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Government Expenditure on Social Protection and Cost of Consumer Goods: A Focus on the Living Standards of Nigerians

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A B S T R A C T

This study critically assessed the effect of government social protection expenditure on the standard of living in Nigeria. More so, it examined the mediating role of cost of consumer goods and services by employing the Autoregressive Distributed Lag ARDL methods of analysis from 1990 to 2022. The study finds that government social protection expenditure has an increasing positive effect on the living standards of the Nigerian masses, whereas the cost of consumer goods and services has a reducing effect on the living standards. Furthermore, the computed marginal effect values suggest a fluctuating effect of the CPI on the social protection expenditure and the standard of living nexus in Nigeria. The government recommends for excess government social protection expenditure such as subsidies on essential goods and services and effective monetary policy towards improving the purchasing power parity of the Nigerian currency thereby improving the living standards of Nigerians

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INTRODUCTION

Standard of living as one of the components of human development can be seen as the level of income, comforts and services available generally applied to a given society, region or a nation rather than to an individual (Jeff-Anyeneh, 2018; Nadabo, & Salisu, 2025; Nadabo & Dakyong, 2023). On a broader perspective, it refers to a process of enlarging people's choices through improving their capabilities, expanding their opportunities and removing social, cultural or political barriers that are unfavorable to their wellbeing and living conditions (World Bank, 2018). Standards of living of people across the world differ due to different patterns of government commitment with regards to expenditures on welfare and improved living conditions of the masses. In the Sub-Saharan African (SSA) region, today, the fall in the living standards of the masses is quiet alarming, which may be attributed to poor government commitment with regards to social protection expenditure on subsidies of essential products and services, consumer goods, poor policy formulations and executions, high rate of unemployment, poor feeding, clothing and shelter (IMF, 2020; Nadabo, Kwarah, & Abdullahi, 2024).

Although the Nigerian government has made huge commitment to social protection expenditure through the implementation of active policy measures to strengthen the living standards of the masses, some of these programs includes; Social Investment Program (SIP), National Poverty Eradication Program (NAPEP), Millennium and Sustainable Development Goals (MDGs & SDGs), National Health Insurance Scheme (NHIS), Universal Basic Education (UBE) Agricultural Development Programs (ADP,s) and the establishment of Federal Ministry of Humanitarian Affairs Disaster Management and Social Development (FMHADMSD) to mention just a few. Despite these efforts by the Nigerian government, the standards of leaving as evidently depicted by Nigeria's human development index (HDI) has remained low over the years as suggested by the reports issued by the United Nations Development Program (UNDP) in recent times as compared to her African counterparts. For example, the HDI for Nigeria was 0.526 in 2015-2016, 0.531 in 2017,0.534 in 2018 and 0.539 in 2019. These statistics signifies low standards of living in Nigeria as compared to other African countries which are further illustrated in Figure 1, from the figure, countries like Angola, Benin, Botswana, Cameroon, Cabo Verde, Eswatini, Gabon, Ghana, Liberia and South Africa experienced better living standards than Nigerians.

