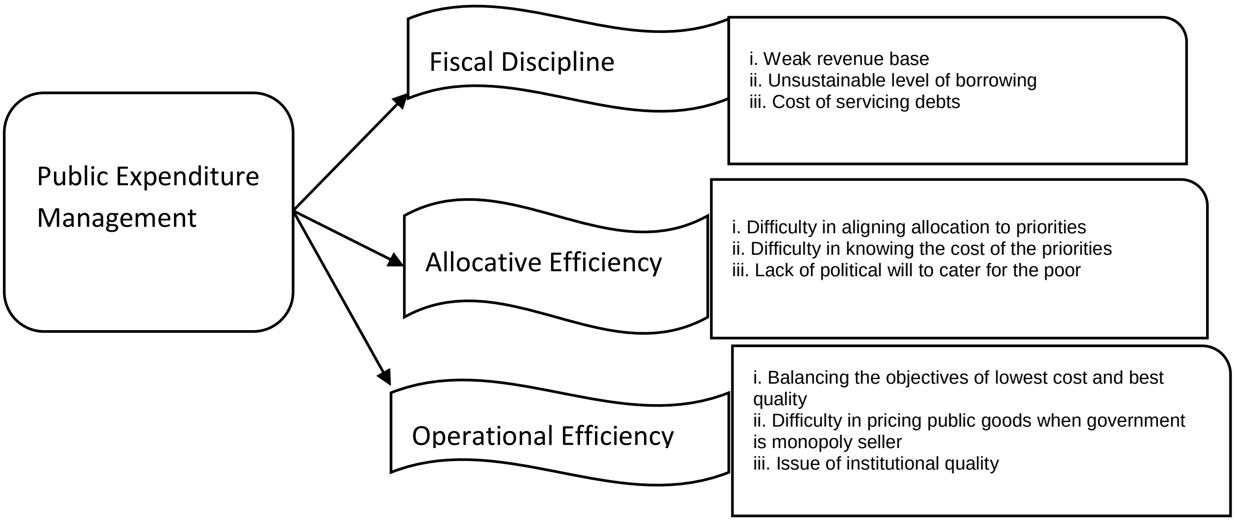

Figure 1: Public Expenditure Framework in Nigeria (Adapted from Compos (2001) and Tommasi (2009)

Despite the adoption of MTEF, which is an arm of PEM, Nigeria's fiscal discipline seems to be a mirage. This is attributable to increasing debt burden and weak non-oil tax-generating capacity. PwC (2017) notes that apart from the rising debt profile, which is although, at an acceptable threshold, the attendant cost of servicing is becoming alarming. The debt service to revenue ratio stands at about 50% in 2018, which is above the acceptable threshold of 25% (set by IMF) with such trend in force since 2015 (PwC, 2017). What is even more troubling is the insufficient non-oil tax revenue-generating capacity standing at about 2.3% of the GDP in 2016, which is far below the 15% average for sub-Saharan African countries.

Figures 2 and 3 show the trend of debt and its attendant servicing costs. These indicate that the burden of debt servicing cost can have a significant impact on the resources of a country that can materially impact productive spending such as education and health. What seems to be a concern is that social costs always appear to be at the receiving end when debt stock rises.

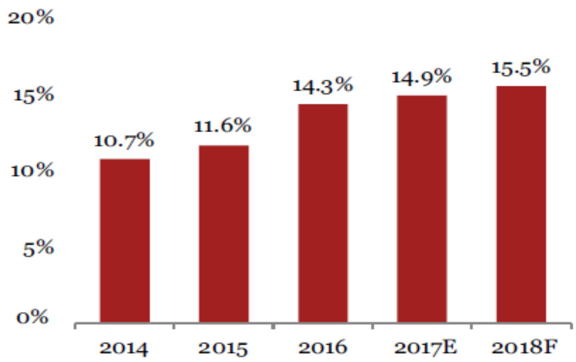

Figure 2: Nigeria's Total Debt to GDP Ratio
Source: PwC (2017)

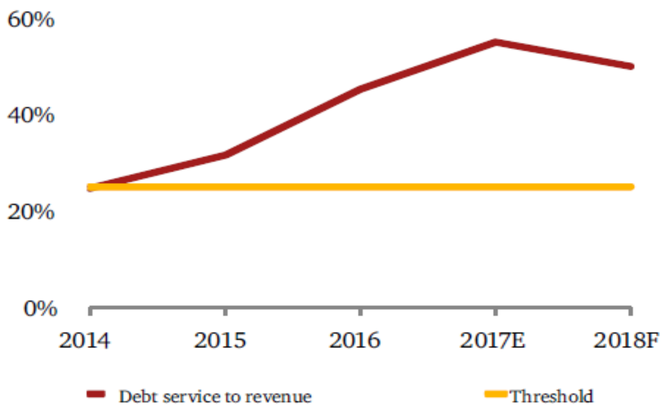

Figure 3: Debt Service to Revenue Ratio
Source: PwC (2017)

Table 1 and Figures 2 and 3 show that since 2014, the ratios of social costs to GDP have declined and, consequently, have no noticeable impact on income distribution. It can be intuitively observed that the increasing debt servicing burden can have a serious impact on resources available to social costs since all the spending is made from one pool.
In considering allocative efficiency, several questions come to mind. Compos (2001) stated some of these questions are: Do the allocations by the government represent the most essential needs of the country? Is the public expenditure allocated to the right things? Are allocations made with considerations of the welfare of the poor? In an attempt to relate these questions to Nigeria, it appears that the Nigerian budgeting processes do not consider (with the attention it deserves) the welfare of the poor as the top-down approach is usually adopted. Allocating resources to the right ministries and activities are still perceived to be a difficult task.

