# FEDERAL UNIVERSITY OYE –EKITI

## DEPARTEMENT OF ECONOMICS AND DEVELOPMENT STUDIES

## PROJECT ON THE IMPACT OF FISCAL POLICY ON ECONOMIC GROWTH IN NIGERIA (1970-2013).

### BY

**MAKANJUOLA OLUWASEUN MARY**

**MATRIC NO: EDS/11/0180**

A PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS AND DEVELOPMENT STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF SCIENCE (BSC) DEGREE IN ECONOMICS AND DEVELOPMENT STUDIES.

**SUPERVISOR: Dr. D Amassoma**

**AUGUST, 2015.**

## CERTIFICATION

This is to certify that this research work tittled the impact of fiscal policy on economic growth in Nigeria was carried out by Makanjuola Oluwaseunfunmi Mary with matriculation number EDS/11/0180 in the department of economics and development studies, federal university oye – ekiti, under the supervision of Dr. Ditimi Amassoma

The long easy has been read and approved as meeting the requirements for the award of bachelor of science in economics and development studies.

.......................................

DR. DITIMI AMASSOMA

SUPERVISOR

30/09/15

SIGNATURE AND DATE

HOD
DEPT. OF ECONOMICS
& DEV. STUDIES
0 9 OCT 2015
FEDERAL UNIVERSITY. OYE-EKITI

.......................................

DR. CHRIS EHINOMEN

HEAD OF DEPARTMENT

09/10/2015.

SIGNATURE AND DATE

ii

## DEDICATION

I dedicate this project to the almighty, ever faithful, ever present, ever sufficient God in whose command I obey.

## ACKNOWLEDGMENT

My inordinate gratitude goes to my everlasting, unshakable, unmovable heavenly father. Who is the reason for my existence and who has given me the strength, courage and wisdom to get this far.

I will like to enourmously thank my profound indebted parents Mr and Mrs  M.Adesua for the moral upbringing and support they gave me and also for giving me the freedom to become what I want to be; I will always remain greatful mum and dad. My sincere appreciation also goes to my brothers and sisters: Dr Dante, Engineer Diran, Mrs Akinjide, Mrs Babalola, Doyin and Yinka Makanjuola, I love you all. Also to my little cousins Kunbi and Timi Orimolade. I will like to thank my grandma Mrs Juliana Orimolade in a special way too; you are the best ma. I also appreciate my maternal Grama, Mrs Adeleye thank you ma.

I sincerely appreciate the unquantifiable support, contribution of my understanding supervisor, Dr. Ditimi Amassoma, for taking his time to supervise, coordinate, read through this research and making necessary corrections up to this stage of completion. May Almighty God perfect your heart desires in Jesus name (Amen).

I will like to sinecerly thank mr emphraim ukwu a lectuerer in the department of for his immense contribution to the success of this project; thank you sir. I also appreciate the effort of Dr Nwosa for his contribution towards the success of this research. And to all lecturers in the department of Economics and Development Studies; Dr. Christopher Ehinomen, Prof.Ogunleye E.O, Prof. Adebayo A. A, Dr. Rufus, Mrs.Adegoke Y., Dr.OmoladeAdeleke, Mr.Agu Osmond, Mr.Ugwu Ephraim Ikechukwu, Mr.UdomImoh, Mrs.Mbah Stella, Mr. Emma Ebere O, Mr.Ogbuagu M.I and Mr.Okoli Tochukwu. Words cannot expresse my gratitude, for all you have done to build something out of me, may you attain the greater height you desired in Jesus name.

I sincerely appreciate the effort of my wonderful uncle Mr Orimolade Ademola towards the success of my academic pursuit.

My appreciation goes to my colleagues  who contributed immensely to my academic pursuit and my existence Odeniyi  Deborah,  Ilesanmi Tunde, Dada Oluwatunmise, Onyemechi Vivian, Adewumi and others. Thumbs up to my valuable friends lt Aduloju Gbenga, Akinwumi Yinka,

Anti Blessing, Oyewole Mercy, Taiwo Obata, Malachi, Ayoola Sunday, Captain Agboola, Obisesan Bukola, Olanikanju Jumoke, Giwa Ayotunde, Mr Adeosun Niyi and others. I also say a very big thank you to the staffs and management of Heirs hospital irare Oye- Ekiti.

This project work is incomplete without special appreciation to my ever supportive friend, Joseph Olamilekan. Words alone cannot express my gratitude for your understanding, support, advice, and love. I love you all.

