

RESEARCH ARTICLE

Fuel subsidy removal and welfare of the working class in Nigeria: Policy options for the state

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Abstract

Subsidy provisioning has been a feature of market economies around the World since the end of the Second World War. In Nigeria, and other Third World countries, subsidy provision is a major instrument by which Government attempts to enhance the welfare of the masses. Over the years, successive governments in Nigeria have attempted to keep the prices of certain commodities affordable by providing one form of subsidy or the other. The Premium Motor Spirit (PMS) popularly known as Petrol in Nigeria is one of the commodities covered by subsidy until 29th May, 2023 when the newly inaugurated President Ahmed Bola Tinubu in his inaugural speech declared an end to it. A major consequence of the removal of the fuel subsidy is the cut-throat pricing of PMS throughout the country. This paper attempts to interrogate the effect of fuel subsidy removal on the welfare of the working class in Nigeria with a view to ascertaining available policy options for the State. The paper adopts the neo-classical economic theory of government policy and argues that a fundamental responsibility of the State is the protection of the welfare of the citizenry through its various policy decisions. Relying on documentary evidence, the paper found that the removal of fuel subsidy has worsened the living conditions of the working class as not only do workers now have to pay more for fuel; the multiplier effect of a continuous rise in prices of PMS on other basic necessities has made life unbearable. Consequently, the paper suggests a novel approach to the conundrum where in the Federal Government would ensure domestic refining of crude oil for local consumption or reach an understanding with other countries for a non-commercial refining of crude oil for the country.

Keywords: Fuel; Subsidy; Welfare; Working class; Nigeria

Introduction

The term subsidy is an economic terminology. It refers to a direct or indirect payment given (usually by government) with the aim of keeping the prices of certain commodities affordable for consumers of the product(s). Subsidy has become a common feature of capitalist economic system across the world. Among the major objectives of subsidy provision is guaranteeing access of citizens to commodities thereby stimulating economic development. Subsidy exist in different forms and covers a wide range of sectors. Sectors in which subsidies are commonly found include agriculture, transportation, education, and health etc. Fuel subsidy is a kind of relief provided by the state to consumers of fossil fuel popularly known as petrol in Nigeria. Petrol is a major source of energy for households and individuals both for domestic and industrial uses. Petrol also constitutes a sources of energy to over 90% of vehicles which are central to the transportation sector in every economy.

There are 11.8million vehicles on Nigerian roads according to the Nigerian Bureau of Statistics. These vehicles daily require 72million liters of petrol to power them (Nasiru, 2022).

Welfare on the other hand is concerned about the wellbeing of the people. It encompasses the physical and material wellbeing of members of the society. An individual can be said to be of physical and material wellbeing when he/she have access to basic necessity of life such as food, housing, clothing, medical care, education, social and environmental services, consumer goods, recreational opportunities, neighbourhood amenities and transport facilities (Harvey, 1973, p.102). Welfare or what is better known as social protection represents crucial element of governance across the World. Welfare measures represent conscious mechanisms through which States attempts to support less-privilege members of the society to meet their basic needs and more importantly improve the quality of life of the citizenry. In Nigeria, fuel subsidy which is an arrangement by which the Federal Government keeps the pump price of the Premium Motor Spirit (PMS) affordable while the government pays the differentials to fuel marketers has been a major instrument of ensuring the welfare of the populace until the advent of President Bola Ahmed Tinubu's administration. The Fuel subsidy was initially designed to last for 6 months having been introduced as a temporary measure in 1988 by the Federal Government of Nigeria as part of its Structural Adjustment Programme (SAP), as a stop-gap measure while the refineries underwent rehabilitation and to stabilize the price of petroleum products (Chinecherem, Uju and Chinenye 2015). However, the fuel subsidy regime rather became a permanent feature of the Nigerian fiscal system owing to the comatose state of the local refineries. Available records from the Nigerian National Petroleum Company Limited (NNPC) shows that Nigeria spends over 400 billion naira monthly on subsidy (Izuaka, 2023). The Nigerian government under President Ahmed Bola Tinubu in an effort to curb the seeming wastages of billions on fuel subsidy while delivering his inaugural speech declared an end to the era of fuel subsidy regime in the country thereby taking the populace unprepared. The immediate effect of the presidential declaration was the adjustment of the pump price of PMS from ₦220 to ₦550. Since then there has been a further increment in the pump price to ₦617 a litre in mid-July, 2023.