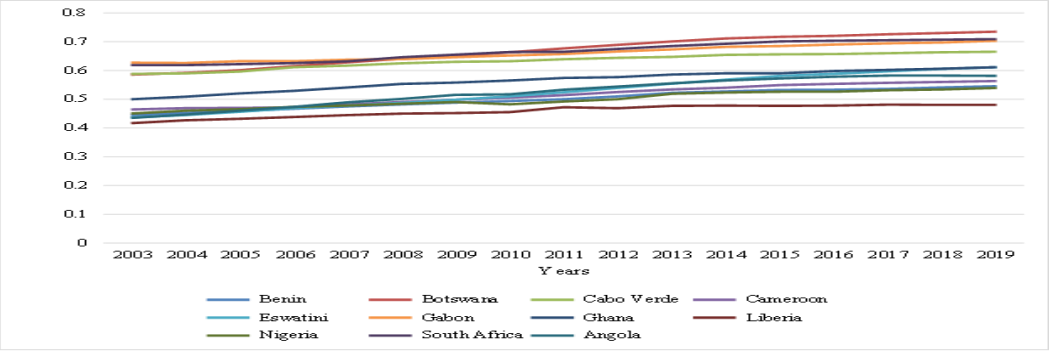

Figure 1. Plots of HDI for Selected SSA Countries

Specifically, in Nigeria, government expenditure on social protection is one of the most significant determinants of living standard; hence it can take a leading role in its enhancement. Social protection can be viewed broadly as all form of public and private initiatives that provides income or consumption transfers to the poor, protecting the vulnerable against destitution and enhance their social status and rights: with the overall objective of reducing the economic and social vulnerability of the common masses (Holmes, et. al., 2012). Over the years social protection has been a component of government expenditure in Nigeria due to its significance in uplifting the standards of living of the common masses. It is in this regards that the Nigerian government and social protection partners took a significant steps towards establishing a social protection policy (NSPP) with the aim of ensuring efficient utilization of public funds towards improving the quality of lives of Nigerian citizens (Holmes, et. al., 2012; Nadabo, & Salisu, 2021). Moreover, social protection expenditure is aimed at protecting the vulnerable Nigerian citizens from economic shocks such as; increases in prices of major food items consumed, increase in prices of factor inputs, theft of crops, cash, livestock, natural disasters such as flood, drought and poor harvest (Hagen-Zaker & Holmes, 2012). Evidently, Nigeria's social protection budget is lesser compared to its foreign counterpart considering its population, and its size of Gross Domestic Product (GDP), it should be noted that it witnessed a significant increase in the last decade (Aremu, 2019). For instance, social protection expenditure rose from about ₦261.65 billion in 2010 to ₦1.26 trillion in 2021. Also, in 2020, the expenditure saw a surge of 58.05% increase from ₦712.4 billion in 2019 to ₦ 1.13 trillion in 2020, respectively as reported by the National Bureau of Statistics (NBS, 2022). Unfortunately, the rising cost of social protection expenditure during the last decade has not improve the living standards of Nigeria as its human development index (HDI) is low in comparison to other African nations (Jeff- Anyeneh, 2020).

Although government social protection expenditure can have an influence on the living conditions and incomes of Nigerians, however, the rising cost of consumer goods and services in recent times may have an influence on the relationship between these two indicators. It is in this regards that this study aim to assess the mediating role of the rising cost of consumer goods/services on the relationship between government social protection expenditure and the living standard of Nigerians (Nadabo, & Abdullahi, 2024). Moreover, this study aims to compute the marginal effect of government social protection expenditure on the standard of living of Nigerians at different levels of costs of consumer goods and services.

A critical survey of the literature indicates that many studies on the government expenditure and standards of living nexus have been carried out in different world regions including Nigeria. More precisely, this study laid more emphasis on the most recent extant literature on Nigeria. For example, Michael and Adenekan (2022) examined the impact of government expenditure on the standard of living in Nigeria. Also, Sarah, Amalachukwu, Gideon and Andrew (2020) studied the relationship between government expenditure and standard of living in emerging African markets with specific interest on Nigeria.

Furthermore, Nduka, Ananwude and Osakwe (2019) assessed the impact of federal government expenditure on the standard of living of Nigeria's citizens. Based on these critical assessments, none of the aforementioned studies conducted on Nigeria considered a crucial component of government expenditure (i.e. government expenditure on social protection). More so, the standards of living of the Nigerian masses has been on a decline due to exorbitant cost of consumer goods and services, less attention has been given to this problem in the most recent period (i.e. 2024). Also, the technique of mediating the cost of consumer goods and services on the relationship between government social protection expenditure and the standards of living is missing in existing studies.

The motivation for this study emanates specifically from the poor living condition (standard of living) of the Nigerian citizens in recent times indicating poor human development as evidently suggested by the HDI despite her governments' huge periodic social protection expenditures for the purpose of improvement. Also, the rising cost of consumer goods and services in Nigeria recently is detrimental to socio-economic lives of the masses which are also considered a determinant of living conditions is at an alarming rate and needs to be critically re-examined. To achieve the foregoing, this study adopted the ARDL estimation technique for estimations. Also, its scope covers the period of 1990-2022. The rest of the paper is structured into four sections: the literature review in section two, methodology in section three, results and discussion in section four and conclusions and recommendations in section five.