# TABLE OF CONTENT

**CHAPTER THREE: RESRARCH METHODOLOGY**

## CHAPTER FOUR: DATA ANALYSIS

## CHAPTER FIVE: SUMMARY, RECOMMENDATION AND CONCLUSION

## LIST OF TABLES

## REFERENCES

## APPENDIX

**ABSRACT**

The study investigated empirically the impact of fiscal policy on economic growth in Nigeria. Annual data on government tax revenue, government expenditure, external reserve, total public debt and foreign private investment from the Central Bank of Nigeria covering the period 1970 – 2013 were utilized. The study verified the time series properties using the Augmented Dickey-Fuller (ADF) technique after which the co-integration test was conducted using the Johansen Co-integration test The study adopted the multiple regression method to know the long run effect of the fiscal policy on economic growth in Nigeria between the study period. The study went further to ascertain the short run dynamic effect of the variables of interest. The results shows that while government expenditure, revenue and debt have positive relationship with economic growth in the long run, foreign private investment and tax revenue are negatively related to growth. Similarly, foreign private investment and total debt exhibited significant effect on economic growth in the long run. Furthermore, the short run dynamic analysis showed that that none of the variable is significant thereby indicating that short-run relationship does not exist between fiscal policy and economic growth. Also uni-directional causality was affirmed to exist between all the variables except for Total debt and Revenue which had bi-direction causality. Therefore, the study recommends that there should be fiscal discipline to encourage the fiscal policy measures are set toward realization of goals which would encourage commitment, probity, accountability and transparency by public fund managers; revenue gotten from tax should be expended on economically beneficial project so that the multiplier effect can be enjoyed by the vast majority finally, there should deficit financing by engineering the reduction in unproductive government spending and safeguard public expenditure on infrastructure so as to encourage private sector investment.


Keywords: fiscal policy, revenue, external reserve, FPI, expenditure, total debt and economic growth.

# CHAPTER ONE

## 1.0 INTRODUCTION

### 1.1 Background to the study

The arrangement of government view and regulations to control or empower the aggregate indicator of an economy outlines the macroeconomic strategy. Aggregate indicator includes national income, cash supply, development rate, expansion rate, unemployment rate, premium rate, et cetera (Jhingan, 2008). The main regulatory macroeconomic policies are fiscal policy and monetary policy while others are exchange rate policy, trade policy. Specifically, fiscal policy is the macroeconomic policy where the government makes changes in government spending or tax to stimulate growth while monetary policy deals with changes in money supply or changes with the parameters that affects the supply of money in the economy. Therefore both fiscal and monetary policies serve as the major instruments used to enhance economic growth and development of any country. However, Nigeria economy has witnessed instability in growth and development over the years. As asserted by Nathan (2012), the country's economy has witnessed so many shocks and disturbances both internally and externally over the decades. According to the author, internally, the unstable investment and consumption patterns as well as the improper implementation of public policies, changes in future expectations and the accelerator are some of the factors responsible for it. On the other hand, the external factors among others include wars, revolutions, population growth rates and migration, technological transfer and changes as well as the openness of the country's (Nigerian) economy are some of the factors responsible for growth (Nathan, 2012). Similarly, the cyclical fluctuations in the country's economic activities has led to the periodical increase in the country's unemployment and inflation rates as well as the external sector disequilibria as propounded by Gbosi (2001).

As a result of the foregoing, the importance of fiscal policies as a tool with which government influences the behaviour of the component of aggregate demand cannot be

over accentuated. This may include either an increase or a decrease in taxes as well as government expenditures which constitute the bedrock of fiscal policy. Its origin can be trace to the failure of the classical Economist to give an explanation to the general depressed condition, which bedevilled the United States and other industrial countries' economy in the 1930s (Eze, 2010).

For instance, Eze (2010) argued that in the 'wealth of the nations' (1776), Adam smith proposed the theory of invisible hands. There he stated that every man is bound to act on the basis of self interest (individualism); he also advocated for 'Laissez-faire' which is a policy where the state is to confine itself to only three functions namely; maintenance of the state itself, the provision of defence and the maintenance of internal law and order.

In the same vein, Eze (2010) further buttressed the proposition put forth by Adam smith that the government should not interfere in the economic life of the society, thereby encouraging private individuals in involving in the economic activities of their countries which in turn enhances economic growth.