The implications of this astronomical rise in the pump price of PMS on the socio-economic life of the working class is huge. The increment means that Nigerians have to pay more for fuel, for transportation, and for every other commodity. The unfolding scenario especially given the absence of a robust support system for the working class in the county has continued to push the citizenry to the edge. The Nigerian Labour Congress (NLC) in its reaction to the July increment lamented that "this increment is unacceptable to us at the Congress because it poses a significant threat to the socio-economic wellbeing of the citizenry. Their businesses, incomes, livelihood, everything" (Taiwo-Obalonye and Nnamani, 2023). Similarly, the Christian Association of Nigeria (CAN) expressed its worry over the hardships faced by Nigerians following the removal of the subsidy. According to the president of the Association, "while Nigerians were trying to adjust to the initial increase in the fuel price to ₦540 and its consequential effect on the cost of transportation, food, goods and services, and the general cost of living, another hike alluded to market forces took the price to ₦617 (Oyero, 2023).

Scholars have contributed to the discourse on the ensuing controversy regarding the removal of the fuel subsidy by President Bola Ahmed Tinubu. Evans et al (2023) in their analysis of the socio-economics of the 2023 fuel subsidy removal in Nigeria observe that the roots of the fuel subsidy ran deep in Nigeria's history. Hence, the sentiment hovering around fuel subsidy is both popular and contentious. With regards to the consequences of the removal of subsidy on social activities of the populace, they point at a loss of income equivalent of ₦5700 per month for poor and economically insecure households. The number of people living in poverty would increase by 7.1 million.

Ozili and Obiora (2023), in their appraisal of the implications of fuel subsidy removal on the Nigerian economy identified both the positive and negative economic implications of fuel subsidy removal. Among the positive effects of the policy are channelling of the saved funds from subsidy into developing critical public infrastructure, reduction of budget deficit, strengthening of the exchange rate etc. Furthermore, they listed increase in poverty and

vulnerability, social unrest and protest, rise in fuel smuggling, rise in crime rate among others as the negative economic implications of the policy.

The foregoing clearly shows that the welfare of the working class would take a turn for the worse in the unfolding events arising from the removal of subsidy. This paper, therefore, seeks answer to the following pertinent questions.

- (i) To what extent does the removal of fuel subsidy affect the welfare of the working class in Nigeria?
- (ii) How can the welfare of the working class be protected in the wake of the removal of fuel subsidy in Nigeria?
- (iii) What policy options are available to the country?

Research Methodology

This paper relied on documented sources of information, such as articles, Bulletin, official gazettes of government, Newspapers in obtaining its data. The data was analysed with the aid of analytical approach and content analysis.

Theoretical Framework

This paper relies on the neoclassical economic theory of government policy. The neoclassical economic theory rest on the twin principles of liberal political theory and welfare economics. While the liberal theory advocate the doctrine of individual rights and limited government in the interest of political and economic freedom; monetarist economists argue that public goods such as defence which cannot be consumed individually and compensation for the effect of glaring externalities in production as core responsibilities of the government. Within this context, this paper contends that PMS is a public goods to the extent that it is widely used and relied upon for basic- economic function for both domestic and commercial purposes.

Furthermore, the externalities involved in the purchase and importation of PMS by marketers of petroleum products cannot be controlled by endogenous factors. Rather, the determinants of the prices of imported PMS are exogenous factors, namely foreign exchange value of Naira, and price of crude oil at the international market. For these reasons, the market prices of PMS have always been prohibitively expensive. The Government must therefore factor the welfare of the masses into consideration when dealing with issues of public concern as argue by Gough (1978) that welfare state is a recognisable feature for all advanced capitalist countries at least since the Second World War. The government has a responsibility to protect the welfare of the masses, and removal of fuel subsidy without fulfilling certain precedent conditions such as ensuring local refining of PMS would only worsen the existing poor socio-economic conditions of the working class.

