Household consumption expenditure and inequality: evidence from Nigerian data

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Abstract

Purpose – Enhancing household consumption and reducing inequality are among the fundamental goals of many developing countries. The purpose of this study therefore is to disaggregate household consumption expenditure into food and non-food and, thus, decompose inequality into within- and between-groups.

Design/methodology/approach – The study adopts generalised entropy (GE) measures. Second, the study uses regression-based inequality decomposition to ascertain the determinants of inequality in food and non-food expenditure using household demographic and socioeconomic characteristics as covariates.

Findings – The results show that non-food expenditure is the major source of inequality in household consumption expenditure in both urban and rural areas with inequality coefficients of above 0.6 compared to about 0.4 for food expenditure. The decompositions also show that within-group inequalities for non-food and food expenditure are, respectively, 0.97 and 0.365 using the Theil index, while between-group inequalities for non-food and food are, respectively, 0.016 and 0.035. Furthermore, the regression-based inequality decompositions show that variables such as living in rural areas, household size, household dwelling and household dwelling characteristics account for the significant proportion of inequality in food and non-food expenditure.

Originality/value – The policy implication of the findings, among others, is that policies should focus on addressing inequality within rural and urban areas, especially with respect to non-food expenditure than in inequality existing between urban and rural areas. These non-food expenditures include expenditure in education, health, energy, accommodation, water and sanitation.

Keywords Decomposition, Food security, Inequality, Expenditure, Household consumption

Paper type Research paper

1. Background and problem

Household consumption expenditure is one of the important components of gross domestic product (GDP). On the average, consumption expenditure accounts for over 60 per cent of the GDP in all countries. When developing countries are singled out, consumption expenditure could account for as high as 68 to 70 per cent of the GDP (Yakubu and Abbas, 2012). For a typical developing country such as Nigeria, households spend more than 60 per

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cent on food items and about 40 per cent on non-food items (which include education expenditure and medical expenditure).

One of the critical issues in developing countries is the inability of households to meet most of their basic needs, as majority of them live on less than one dollar a day. This inability to meet the basic needs varies across various income quintiles. This, in a way, implies that there is huge inequality in household consumption expenditure in the developing countries. Inequality and poverty are two major problems of developing countries of which Nigeria is surpsingly one of the reference countries despite huge resource and human potentials. This was confirmed by a study that shows that inequality in household consumption expenditure is widespread and rising in both urban and rural areas in Nigeria (IFAD, 2007). Similarly, a report published by the National Bureau of Statistics (NBS) in 2012 revealed that inequality in household consumption expenditure is high and varies greatly across the six geo-political zones of Nigeria.

Awoniyi *et al.* (2011) also established that inequality in household consumption expenditure profile exists among the six zones in Nigeria. They showed that the mean index inequality in household consumption expenditure among zones in Nigeria is 0.4093. The highest is in the North–West zone with an index of 0.4305. Then the least is in the South–South zone with an index of 0.2233. Therefore, about 40 per cent inequality in household consumption expenditure in Nigerian households is evident. This is even higher in the North–West zone with 43 per cent inequality and least in the South–South zone with approximately 22 per cent inequality.

However, Nigeria, as a typical developing country, exhibits several characteristics of other developing countries one of which is large household size. Other characteristics include: low wages, low employment rate, high dependency ratio, prevalence of subsistent agriculture and high dependence on food consumption (FAO, 2013). These reflect in greater deprivation among different strata of consumers and also account for existing inequality in consumption expenditures among Nigerian households (Adekunle *et al.*, 2012). Researchers have argued that inequality in household expenditure is a huge burden on economic growth in Nigeria. Various political administrations in Nigeria have made efforts to reduce inequality by introducing different poverty alleviation schemes, targeted at reducing both poverty and inequality. The schemes include the Universal Basic Education (UBE), National Health Insurance Scheme (NHIS), Structural Adjustment Programme (SAP), National Poverty Eradication Programme (NAPEP) and, recently, the establishment in 2012 of the subsidy Re-Investment and Empowerment Programme (SURE-P), Youwin and so on. In spite of all these efforts by the government to reduce poverty and, hence, bridge the inequality gap in household expenditure, there are yet no appreciable progress made so far in reducing their prevalence (National Bureau of Statistics, 2012).

There are studies that have tried to unveil the extent of inequality in household expenditure in Nigeria. Many of such previous studies (Olaniyan and Awoyemi, 2006; Obaro and Vincent-Osaghae, 2006; Ejieh, 2009; Awoniyi *et al.*, 2011; Eregha *et al.*, 2012; among others) focused mainly on inequality distribution. A few others-like Olaniyan and Awoyemi (2006) and Eregha *et al.* (2012) looked at inequality using aggregate consumption expenditure in Nigeria. This study is of the view that a study of inequalities in household consumption aggregate without looking at inequality in the various components of consumption expenditure may not reveal much about the extent of inequality in Nigeria. Hence, this study contributes to literature by using regression based decomposition approach and other decomposition techniques to provide a new evidence on inequality in household consumption expenditure and the sources of such inequality by disaggregating consumption into food and non-food expenditure. While non-food expenditure is largely