

SUBSIDY REDUCTION ON PETROLEUM PRODUCTS AND THE SPENDABLE INCOME OF CIVIL SERVANTS IN ANAMBRA STATE, NIGERIA

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Abstract

This study examines the effect of subsidy reduction on petroleum products in the spendable income of civil servants in Anambra State, one of Nigeria's thirty-six states. A survey research method was adopted in the study. The work adopted neo-liberalism theory as theoretical framework of analysis. The statistical analyses used were non-parametric analysis, particularly graphical analysis using the mode. The results of the analysis showed that subsidy reduction on petroleum products has serious reduction on the spendable income of civil servants in the state. The implication is that civil servants are not able to meet up with their responsibilities. Therefore, they will device some other means of making money to cushion the effects of the increase in price of items and services as a result of the increase in the price of petroleum products. It was accordingly recommended that government should embark on outright removal of subsidy on petroleum products and upgrade/review salaries of civil servants in line with the economic realities.

Keywords: Anambra State, Civil servants, Neo-liberalism, Subsidy Reduction

Introduction

There is no doubt that the recent increase in the price of fuel from N97 to N145, by the Federal Government of Nigeria has started to trim down the purchasing power of the people, especially the poor masses, who have always been at the receiving end of every harsh economic policy introduced by government. An increase of such magnitude in the current Nigerian economic context is, without doubt, a process that is either inadvertently or deliberately conceived to take money away from the pockets of all Nigerian income earners, with over 70 percent of Nigerians who live on below N360 per day, as the prime victims. In reality, anyone in this category will end up with over 50 percent of his daily income, which is about N155 per day depending on the distance to his/her place of work, inevitably dedicated to transport costs, while the remaining is expected to cater for family feeding, health, education and other social expenses.

Ocheni (2015) observed that the prices of goods and services have increased at the same time that wages remain stagnant and unemployment remains a nationwide scourge. More than 70 per cent of Nigerians lack the usual or socially acceptable amount of money or material possessions needed to live a happy life. This unfortunate category of Nigerians lacks material comfort and in plain language they live from hand to mouth. "The increase in the price of fuel will automatically reduce the purchasing power of Nigerians. It will increase their fears and deteriorate their health status. Food, water and housing are three important parameters to measure the values of our lives and these things have become elusive to the masses in Nigerians. Indeed, with inflationary rate of up to 15 per cent, motivation for savings becomes meaningless.

Removing the fuel subsidy - in other words, deregulation - is a subject that inflames passions in Nigeria. 90% of Nigerians will argue emotionally and selfishly on this subject, 8% objectively, but with logic turned upside down. Only 2% will argue that deregulation should be allowed to stand. But that does not mean that the majority is right. The Naked Truth Obviously, there are many issues relating to deregulation which Nigerians view very passionately: increasing prices when infrastructure is at an all-time low, inefficient systems, the fact that we are a petroleum producing country and that generally, finances of government and tax payer's money seem not to be managed properly by those in power. Probably of most pointed significance is the fact that average disposable income of the society is very low, with many Nigerians already spending about 50% of their income on energy or energy related expenses. These are very valid factors which could reasonably underpin opposition to any initiative even resembling deregulation. Most Nigerians perceive deregulation solely in terms of increased petroleum products prices and of course increased prices for transportation and other related inflationary trends (<http://www.marineandpetroleum.com>).

Balouga (2012) argued that the contemporary passion and tension that usually characterized petroleum discourse is due to inexplicable deprivations and sufferings of Nigerians amidst plenty and abundance of these products. He noted that Nigeria is the sixth largest oil exporters in OPEC, second largest producer of crude oil in Africa after Libya and eightieth largest exporter in the whole world. Despite this fact, price of petroleum products has been on the increase. Hence, the prices of items will be high.

Ovaga (2012) noted that the combined impact of erratic and inadequate supply and unending price increase have brought on told hardship to the citizenry. It also prevented economic recovery as promised by the present democratically elected government giving the capacity utilization in the manufacturing sector nose-dives due to shortages of industrial products. Indeed, many industries have been compelled to close due to non-availability of some of the products and high cost of petroleum products leading to rise in unemployment rate.

