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Political Economy of Fuel Price Hike and Cost of Living in Nigerian, 2011-2024

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ABSTRACT

Recently, the cost of living in Nigeria has appeared to be so high that everybody, both the rich and the poor alike is complaining. The most worrisome aspect of the drama is that the locally produced commodities are very expensive too, which brought to the fore and negate the lame excuse of some extant literatures that it was as a result of the exchange rate of US Dollar to Nigerian naira. However, this study interrogated the cost of living in Nigeria vis-à-vis the fuel price hike mantra. For the purpose of unraveling the problematic, the utilized Ex-Post facto research design. The relevant data for the study were generated from secondary source, through Documentary method of data collection, whereas the data so collected were analyzed with Content Analysis. Theoretically, the study adopted Systems theory as a theoretical compass around which it revolved. The theory among others viewed the political society as being interconnected in the manner that what affects a part has ripple effect on the other part of the political society. From the study therefore, we found that the high cost of living in Nigeria is connected to the fuel price hike because fuel as essential commodity and the mainstay of Nigerian economy is central to Nigerian economy to the extent that what affect fuel price affects other aspects of the economy. In order to remedy the ugly situation, the study suggested that Nigerian leaders should adopt any sustainable economic strategy to bring down the price of fuel to reduce the high cost of living in the state. This can perfectly be done by subsidizing the oil price and carefully monitoring the subsidy regime to ensure transparency. Going by the principles of utilitarianism and the social contract theory of the origin of the state, the welfare of the masses should be the driving force of the government.

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INTRODUCTION

Sequel to the discovery of oil at Oloibiri in the present Bayelsa State in Nigeria by late 50s, Nigeria was an agrarian state. Emphatically, during that period the economic colouration of the country favours agriculture by taking it as the mainstay of Nigerian economy. To enhance unfettered division of labour, the production was structured in the following manners: the North concentrated on production of Groundnut, the East palm oil and the West cocoa (Okonkwo, 2022). This production matrix with the inherent Comparative Cost Advantage ensured economic sustainability during the period (Ricardo, 1817). With the discovery of oil, the admirable paraphernalia of the economy that sustained the citizens continued to wane to the point of changing Nigerian economy from productive state to a rent-seeking one (Okonkwo, 2015). This development made political activities to be more lucrative that citizens adopt every strategy even nefarious ones to ensure occupation of political positions because it will accord him the leverage to share the oil money without mere thought of generation of same.

As a result of the above socio-economic status of Nigeria, inflation permeated the economy because more money is facing few products which the end product is inflation. In a bid to ameliorate the cagey economic predicament, oil subsidy emerged in the Nigerian socio-political and economic dictions. Impliedly, the government paid some part of the fuel money to make it affordable to the citizens; this gesture was in accordance with utilitarian principles that subscribe to achievement of happiness for the majority of the citizenry (Bentham, 1789). The welfarist stance of the state seemingly sustained the economy till recently when the table appeared to have turned into another direction where the subsidy removal mantra engulfed the subsidization of the fuel. The partial status of the removal was experience during Jonathan's administration through Buhari's and totally removed in Tinubu's administration. On the other hand, the citizens of any country, Nigeria inclusive inherently have some issues to attend to as men or members of a family, which the cost makes or mars the living standard of the citizen. These items involve foods, transportation, house renting, clothing, etc. Obviously, the costs of the above items have skyrocketed in Nigeria, which is tantamount to the paradox of suffering in the midst of plenty (Obiora & Okonkwo, 2017).

Essentially, this study is designed to empirically dissect the nexus between fuel price hike and inflation in Nigeria within the period under investigation. For brevity sake, it will be assessed under the following captions: clarifications of fuel price hike, inflation, methodology, theoretical framework, fuel price hike and inflation in Nigeria, conclusion and recommendation.

Fuel Price Hike Defined

For clarification, the phrase, fuel price hike as a variable in this study needs to be explained. Hence, Olomola (2009) sees it as a sudden and significant rise in the cost of fuel, such as gasoline, diesel, or petrol. Expatiating further, he averred that the fuel price

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hike can have far-reaching consequences, including increased cost of living, inflation, and economic instability. In the view of Akinlo (2014), higher fuel prices can lead to increased costs of transportation, food, and other essential goods and services, thereby reducing the purchasing power of consumers. This increase can be attributed to various factors, including global oil price fluctuations, government policies and taxes, refining and production costs, and transportation and distribution costs. Furthermore, fuel price hikes can contribute to higher inflation rates, which can have negative impacts on economic growth and development (CBN, 2019).