LITERATURE REVIEW

The relationship between government expenditure and standard of living has been investigated by scholars in regions of the world including Nigeria. For example, Harriet, Ugherughe and Vincent (2023) investigated the role of public expenditure on living standard and economic growth in Nigeria from 1981-2021. The scholars employed the Ordinary Leased Squares (OLS) estimation technique for data analysis. The finding of the study reveals positive effect of government capital expenditure on the living standards and different components of the Nigerian economy. Also, Ogundipe and Adesola (2022) studied the effect of federal government expenditure on the standard of living, taking economic growth as a proxy for measurement. The study spans through the period of 1981-2018 and the OLS estimation technique was employed for the empirical analysis. Result obtained suggests that government sectoral expenditures positively affect the living standards of the Nigerian citizens. Furthermore, Nwankwo, Nwakoby, Anyanwu and Ananwude (2022), studied the effect of federal government expenditure on economic growth in Nigeria for the period of 1986- 2020 by employing the ARDL estimation technique, results obtained reveals a positive relationship between government expenditure and economic growth.

Moreover, Sarah, Amalachkwu, Gideon and Andrew (2020) examined the effect of government recurrent and capital expenditures on the standards of living of Nigerians from 1981 to 2018 by employing the causality test and the ARDL techniques. The findings revealed that government expenditures affect the living standards of the Nigerian citizens both in the short and the long run.

Elsewhere, Nduka, Ananwude and Osakwe (2019) examined the effect of federal government expenditure on standard of living in Nigeria from 1981-2018 by employing the ARDL and granger causality approach. The test result reveals a positive effect of government expenditure on the living standards of the citizens. Furthermore, Ahmad and Ubaidillah (2020) explored the effect of government expenditure efficiency towards human development for a group of forty one countries across the world for the period of 2006 to 2010. The study employed the panel GMM approach for its empirical analysis. The findings of the study indicate a significant and positive relationship between government expenditure and human development in those countries where the study was conducted.

Also, Miloud, Norashidah and Imdadullah, (2019) conducted a study on government expenditure and human development relationship in twenty selected Middle East and North African (MENA) region from 1995 to 2010. The researchers make use of panel cointegration technique for his empirical investigations. Findings from the study revealed that government expenditure have a positive and significant effect on human development. Also gross fixed capital formation shows a positive and insignificant relationship with human development. Patrick (2021) assessed the relationship between federal government expenditure and human development components in Nigeria from 1970-2003. He employed the Ordinary Least Square (OLS) technique for its empirical investigations. The result obtained from the study indicates a positive and significant relationship between public expenditure and human development in Nigeria during the period covered for the investigations.

Furthermore, Bakare and Olubokan (2020) assessed the relationship between federal government expenditure and human development in Nigeria for the period of 1998 to 2008. The study employed the ordinary least multiple regression analytical method. The results from the study show a significant and positive and significant relationship between federal government expenditures and human development. In addition, Uchechukwu (2021) studied the nexus between federal government expenditure and human development in Nigeria for the period of 1990 to 2011. The author employed the ARDL approach of data analysis and investigations. The results obtained from the study suggest a positive and significant relationship between government expenditure and human development. Also, it revealed a relatively inelastic relationship between human development and government expenditure.

In a similar direction, Paul, and Akindele (2022) examined the impact of federal government expenditure on capacity building and human development in Nigeria by employing a time series data spanning from 1980 to 2013. The study employed the ARDL cointegration method of estimation. The findings from the study revealed that there is positive long-run relationship between federal government expenditure on education, life expectancy rate, gross capital formation and human development but it is statistically insignificant. The results also showed that there is negative long-run relationship among primary, tertiary school enrolment, public expenditure on health and human development.

Theoretical Framework for the Study

The theoretical framework for this study is based on the Keynesian theory of income output and employment of (1937) which holds that government expenditure have an effect on the total income of a given nation and stated as:

$$Y = C + I + G$$

Y= total production, output, income and economic growth
C = total consumption
G = aggregate government expenditure
I = investment

The theory is linked to this study by relating government expenditure, aggregate income, consumer expenditure of a given nation which to some extent measures the living standard of its citizens.

METHODOLOGY

The methodology discusses modelling, data sourcing, methods of analysis etc.

Modelling, Data Measurements and Sourcing

This study adopted the model of Nduka et al. (2019) as reviewed in the literature stated as follows:

$$GDPt = (FGC.EXPt, FGR.EXP, INT.Rt,)$$

For the purpose of this study, model (2) is modified to incorporate other potential determinants of living standard in Nigeria, which is stated as follows:

$$RGDP.PCt = (G.EXPt, CPI, BCt,)$$

Hence, the econometric model for this study is specified in (3) after taking the logged values of the data with the exception of CPI as follows:

$$\text{L } RGDP.PCt = \beta 0 + \beta 1\ LG.EXPt + \beta 2\ CPIt + \beta 3\ LBCt + \mu$$

Furthermore, model (3b) which includes government social protection expenditure (G.EXP) and consumer price index (CPI) interaction is specified as follows:

$$\text{L } RGDP.PCt = \beta 0 + \beta 1\ LG.EXPt + \beta 2\ CPIt + \beta 3\ (LG.EXP * CPI) + \beta 4\ LBCt + \mu t$$

$\beta 0$ is the constant term, $\beta 1$, $\beta 2$, $\beta 3$ and $\beta 4$ are the parameters to be estimated, μt ~ (0, $\sigma 2$) is the random error term with zero mean and constant variance.