Eme and Onwuka (2011) contended that the Nigeria petroleum industry must not be liberalized, or deregulated, or privatized completely, for whatever reason and that the status quo should remain, maybe with minor fine tuning “here and there” to improve efficiency, as appropriate, “in the overall national interest”. They argued that deregulation helps increase profit margin for the importers. Any time there is increase in price of petroleum product the workers are the worst hit. Essentially, this extreme is the implied position of the Nigerian Labour Congress (NLC) and the organized civil society.

Thus, Ocheni (2015) asserted that everybody appreciates the fact that when motorists pay more for fuel, the transport fare increases. This has been the case even when the increase is only marginal. In the particular case where the cost of fuel is expected to double, the increase in transport fare will be astronomical. This will in turn affect everything else – school fees, house rent, just name it. Recently, the call to suspend the subsidy policy has been seen as the main factor behind increasing petroleum product prices (Asekunowo, 2012). Subsidy is money given as part of the cost of something, to help or encourage it to happen. Fuel subsidy is the money paid by the Federal Government of Nigeria to reduce the cost of refining petroleum products, especially fuel.

Theoretical Framework

This paper adopted neo-liberalism theory. Neo-liberalism is a theory that emphasizes the efficiency of private enterprise, liberalized trade and relatively open markets to promote globalization. The theory seeks to transfer control of the economy from public to the private sector. The belief is that it will produce more efficient governance and improve the growth of the economy (Prasad, 2006). According to the protagonists of this theory such as Williamson (1990), Prasad (2006), among others, the core principles of the theory are that: a) Governments should not run large deficits that have to be paid back by future generations; b) Redirection of public spending from subsidies toward broad-based provision of key pro-growth and pro-poor services like primary education, primary health care and infrastructure investment; c) Broadening the tax base and adopting moderate marginal tax rates to encourage innovation and efficiency; d) Floating exchange rates; e) Liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); f) Given people the opportunity to invest funds overseas and allowing foreign funds to be invested in the home country; g) Promoting market provision of goods and services which the government cannot provide as effectively or efficiently through privatization; h) Deregulation – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions; etc.

The following tenets summarize the philosophy of neo-liberalism; the rule of the market (that is liberating “free” private enterprise from any bonds imposed by the government no matter how much social damage this causes. It has to do with total freedom

of movement for capital, goods and services); cutting public expenditure for social services; deregulation (reduce government regulation of everything that could diminish profits); privatization (sell state-owned enterprises, goods and services to private investors); eliminating the concept of "the public good" and replacing it with "individual responsibility"

However, the removal of subsidy on petroleum products boils down to price increase. The deregulation of downstream petroleum sector and/or increase in the prices of premium motor spirit always led to organized mass actions, including strikes to fight this anti-poor, anti-growth policy. The main objective of every public organization is to better the life of the general public. Some services if left in the hands of private individuals will be very difficult to pay by the low income earners who are mostly civil servants. The theory therefore enables us to comprehend the deregulation trends and their effects on civil servants' spendable income. Hence, the deregulation of petroleum products leads to increase in the pump price of premium motor spirit and kerosene and the civil servants are at the mercy of private investors, who at times create artificial scarcity of the product.

Subsidy Reduction on Petroleum Products and Spendable Income of Civil Servants

Evans and Evans (2007) noted that spendable income is gross salary minus taxes, housing and savings. Ocheni (2015) noted that as a result of hike in price of petroleum products people complained that the cost of transporting the materials and commodities from the point of purchase to the place of the business has increased, consequently, patronage has dwindled as a result of ever increasing prices. Transporters on their part complained that getting their tanks filled in the face of fuel scarcity is very difficult sometimes their vehicles are abandoned at the filling stations for days. At other times they have to patronize the black market at a very high cost which leads to a corresponding higher transportation costs. This problem affects civil servants adversely.