In corroboration, Odusanya (2016) views a fuel price hike as a sudden and significant increase in the cost of fuel, which can have negative impacts on the economy, including increased inflation, reduced consumer purchasing power, and potential social unrest. According to him, one of the primary consequences of a fuel price hike is increased inflation because it can lead to increased costs of production, transportation, and distribution, resulting in higher prices for goods and services. By implication, it can have a ripple effect throughout the economy, leading to higher costs of living and reduced consumer purchasing power. Be that as it may, the fuel price hike is an increase in the cost of fuel which may be caused by a lot of thing and can equally cause a lot in an economy. With this clarification, we can now migrate to the conceptualization of the next variable in the discourse.

Clarification of inflation

Inflation as dependent variable in this enterprise needs to be explained for clarity sake. To begin with, Friedman (1970) defines inflation as a sustained increase in the general price level of goods and services in an economy over a period of time. Similarly, Samuelson and Nordhaus (2005) emphasized on the feature of the phenomenon of inflation, by so doing, he characterized inflation by a rise in the general level of prices of goods and services in an economy, usually measured as an annual percentage increase in the Consumer Price Index (CPI). In the view of Mankiw (2010) inflation is an increase in the overall level of prices in the economy. In accordance with the position of the above scholars, Krugman and Obstfeld (2011) maintained that inflation is a situation in which the general price level is rising over time in a given economy.

More so, Parkin (2014) conceptualizes inflation as a sustained increase in the general price level of goods and services in an economy. However, the central point of the definitions of inflation by the referred authorities is that it has much to do with increase in price of goods and services in an economy which has lasted for a period of time. With this exposition of the meaning of inflation, the study can be understandable and the information freely passed across to the readers.

Methodological Underpinning

The onus of this segment of the study is to draw a compass that will guide the research endeavour. This can be done through exposition of the following distinct and related research processes, which will ensure actualization and reliability of results of the academic venture: research design, method of data collection, method of data analysis and theoretical framework. However, the study adopts Ex-Post-Facto research design, which reveals the possible relationships between variables by observing an existing condition or state of affairs and searching back in time for plausible contributing factors. It seeks to establish causal relationships between events and circumstances (Kerlinger, 1986). On the area of data collection, we used Documentary method to gather information from secondary sources such as books, book chapter, journal articles, and newspapers, periodical and internet sources to support or guide our views on the issue under investigation.

Correspondingly, the generated data were analyzed using Content analysis, which is used to verbally summarize the information gathered in research. For Asika (2009) Content analysis is used in analyzing data generated from the secondary sources in order to make systematic logical deductions from them. More so, the analysis is amplified with Systems theory as the theoretical fulcrum around which the study oscillated.

Theoretical Nexus

This study is grounded in Systems theory, which serves as the foundational framework for analyzing the complex relationships and dynamics at play. The system theory was developed by David Easton (1953) with the concepts of input output analysis and corresponding feedback loop mechanism, for a holistic approach to understanding complex political systems and their interconnected components. Ludwig von Bertalanffy in the mid-20th century applied the theory across various disciplines, including Biology, Psychology, Physiology, and Management. It emphasized the importance of considering the system as a whole, rather than focusing on individual parts in isolation. Because systems are composed of interconnected components that interact and influence one another, producing emergent properties that are not predictable from the characteristics of individual components (Bertalanffy, 1968). These interactions can be linear or nonlinear, and they can have a significant impact on the behavior of the system. For example, in a social system, the interactions between individuals can lead to emergent properties such as social norms, cultural values, and collective behavior.

According to Easton (1953) the output serves as the policies and programmes from the government which attracted input from the environment by the electorate as supports and legitimacy through the feedback loops. Feedback loops are critical components of systems, allowing them to adapt and respond to changes in their environment. Feedback loops can be positive (reinforcing) or negative (balancing), and they play a crucial role in shaping the behavior of the system. Senge, (1990) in his contribution argues that mastering feedback loops is essential for creating learning organizations that can adapt and thrive in a rapidly changing world. The system theory also recognizes that systems are dynamic, meaning that they change and adapt over time. This dynamic nature requires systems thinkers to consider the system's behavior over time, rather than focusing on static snapshots. By understanding the dynamics of a system, systems thinkers can identify patterns and trends that may not be immediately apparent.