Looking at performances on Table 1, there is an indication that there is a lack of required commitment on the part of the government. For instance, as can be seen in Table 1, the percentage of education and health expenditure has never been more than 1 *per cent* of GDP compared to the World Health Organisation (WHO) minimum threshold. Nigeria's education spending has not been close to the United Nations' required threshold for education spending.

Table 1: Percentage of Social Cost to GDP

Year	Health/GDP	Education/GDP
1981	0.44%	0.99%
1991	0.14%	0.28%
2001	0.65%	0.87%
2011	0.43%	0.58%
2015	0.30%	0.37%

Source: Authors, calculated from CBN (2017)

It is important to note that apart from the difficulty involved in costing programmes and government activities, it is also difficult to know the actual value for money, especially when the government is the only sole provider of services. This situation does not always provide a competitive environment, neither does it provide clear yardsticks for measurement.

Another serious issue with public expenditures on education, health, and other redistributive spending is expenditure management's operational inefficiency. This is attributable to low institutional quality, which has given rise to corruption and rent-seeking in the public sector. The Transparency International's corruption perception index for Nigeria has not improved over the years as a result of the high rate of corruption in the system. In Figure 4, the Index which represents how accountable and transparent the country has been below 0.30 on the scale of 1 for many years.

Figure 1 shows that the level of accountability of the governance system in Nigeria is still weak and when corruption is high the poor suffer since they are at the receiving end of corruption. This accounts for more income inequality. The World Bank's (2017) reports of 2015 Afrobarometer survey revealed that at least 78 percent of Nigerians believe that the fight against corruption has been weak. It implies that the impact of government spending primarily social component on the poor and by extension on income inequality remains questionable in the face of corruption. Corruption seems to be on the rise, and its impact on the relationship between income inequality (Delavallade, 2006) and redistributive expenditures demands investigation in developing countries since corruption has been argued to be a bane of development in the emerging economies.

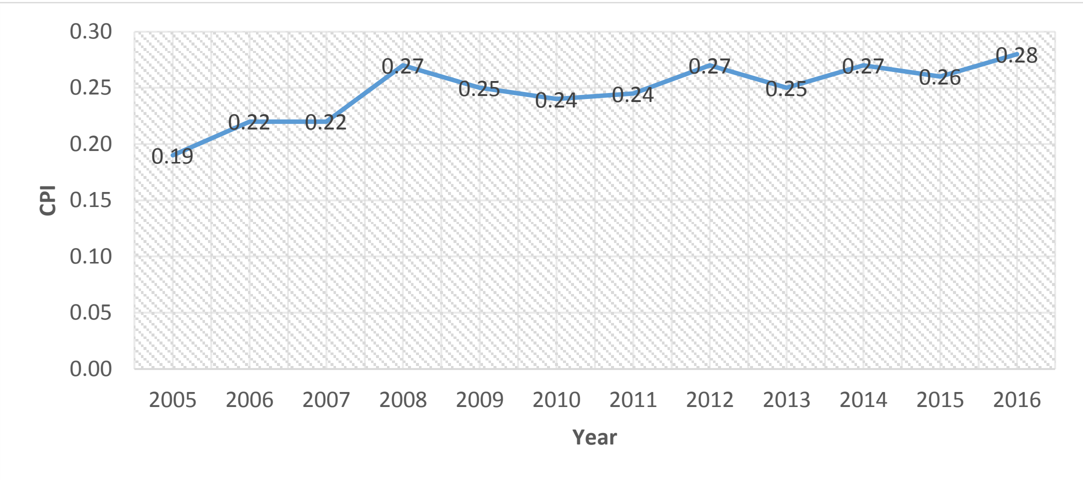

Figure 4: Corruption Perception Index (Transparency International, 2005 - 2017)

In 2016 for instance, Nigerian corruption perception index (CPI) stood at 28 (on the scale of 100), which is far below the global average score of 43 (Transparency International, 2017). Although Nigeria's ranking has remained at 136 out of about 176 countries surveyed for three years since 2014, the CPI of 28 in 2016 represented the highest score in decades (Trading Economics, 2017; Transparency International, 2017). This throws a bad light on how effective the fight against corruption and how endangered the citizens are accessing public goods.