This study covers Anambra State Civil Servants. However, the paper focuses on Subsidy Reduction on Petroleum Products and the Spendable Income of Civil Servants in Anambra State, Nigeria. The population for this study was made up of the state civil servants in Anambra. The population is distributed as follows:

Table 1 STAFF STRENGTH OF CIVIL SERVANTS IN ANAMBRA STATE

S/n	Male	Female	Total
1	4889	6646	11,535

Source: Anambra States Civil Service Commission and 2015 field work

The total population of civil servants in Anambra states is 11,535. Which is made up of 18 ministries. The five (5) most populous ministries were selected to represent the entire ministries. To determine the sample size or number of questionnaires that were

distributed, the researcher used Yemani [1962] formula for determining sample size, which is:

$$n = \frac{N}{1 + N(e)^2}$$

Where n = Sample size, N = Population of the study

e = margin of error [which stands for 0.05 in this study]. For

effective representation, this study determines the sample size male and female staff thus:

Male Staff

$$n = \frac{4889}{1 + (4889 \times 0.0025)}$$

$$n = \frac{4889}{13.2} = 370.38 = 370$$

Female Staff

$$n = \frac{6646}{1 + (6646 \times 0.0025)}$$

$$n = \frac{6646}{17.62} = 391.152 = 377$$

The sample size for this research was 370(male)+377(female) = 747. Therefore, 747 questionnaires were distributed among the five ministries and the remaining two questionnaires to ministry of agriculture which is the most populous. Thus 149 questionnaires were allocated to four ministries while agriculture got 151.