Application of the theory

The system theory provides a valuable framework for understanding the complex relationship between fuel prices and inflation in Nigeria. When fuel prices increase, it sets off a chain reaction, leading to higher transportation costs and driving up the prices of goods and services. This, in turn, contributes to inflationary pressures, as the increased costs are passed on to consumers (Bertalanffy, 1968). The Nigerian economy is a complex system comprising interconnected components, including fuel prices, inflation rates, exchange rates, and social welfare. Changes in one component can have ripple effects on the entire system. For instance, a fuel price hike can lead to increased costs for businesses, which may then pass these costs on to consumers through higher prices (Forrester, 1961). This can create a feedback loop where the increase in prices leads to higher inflation, which can further fuel the rise in prices.

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The relationship between fuel prices and inflation in Nigeria is further complicated by the country's dependence on imported fuel and the impact of exchange rate fluctuations. As the values of naira decline, the cost of importation of fuel increases, leading to high fuel prices. Essentially, the more the price of fuel is subsidized, the more the cost is reduced, the less inflation in the economy and the more the standard of living is raised in the economy.

Fuel Price Hike and Inflation in Nigeria

This caption lured us into dissecting the core issue in this study which is unraveling the nexus between fuel price hike and cost of living in Nigeria, which we have peripherally conceive as being on the high side, in other words called inflation. Worthy to note also is that crude oil remains the world's most important source of energy in the last seven decades, with its products serving as sources of energy for industries, homes, vehicles and airplanes. Consequently, sudden disruptions in oil supplies and sharp increases in its prices are among the most important shocks hitting world economies (Odionye, Ukeje & Odo, 2019). Oil has remained an important commodity that drives economic activities globally, and thus, it price fluctuations are the core determinant of macroeconomic outcome in the world over. Fortunately, the economy of Nigeria was insulated from the shocks of oil price fluctuation through the instrumentality of fuel subsidy regime. Though, according to Omolade, Ngalawa & Kutu, (2019) the social welfare gesture has the tendency to suffer from inflationary pressures resulting from increases in the cost of producing imported goods when there is oil price increases in the international market. Stressing further, they contended that the available data on international trade statistics indicated that the country imported most of its consumer and capital goods worth about US$44.0 billion (10.4 percent of GDP) in 2018.

In a similar vein, Oyeyemi (2013) contends that positive oil price shocks have the tendency increasing money supply in oil producing states, with enormous implications on consumer prices. In the view of Bala and Chin (2018), falling oil prices weaken the foreign earnings of oil producing states, which finally results to depreciation of currency and inflation, thus, oil price shocks, whether positive or negative, have obvious implications on consumer prices in oil producing states, Nigeria inclusive. For Olusegun (2008) and Odionye, Ukeje and Odo (2019) the changes in oil prices at the international market affect inflation in the same direction, without distinguishing the impact of an increase or a decrease in oil prices on inflation. However, the empirical association between oil prices and economic activity may not be symmetrical as positive and negative oil price shocks may have distinct impacts on economic activity.

According to Omolade et al. (2019), it would be a misnomer to believe that the behavior of inflation in response to oil price shocks is in a defined direction. In response to the research nitch carved out by them, Bala and Chin (2018) address this matter of fuel price and inflation by adopting asymmetric approaches to examine their impacts using aggregate inflation in Africa's oil producing state Nigeria inclusive. From the study, they found that higher oil prices impact the economy in different ways: such as the rise in the cost of production of goods and services in an economy emanating from an upsurge in the relative price of energy inputs; transfer of income from oil importing economies to oil exporters; uncertainty in investment decisions by households and firms owing to uncertain oil prices in the future it impacts on the price level and the decline in economy's productive capacity as producers respond to higher oil prices by reducing their utilization of both oil and capital. Others involve direct and indirect impacts on financial markets and the incentive for providers of energy to increase production and investment. Worthy to note also is that the magnitude and direction of its impact, however, differ between industrial and developing countries as well as between oil producing and consuming economies.