Conceptualization

Fuel/fuel subsidy

The term fuel is a generic name that refers to any material used to power a machine or equipment. Wolfson (2010) defines fuel as “dense repositories of energy that are consumed to provide energy services such as heating, transportation and electrical generation. Fuel are basically used as sources of energy through which human activities are undertaken. However, what is regarded as a fuel may vary from situation to situation. A fuel may include nuclear, bio and fossil, and in some other contexts it may be Gasoline, Kerosene, diesel or Premium Motor Spirit (petrol). Fuel in this paper is used to denote the Premium Motor Spirit (PMS) popularly known as petrol. The PMS is a major source of energy in the Nigerian economy. It is used as a source of energy for over 90% of motor vehicles involved in transportation of goods and persons. It is also the preferred energy source for generating sets in many small scale business and households as alternative to electricity.

Subsidy as a concept has attracted attention of scholars in the broad field of social sciences. Bakare (2012) opine that to subsidize is to sell a product below the cost of production. This definition can be faulted on the ground that the scenario of selling a commodity below its cost of production may not always play out in all situations involving subsidy. Chinecherem, Uju and Chinenye (2015) define a subsidy as any measure that keeps prices of goods below market level for consumers or producers. Robinson (1967) quoted Rolph as defining a subsidy as “transfer payment because by definition they refer to payments by government for which the government receives no product, source or asset”. He emphasizes that a person who obtains subsidy does so because he conforms to the requirements set down on the subsidy legislation such as having been a member of the armed forces, producing certain commodities for sale, or being unemployed. Similarly, the Joint Economic Committee of the U.S Congress defines a subsidy as:

any government assistance in cash or in kinds, to private sector producers of consumers for which the government receives no equivalent compensation in return, but conditions the assistance on a particular performance by the recipients (W.S. Congress, Joint Economic Committee, 1972).

These definitions show that a subsidy is an incentive to lower the amount to be paid by a consumer of a commodity compared to what would be ideal for the commodity if there was no subsidy. The incentive may be given in form of cash/grant directly to the recipients of the subsidy, or to the seller of the commodity. The subsidy may also come in kinds where the product/commodity is given to the beneficiary. The goal for offering a subsidy is usually to reduce the burden of the recipients. In the opinion of Clement *et al* (1995), the economic arguments for government subsidy can be grouped into three categories, namely:

- (i) Off-setting various market imperfections
- (ii) Exploiting economics of scale in production,
- (iii) Meeting social policy objectives, including protecting the poor, changing the distribution of income, and increasing or retaining employment.

The fuel subsidy situation in Nigeria has been dictated by her welfare orientation geared towards keeping the price of fuel affordable for the poor thereby promoting economic activities in the country.

Welfare

The concept of welfare is a crucial subject in modern society. The concept has received varied definitions and usage. In welfare economics, it symbolises utility. People’s welfare is thought of as wellbeing. It also refers to a wide range of services which are provided to protect people in a number of conditions including childhood, sickness and old age. “For some social scientists, welfare is considered as residuary element that remains to be provided only after providing basic needs such as housing, health, medical relief, basic needs such as employment, social security, recreation and also relief measures during emergency (Roy, 2013; p.1).

According to Hudson (2013), the concept of welfare is rooted in the fusion of the verb ‘fare’ with the adverb ‘well’, and it suggests questions such as what does it mean for someone to fare well? What needs to be in place to ensure someone’s welfare is protected? The perspectives above though approached the subject differently point to certain fundamental meaning of welfare. The fundamental point is that welfare entails the good and happy life for the citizens through a deliberate effort of government policies in economic, social and political activities of government. The government has a responsibility to enhance the quality of life of the citizenry through employment opportunities, education opportunities, access to effective transportation, healthcare facilities etc.

Around the world, governments approach welfare provision through a variety of strategies and policy measures. Hence, it can be argued that the extent to which citizens benefit from welfare services vary from country to country. The working class is a description of people who have to struggle by a way of engaging in income yielding job in

order to meet the basic needs of life. Within this category are those with medium to low-income paying jobs as well as those without reliable/stable source of livelihood.

Effect of fuel subsidy removal on welfare of the working class in Nigeria

It is incontrovertible fact that the removal of fuel subsidy by the Federal Government of Nigeria on 29th May, 2023 has led to a monumental rise in the pump price of PMS in the country. This rise in the pump price of PMS meant not only increment in the amount being spent in the purchase of PMS. It also means a general and continuous rise in prices of goods and services in the country. A recent report of a poll by the NOI (2023) reveals that 7 in 10 adults Nigerians lament the negative impact of the removal as the cost of fuel is affecting their spending on other commodities.