Furthermore, through the interaction term, i.e. $LG.EXP * CPI$ the marginal effect of government social protection expenditure on the standards of living can be captured by taking the partial derivatives of equation (3b) with its respect as follows:

$$\frac{\partial\ (LRGDP.PC)t}{\partial\ (LGEXP)t} = \beta\ 1 + \beta 3\ (LCPI)$$

Data Measurements and Sourcing

Government expenditure on social protection: it is measured by government social protection expenditure index harmonized by programs such as; cash transfers, stipends, social pensions, fee waivers, school feeding, public works, cash grants and soft loans. It is sourced from the International Labor Organization (ILO, 2023) data base.

Standard of living: it is measured by the real gross domestic per capita, otherwise the real income of Nigerian consumers for the period under review. It is sourced from the World Bank data base of 2023. Cost of consumer goods and

services: it is measured by the consumer price index i.e. the price of weighted average of market basket of consumer goods and services purchased by households over a given time period. It is sourced from the National Bureau of Statistics (NBS, 2023) data base

Bank Credit: measured by credit facilities of deposit money banks to private sector for the enhancement of SME's. Sourced from World Bank data base of 2023

Methods of Analysis

This study used pre-estimation tests of stationarity, such as the ADF and PP tests, as well as descriptive statistics. For empirical estimations, the study utilized the Auto Regressive Distributed Lag (ARDL) method of data analysis. The ARDL model for the study is specified in (4) as follows:

$$\Delta(LRGDP.PC)_t = \theta_0 + \sum_{i=1}^{\rho} \theta_1 \Delta (LRGDP.PC)_{t-1} + \sum_{i=0}^{n_1} \theta_2 \Delta\ (LGEXP)_{t-i} + \sum_{i=0}^{n_2} \theta_3 \Delta\ (CPI)_{t-i} + \sum_{i=0}^{n_3} \theta_4 \Delta\ (LGEXP * CPI)_{t-i} + \sum_{i=0}^{n_2} \theta_3 \Delta\ (CPI)_{t-i} + \sum_{i=0}^{n_3} \theta_4 \Delta\ (LGEXP * CPI)_{t-i} + \sum_{i=0}^{n_4} \theta_5 \Delta\ (LBC)_{t-i} + \beta_1\ ECM_{t-1} + \mu_t \quad (4)$$

RESULTS AND DISCUSSION

This section presents and discusses the empirical results obtained from the analysis conducted.

Descriptive Statistics and Stationarity Tests

Table 1. Descriptive Statistics

Variables	$LRGDP.PC$	$LGEXP$	$LCPI$	LBC	$LGEXP*$	$CPI.$
Mean	1575.1	97.4	25.1	0.6		64.2
Max	2412.9	156.7	48.7	0.9		78.6
Min	1151.1	50.9	4.9	0.3		16.7
Std. Dev.	392.5	25.5	12.3	0.1		2.6
Obs.	32	32	32	32		32

Table 1 describes the model of the study statistically where it shows LBC to have less deviations of (0.1) and RGDP.PC with the highest deviation of (392.5) from their respective means. Other statistical descriptions with regards to the model such as mean, minimum and maximum appeared normal. Furthermore, stationarity test conducted on the variables indicates that all the variables

employed are stationary at either level or first difference, employing both ADF and PP tests, respectively.

Table 2. Results of Bounds Test to Cointegration

Dependent Variable	Function	F-statistic
$LRGDP.PC$	f(GEXP., CPI, BC)	7.74***

Critical Value Bounds					
10%		5%		1%	
I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
2.37	3.2	3.15	4.08	3.65	4.66

Source: Author's calculation.
*** denotes a rejection of the null hypothesis of no cointegration at 1% level.

Results depicted in table 2 suggest a long-run relationship (cointegration) among the estimated variables. This is concluded due to higher values of F (7.74) which is above the upper bound critical values at 1% level of significance.