More so, Zivkov, Duraskovic & Manic (2019), clearly intoned that oil price shocks affect domestic inflation in countries through both direct and indirect channels: in a direct manner, it affects through increases in prices of refined oil products, which spill over to the Consumer Price Index (CPI), and indirectly through price changes in goods and services, which utilize oil or oil products as inputs in the production process. The direct impact would depend, among others, on the expenditure share of households on refined oil products over total expenditure. By extension, Alvarez et al. (2011) demonstrated that the direct impacts tend to exhibit higher pass-through to inflation than the indirect impacts. Meanwhile, inflationary pressures emanating from rising oil prices through these channels (first round effects) may trigger behavioral responses from firms and workers, leading to revision of inflation expectations, increase in nominal wages, transferring the marginal increase in cost of production to consumers and further changes in the price level through the second-round effects.

Corroborating this, Conflitti and Luciani, (2017) states that oil price hikes may have an inflationary effect in four ways – increase in production costs, higher inflation expectations, demand for higher wages by workers to compensate for the increase in energy prices and an adverse supply shock if real wages do not decrease sufficiently, thus triggering an adjustment in employment. However, the correlation of fuel price hike and cost of living in Nigeria is quite positive in the sense that the oil as the mainstay of Nigerian economy has decisive impacts on the economy, which is more reason we say that what affects the oil affects other parts of the economy. As a capitalist society, everybody is interested in maximizing profit therefore at any particular point; seek a way or reasons for increasing the cost of his commodities. Even a product that can easily be insulated from oil antics are highly immersed in it to attract sympathy and price hike, where the owners will be claiming that he will sell it and make money to buy fuel price influenced products. Empirically, the link between the cost of living of the citizen and fuel price hike in Nigeria is demonstrate on the table below using prices of rice as the Nigerian staple food:

Table 1: Fuel Prices and the Costs of 50kg Bags of rice from 2011-2022

S/N	YEAR	FUEL PRICE (NGN)	PRICE OFRICE (NGN/50KG)
1	2011	65	2,500
2	2012	120	7,500
3	2013	120	9,000
4	2014	120	10,000
5	2015	145	8,500
6	2016	145	13,000
7	2017	145	16,000
8	2018	145	18,000
9	2019	210	19,000
10	2020	230	26,000
11	2021	250	28,500
12	2022	300	37,000
13	2023	800	47,000

Source: Media Report (2023)

The table above shows the price of fuel and rice (kg) in Nigeria from 2011 to 2023. Fuel prices rose over the years, with a significant spike in 2023. Rice prices followed a similar trend, likely due to increased transportation and production costs. From 2011 to 2013, the fuel price remained relatively stable, with a

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significant increase in 2012 from 65.0 to 120. From 2015 to 2018, the fuel price remained constant at 145. In 2019, the fuel price increased to 210, which is a 45% increase from the previous year. - In 2020, the fuel price increased to 230, which is a 10% increase from the previous year. In 2021, the fuel price increased to 250, which is a 9% increase from the previous year. In 2022, the fuel price increased to 300, which is a 20% increase from the previous year. In 2023, the fuel price increased dramatically to 800, which is a 167% increase from the previous year. The dramatic increase in 2023 is particularly notable, and will likely have far-reaching consequences, including increased household expenses, reduced food affordability, broader economic impacts, ultimately affecting consumers' purchasing power and overall economic stability.

Conclusion and Recommendations

The fuel price hike in Nigeria has had a profound impact on the country's economy, significantly contributing to inflationary pressures and affecting the cost of living for millions of Nigerians. The ripple effects of increased transportation costs and prices of goods and services have far-reaching implications for the economy and the populace, exacerbating poverty and reducing the purchasing power of consumers. As the Nigerian economy continues to navigate these challenges, it is essential to develop and implement policies that mitigate the adverse effects of fuel price hikes and promote economic stability and growth. A comprehensive approach that considers the complex relationships between economic variables and the welfare of Nigerians is crucial for addressing the impact of fuel price hikes on inflation and ensuring a more sustainable and equitable economic future.

Based on the above findings, the study recommends the following as the ways forward:

1. Implement phased subsidy removal with targeted social safety nets: This approach would help protect vulnerable populations from the impact of fuel price hikes while also allowing for a gradual transition to a more sustainable energy policy. Targeted social safety nets, such as conditional cash transfers and subsidized public transport, can help mitigate the adverse effects of subsidy removal on low-income households.
2. Accelerate Investments in Renewable Energy and Electric Rail Systems: Investing in renewable energy sources like solar and wind power, as well as electric rail systems, can help reduce Nigeria's dependence on petrol and lower logistics costs. This can contribute to economic stability, reduce the impact of fuel price shocks, and promote sustainable development.

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