Graphical Analysis Using the Mode

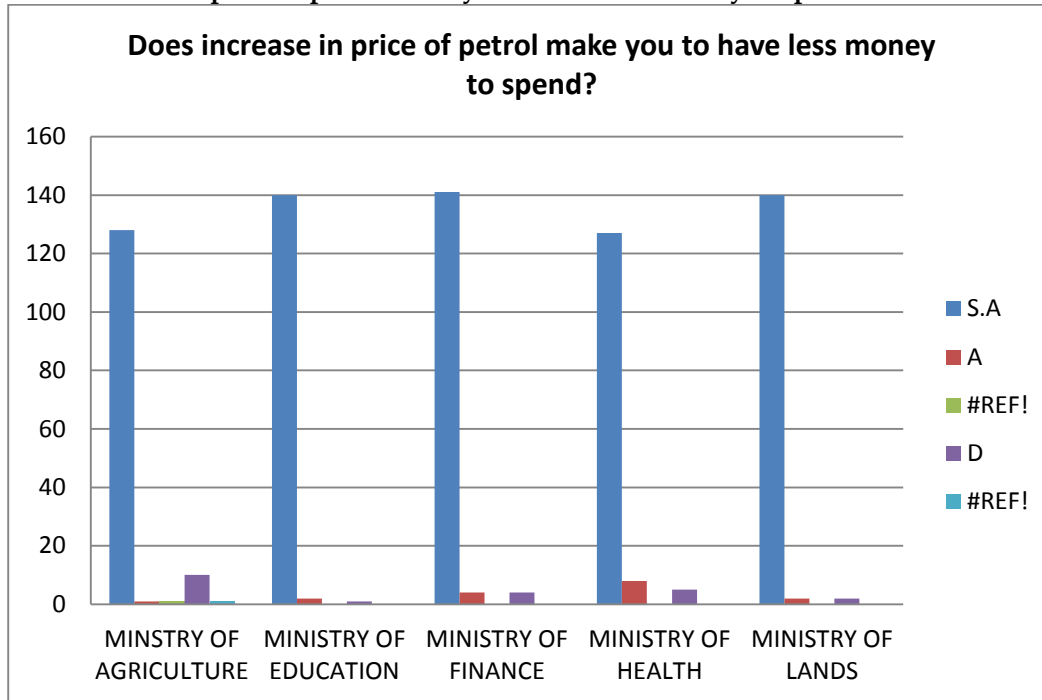
Table 2: RESPONSES TO QUESTION NO. 1

	Ministry of Agriculture	Ministry of Education	Ministry of Finance	Ministry of Health	Ministry of Lands	Total
S.A	128 (89.5%)	140 (93.3%)	141 (92.7%)	127 (86.9%)	140 (93.9%)	676 (91.35%)
A	1 (0.69%)	2 (1.33%)	4 (2.63%)	8 (4.79%)	2 (1.34%)	17 (2.29%)
N	3 (2.09%)	3 (2.0%)	2 (1.32%)	3 (2.05%)	2 (1.34%)	13 (1.75%)
D	10 (6.99%)	1 (0.66%)	4 (2.63%)	5 (3.42%)	2 (1.34%)	22 (2.97%)
S.D	1 (0.69%)	4 (2.66%)	1 (0.65%)	4 (2.73%)	3 (2.01%)	13 (1.75%)
TOTAL	143	150	152	146	149	740

S.A= STRONGLY AGREED, A = AGREED, N = NEUTRAL, D = DISAGREED, S.D = STRONGLY DISAGREED

FIG 1: MODE ANALYSIS OF QUESTION NO. 1

Does increase in price of petrol make you to have less money to spend?



From the above diagram, and the table as well, it can be inferred that the different ministries unanimously strongly agreed with a 91.35% consensus that the deregulation of the petroleum products which lead to a rise in the pump price of petrol, significantly reduces the disposable income of civil servants in Anambra state.

TABLE 3: RESPONSE TO QUESTION NO. 7

It is the civil servants that suffer when the prices of items increase

	Ministry of Agriculture	Ministry of Education	Ministry of Finance	Ministry of Health	Ministry of Lands	Total
S.A	94 (65.73%)	113 (73.33%)	122 (80.26%)	106(72.60%)	67 (44.96)	502 (67.83%)
A	29 (20.27%)	16 (10.66%)	14 (9.21%)	19 (13.01%)	7 (48.99)	151(20.40%)
N	7 (4.89%)	11 (7.33%)	2 (1.31%)	5 (33.42)	3 (2.01%)	28 (3.78%)
D	10 (6.99%)	6 (4.00%)	10 (6.57%)	7 (4.79%)	2 (1.34%)	35 (4.72%)
S.D	3 (2.09%)	4 (2.66%)	4 (2.63%)	9 (6.16%)	4 (2.68%)	24 (3.24%)
TOTAL	143	150	152	146	149	740

S.A= STRONGLY AGREED, A = AGREED, N = NEUTRAL, D = DISAGREED, S.D = STRONGLY DISAGREED

FIG 2: MODE ANALYSIS OF QUESTION NO. 7

It is the civil servants that suffer when the prices of items increase



From the graphical presentation of the responses to this question, with a 67.83% response to strongly agreed; it can be inferred that all the ministries jointly agreed that the civil servants are strongly affected by increase in prices.

Findings, Conclusion and Recommendations

The first finding is that the different ministries unanimously strongly agreed with a 91.35% consensus that the deregulation of the petroleum products which lead to a rise in the pump price of petrol significantly reduces the disposable income of civil servants in Anambra state. Secondly, 67.83% of the respondents strongly agreed that civil servants are negatively affected by increase in prices petrol.

From the empirical result of the analysis, this research concludes that subsidy reduction on petroleum products reduces the spendable income of the civil servants, as a result of increase in price of goods and services. Also, the money in the hands of the civil servants is depreciated. The civil servants are left with insufficient money to take care of his/her economic challenges. Also subsidy reduction on petroleum sector, negatively

impacts on the level of service delivery by the civil servants because they pay little or no attention to their official responsibilities.

However, the implication of this is that civil servants will look for an alternative way of making money, pay less attention to his/her duty. They will not go to work regularly. They will also engage in all kinds of corrupt practices. They may also embark on strike action etc.

In line with the findings of this study, the following policy measures have been recommended: a) Government should provide palliative measure such as allowances and incentives for civil servants in the face of negative effect of subsidy reduction on petroleum products to cushion the effect of hike in prices as well as improve their spendable income in line with the economic realities of the country. This will encourage and strengthen the civil servants in their duties and as well discourage corrupt practices. b) Government to embark on outright removal of subsidy on petroleum products and upgrade salaries of civil servants. This will enable the civil servants to put in their best and improve on service delivery.

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