Long Run Estimated Results

Table 3. Long Run Estimated Results ARDL (First Model)

Panel A: Long-run Coefficients (Dependent Variable is $LRGDP.PC$)

Variable	Coefficient	Std. Error	T. ratio	Prob.
$LGEXP$	25.7	2.79	9.2	0.0000
$LCPI$	-16.11	6.51	-2.48	0.0059
LBC	7.58	19.5	3.8	0.0015
C	8.7	2.45	3.7	0.0003

The long-run ARDL results in Table 3 reveal that government social protection expenditure has a significant positive impact on the standard of living in Nigeria, as a 1% increase in spending leads to a 25.7% rise in real GDP per capita. This supports Keynesian economic theory, which emphasizes the role of government intervention in boosting economic well-being. Conversely, the cost of consumer goods and services (inflation) negatively affects the standard of living, with a 1% increase in CPI reducing real GDP per capita by 16.11%. This aligns with Cost-Push Inflation Theory, which suggests that rising prices lower purchasing power and economic growth. Similar findings have been reported by studies like Fischer (1993), Barro (1995) and Nadabo, Abdullahi, and Salisu, (2024) which show that high inflation negatively affects economic growth by distorting investment and consumption decisions. Furthermore, bank credit to the private sector positively influences the standard of living, as a 1% increase in credit leads to a 7.58% rise in real GDP per capita. This finding is consistent with

Schumpeter's Theory of Financial Development, which highlights the role of financial institutions in fostering investment and economic progress. Empirical studies such as Bakare & Olubokan, (2020) Patrick, (2021), Uchechukwu, (2021) and Nadabo, & Salisu, (2023) also confirm that increased bank credit leads to higher capital formation and improved household income levels.

Table 4. Long Run Estimated Results ARDL (Second Model)

Panel A: Long-run Coefficients & ECT (Dependent Variable is $LRGDP.PC$)			
Variable	Coefficient Prob.	Std. Error	T. ratio
$LGEXP$	24.7 0.0003	5.1	4.8
$LCPI$	-19.53 0.0027	17.6	-1.13
$LGEXP * CPI$	6.39 0.0082	0.17	0.22
LBC	3.91 0.8849	2.36	3.23
C	8.7 0.0003	2.45	3.7
ECT_{t-1}	-0.47 0.0000	0.0479	-5.2696

The results from Table 4 show that an increase in government expenditure on social protection (LGEXP) has a significant and positive impact on the standard of living (real GDP per capita) with a coefficient of 24.7 (p = 0.0003). This aligns with Keynesian economic theory, which emphasizes the role of government spending in stimulating economic growth. Public spending on programs like cash transfers and school feeding can boost household income and consumption, improving overall welfare. On the other hand, an increase in the consumer price index (LCPI) negatively affects the standard of living, as indicated by the coefficient of -19.53 (p = 0.0027). Inflation erodes real income and purchasing power, leading to a decline in economic welfare.

The interaction term (LGEXP * CPI) coefficient of 6.39 (p = 0.0082) suggests that government social spending can help offset the negative impact of inflation on the standard of living. This supports the idea that targeted government expenditures can mitigate the effects of price fluctuations, especially for low-income households. However, the coefficient of LBC (3.91, p = 0.8849) is positive but statistically insignificant, indicating that bank credit does not have a significant long-term impact on the standard of living. This may be due to financial inefficiencies or credit constraints that limit the ability of private sector borrowing to drive economic improvement.

The Error Correction Term (ECT) of -0.47 (p = 0.0000) is negative and significant, indicating a long-run equilibrium relationship. Deviations from

equilibrium are corrected at a speed of 47% per period, suggesting a relatively quick adjustment toward long-run stability. The constant term (C = 8.7, p = 0.0003) is positive and significant, indicating a baseline level of economic well-being even in the absence of changes in policy variables. This suggests that other underlying factors, such as natural resources or productivity levels, also contribute to Nigeria's standard of living. The significance of the constant term highlights the importance of both policy interventions and intrinsic economic factors in sustaining income levels.

Diagnostic Tests Results

The diagnostic tests in Table 5 assess the reliability and validity of the estimated ARDL model by checking for issues such as serial correlation, heteroskedasticity, misspecification, and normality of residuals. The results indicate that the model passes all key diagnostic tests, confirming its robustness for inference and policy recommendations.