The immediate and long term negative effects of fuel subsidy removal include increase in the prices of goods and services, increase in transportation fares, high inflation and reduced purchasing power for the masses, social unrest and protest, rise in fuel smuggling and other illegal activities (Onyekakeyah, 2023). The rise in the inflation has also been confirmed by the National Bureau of Statistics (NBS) which reveals that as at August 2023, the inflation rate was 25.80 percent as against 24.08% recorded in July, 2023 (Inokotong 2023). Furthermore, Ozili and Obiora (2023) contend that upon the removal of fuel subsidy, the price of most consumer and industrial goods which are produced or transported with petrol will increase sharply. The cost of bread will increase, and the cost of local transportation will also increase making it expensive to afford for poor individuals and or low-income earners. “ The effect will also be felt by both the rich and the poor, but as always the poor will suffer the most through a significant reduction in their purchasing power” (Ozili and Obiora, 2023; p.13).

The import of these analysis is that the welfare of the working class have suffered severely since the removal of fuel subsidy in Nigeria. If there were to be any positive effect of the fuel subsidy removal it is the increment in the Federation account allocation to the various tiers of government. The promised upward review of salaries of workers has remained unfulfilled although it is doubtful that the Government could concede to a significant improvement in the salaries of workers in the country. A significant increment in salaries of workers would grant workers a minimum of 280% increment in salaries. This position is predicated on the fact that the increment in the pump price from ₦220 (subsidy regime) to the current price of ₦617 (post subsidy era) represent 280% increment.

While the working class await the government promised palliatives and as a strategy for containing the hardship caused by the rise in the cost of transportation, Ministries, Departments and Agencies (MDAs) have reduced the number of working days per week among workers. This strategy in the long run would result in declining productivity of among public sector institutions.

Policy options for the state

Given the worsening socio-economic conditions of the working class in the country following the removal of fuel subsidy, this paper posit that the government has demonstrated a poor understanding of the centrality of fuel subsidy to the socio-economic life of Nigerians. A government with a sound appreciation of the centrality of PMS to the economy would have put in place necessary protective mechanisms for the masses before the removal of subsidy. It must also be stressed that successive governments since the tenure of President Goodluck Jonathan have continued to insult the sensibility Nigerians over claims that the fuel subsidy constitutes a drain on government resources. Government and its apologists usually rely on this narrative thereby giving an impression that the existence of fuel subsidy was an initiative of the Nigerian people. The reality however, is that it is the failure of government that gave rise to fuel subsidy regime in the first instance.

This paper posit that the Nigerian government can do away with fuel subsidy without inflicting hardship on the people. The paper proposes the following options as effective strategies for exiting the fuel subsidy regime in the country.

1. Ensuring local refining of PMS thereby eliminating the external factors that have continued to determine the local prices of PMS on a benchmark that incorporates foreign dynamics. There are 2 methods by which the local refining of PMS is achievable, namely: fixing and revamping the nation's refineries, and facilitating the setting-up and functioning of private-sector led oil refineries.
2. The Government should creatively reach a deal with foreign refineries for a non-commercial refining of Nigerian crude. The products of the arrangement could then be delivered and distributed among consumers in the country at non-exploitative prices.

Conclusion

Fuel being a source of energy constitutes a pivotal resources to the World economy. Its role in the Nigerian economy cannot be over emphasised. It is not just a major source of energy for over 90% of vehicles in the country; many households as well as Small Medium Scale Enterprises (SMEs) rely on PMS to provide power for their daily operations. The unprecedented skyrocket increase in the pump price of PMS occasioned by the removal of fuel subsidy has continued to worsen the socio-economic life of the working class in particular, and Nigerians at large. This paper maintains that the welfare of the people should not be sacrificed for government failure which created the ugly scenario in which a major producer of crude oil had to resort to continuous importation of PMS thereby subjecting the Nigerian consumers to the vagaries of the international oil market. The Nigerian State must uphold a policy position that would both ensure affordable pricing of PMS, and also eliminate the burden of paying international price of PMS which the nature has blessed Nigeria with in the name of fuel subsidy.

Declaration

The authors declare that this paper is a product of original research. An earlier version of the paper was presented at the National Conference of the Association of Public Administration Researchers held on 11-13th October, 2023.

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Data availability: Data used for the study were largely contained in literature and newspaper publications.

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