An accountable and transparent government earns the support of the people through increased tax compliance which ultimately translates to higher revenue. However, the trigger of tax carry can influence income inequality (Duncan & Sabirianova-Peter, 2016). One common response is tax evasion which is more severe as a result of the large informal economy. When the income tax system is weak, and little attention is given to resource allocation favouring the social sector, a surge in income inequality becomes phenomenal. This is visible in the value of Gini Coefficient of Nigeria which has swung only a little below 50% since the early 2000s.

Complexities in REM in Developing Countries

The value of a country's GDP should give an idea of the revenue capacity, such as a nation can generate. This is, however, adversely affected by the fiscal capacity to raise such revenue. Institutional weaknesses ranging from tax noncompliance, lack of creativity in revenue generation to leakages in the revenue streams have severely affected developing countries' robust revenue potential. Moreover, allocative inefficiency appears to impact the sum that can be allocated to the poor's empowerment. This has been attributed to lack of representation of the poor in decision-making process as well as weak democratic practice making the large population of poor voters to lose their voices through votes as a means of requesting for redistribution (Meltzer & Richard, 1981). The overall lack of required discipline in the revenue-generating process and unfair allocative system have trimmed down the amount available to redistributive spending.

Apart from the preceding issue, there is still another big elephant in the room-operational inefficiency. This is concerned with weak institutions in the disbursement of the fund eventually allocated to social spending. This concern is not unrelated to incessant industrial activities in the health and educational sectors in Nigeria. As can be seen in Figure 5, the schema shows that.

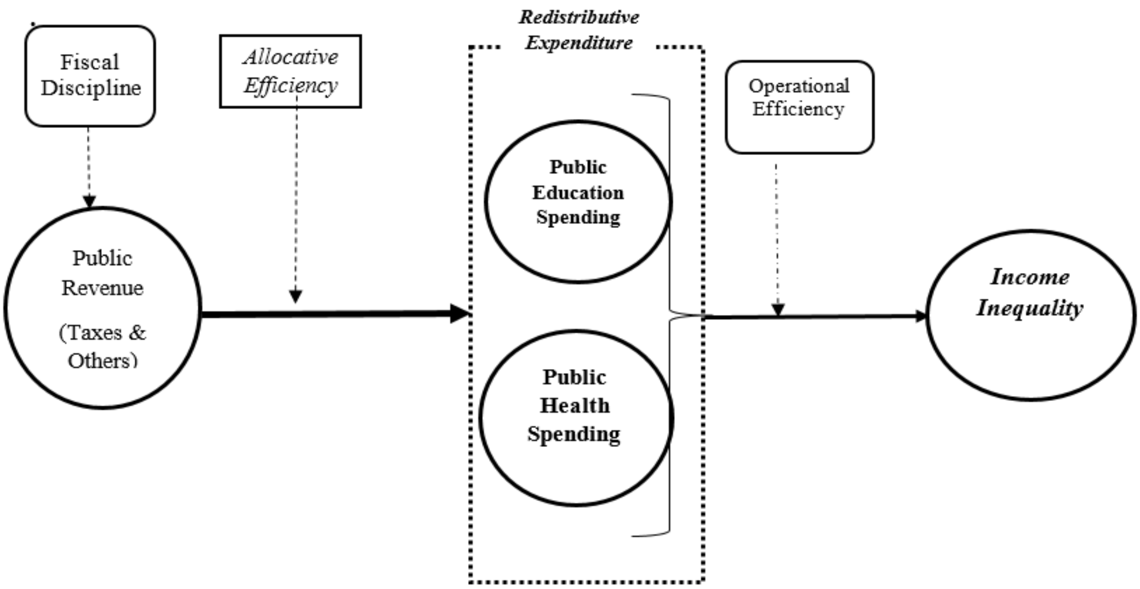

Figure 5: Schema showing different stages from revenue generation to redistribution

In contrast, the overall government revenue is affected by the level of fiscal discipline in the economy, the amount generated as revenue is then affected by the disposition of the elitist decision-making group to redistribution. To achieve redistribution, eventually, operational efficiency becomes a crucial concern. Corruption and other institutional challenges in developing countries have adversely affected the poor's empowerment and ultimately increasing income inequality.

Conclusion and Implication of the Study

The escalation of social and political uproar in countries, especially those with high social exclusiveness, has raised new questions about the social impact of income inequality and how to bridge the gap between the poor and the rich. The paper aims to explore, through literature review, the impact of redistributive expenditures (education and health spending) on income inequality and the likely impact of the institutional framework.

Accountability of government actors does not just stop at annual financial reporting but also include making sure that social outcomes, one of which is income inequality, are achieved. However, it appears that developing countries have not shown enough commitment in terms of social spending in empowering the poor and bridging income inequality. This is attributed to poor fiscal discipline, unfavourable allocation and institutional weaknesses in the management of redistributive expenditures. Fiscal discipline worries such as weak revenue base, unsustainable borrowing, and its associated rising debt interest to revenue ratio can affect the budget totals and consequently, social spending.

There is the need to carry out empirical investigations on the relationship between social expenditures and income inequality and to examine how corruption can influence this relationship most especially where there seem to be weaknesses in institutions in developing countries like Nigeria.

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