Table 5. Diagnostic Tests

Test Statistic	Results
Serial Correlation:	2.27[0.145]
Heteroskedasticity:	1.23[0.350]
Functional Form: Reset F-stat.	0.12[0.905]
Normality: Jarque-Bera	4.41[0.110]

Source: Author's Compilation

The serial correlation test statistic (2.27, p = 0.145) indicates no evidence of serial correlation in the residuals, as the p-value exceeds 0.05. This implies that the model's error terms are not correlated over time, ensuring unbiased and efficient estimates. The absence of serial correlation validates the model's ability to capture the relationship dynamics between government expenditure, inflation, bank credit, and standard of living. The heteroskedasticity test result (1.23, p = 0.350) confirms that the residuals exhibit constant variance, indicating the absence of heteroskedasticity. The non- rejection of the null hypothesis of homoskedasticity supports the stability and efficiency of the estimated coefficients. The RESET F-statistic (0.12, p = 0.905) suggests no model misspecification, indicating that the model's functional form is correctly specified. The Jarque-Bera normality test (4.41, p = 0.110) indicates that the residuals are normally distributed, enhancing the model's reliability for economic interpretation and statistical inference.

Marginal Effect Results

Table 6. Marginal Effect of Government Expenditure, Standard of Living of Nigerian Consumers at Different Levels of Consumer Price Index

Variable	Coefficient	ρ. value	Mean	Min	Max

LGEXP	24.7	0.0003	97.4	50.9	
	156.7				
LCPI	-19.53	0.0027	25.1	4.9	48.7
*LGEXP * CPI*	6.39	0.0082	(64.2)	(16.7)	
	(78.6)				

Source: Author's calculation

The marginal effect results in Table 6 indicate that the effect of government expenditure on the standard of living is influenced by inflation levels. The interaction term (LGEXP*CPI) 6.39, (p = 0.0082) indicates that as inflation increases, the impact of government spending on real GDP per capita changes. This suggests that government social protection programs can help counteract the negative effects of inflation, supporting household welfare even when prices rise. The average marginal effect is 64.2, ranging from -16.7 to 78.6, showing that the effectiveness of government expenditure varies depending on inflation levels. Moderate inflation levels allow government social programs to enhance living standards, but at very high inflation rates, their impact diminishes. In extreme cases, the effect can even become negative, indicating that inflation may erode the benefits of social spending. These results support the Fiscal Policy Effect Hypothesis, which suggests that targeted government expenditures can stabilize consumption and mitigate economic instability during inflation. The findings highlight the importance of complementary policies to maintain stability, as social protection programs are sensitive to inflationary pressures.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the long-run estimated results from the ARDL models indicate that government social protection expenditure, inflation, and bank credit significantly influence the standard of living in Nigeria. Government expenditure on social protection has a positive impact on real GDP per capita, while inflation has a negative effect. Bank credit to the private sector also positively influences the standard of living. The diagnostic tests confirm the robustness of the model, and the marginal effect analysis shows that the effectiveness of government expenditure on the standard of living is influenced by inflation levels.

Furthermore, based on these findings, the following policy recommendations are proposed, given the positive impact of government social protection spending on the standard of living, policymakers should consider increasing investments in programs that directly benefit low-income households. This could include expanding cash transfer programs, school feeding initiatives, and healthcare subsidies to improve household welfare and stimulate economic growth. To mitigate the negative effects of inflation on the standard of living, policymakers should implement measures to control price levels and stabilize the economy. This could involve adopting prudent monetary policies, enhancing price stability mechanisms, and promoting competition in key sectors to prevent price distortions.

Since bank credit to the private sector positively influences the standard of living, efforts should be made to improve access to credit for businesses and individuals. This could involve reducing lending constraints, enhancing financial literacy, and promoting a conducive regulatory environment to facilitate credit expansion and economic development. Policymakers should design targeted policy interventions that address the specific needs of different income groups and regions. By tailoring social protection programs to mitigate the impact of inflation and boost household welfare, policymakers can ensure more inclusive and sustainable economic growth.

Overall, a comprehensive approach that combines increased government social protection spending, inflation management, enhanced access to bank credit, and targeted policy interventions is essential to improve the standard of living in Nigeria and promote long-term economic prosperity. By implementing these recommendations, policymakers can create a more resilient and equitable economy that benefits all segments of society.

FURTHER STUDY

This research still has limitations, so it is necessary to conduct further research related to the topic of Government Expenditure on Social Protection and Cost of Consumer Goods: A Focus on the Living Standards of Nigerians in order to perfect this research and increase insight for readers.

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