In consonance with the above, Say's law pinpoints that supply creates its own demand, due to the fact that efficiency in demand was impossible as price, wage and interest rate were fully flexible as opined by Eze (2010). He further noted that it was also generally accepted by the classical economist such as David Ricardo, Thomas Malthus, John Stuart Mill, etc that if the economy suffered any exogenous shock such as an unforeseen downward shift in investment demand, the economy was capable of returning by itself to full employment equilibrium in the absence of government intervention. This theory was questioned during the Great depression, which threatened the United States and other European countries' economy. It was against this background that John Maynard Keynes published his general theory that the notion held by the classical economist of economics system having a self-stabilizing mechanism that would prevent it from period of long run depression and unemployment is unacceptable (Eze, 2010). According to Lota (1996), in response to the flexibility of wages, price and interest rate according Keynes in the real world, wages and prices tends to be sticky in a downward direction. Hence, workers seem

2

to suffer from money illusion. Suggesting solution to the depressed economic condition, Keynes opined that even with the flexible wages and price, it was still possible for the relationship in the economy such that government intervention was needed for economy stabilization through the use of fiscal policy measures. Other recognized philosophers like John Locke, Thomas Hobbes, etc also agree to Keynes philosophy. This therefore is the origin of fiscal policy (Lota, 1996). In Nigeria, since independent, planners have made series of conscious efforts at achieving high levels of economic development through the implementation of national development plans. The fourth of which was launched in 1980. In these plans, Ehinome (2015) argue that the objectives of economic policy were usually spelt out, though varying from plan to plan and reflecting changes in economic environment and circumstances. In spite of these variations, there was a broad spectrum of objectives within which choices had been made. The center of economic policy making in Nigeria, as in most other countries, developed and underdeveloped alike ; while the developed countries strive for faster rate of economic development, their developing counterparts struggle to bridge the wide gap between themselves and the developed countries (Eze, 2010). The author further stated that attainment of a high level of economic growth and development has been generally accepted as a major goal of national policy.

Monetary and fiscal policy as argued by Adefeso and Mobolaji (2010) can be used to maintain economic growth, high employment and low inflation. Various opinions have been expressed on the manner in which those instruments can be used to achieve the desired results. Undoubtedly, inefficient fiscal and monetary policy management were important causes of the economic crises preceding the adoption of the Structural Adjustment Programmed (SAP) in Nigeria in 1986. Subsequently, inadequate fiscal adjustment has often been cited as some of the constraints on achieving the expected turnaround in Nigeria economic growth since the adoption of SAP. For example, there are those who believe that the present system of control has been highly unsuccessful, and the role of government and monetary authorities in process of economic development

in Nigeria has not been adequately defined. However, it is often necessary for government to intervene using fiscal and monetary instrument in free market economics for a variety of reasons including the fact that on their own market forces may fail to achieve the set objective of economic policy. In Nigeria, because the banking system is yet to be fully developed, the Central Bank of Nigeria is necessarily more involved and has acquired a reasonable degree of responsibility in formulating and executing fiscal and other economic policies (Eze, 2010).

## 1.2    Statement of the problem

Due to the poverty level in the country, the growth impact of fiscal policy has generated large volume of both theoretical and empirical literature over the years (Abata. kehinde and Bolarinwa. 2012). Despite the materials and resource the country has for potential economic advancement, the welfare of the vast majority is not yet utilized. Hence the country is caught up in poverty trap, which results from low productivity as a result of low savings which leads to crowding out effect of private sector. This crowding out effect also leads to increased unemployment and eventually reduction in the economic real gross domestic product which will reduce the government reserve, reduce the ability of government to expend on capital goods and make government result to borrowing.

Theoretically, increase in government expenditure should lead to reduction in poverty rate through reduced unemployment rate and increased economic growth at large. But in Nigeria, the reverse is the case. Isiaka and Abdulraheem (2011) show in their research work that increase in total expenditure in the country has led to increase in inflationary rate, high unemployment rate and increase in country profile of indebtedness without a reasonable increase in gross domestic growth. These show that manipulation of fiscal policy to stimulate growth is not justified in Nigeria. Based on these, various researchers identify some of the challenges facing the Nigeria growth and development. Among these researchers are, Gbosi (2007) who noted some challenges facing the Nigerian economy to

4

include, corruption and ineffective economic policies; while Anyanwu (2007) noted inappropriate and ineffective policies. On the hand, Onoh (2007) noted lack of integration of macroeconomic plans and the absence of harmonization and coordination of fiscal policy. Ogbole (2001) was of the view that gross mismanagement, misappropriations of public funds and lack of economic potential for rapid economic growth and development were the main challenges facing the Nigerian economy.

However, this study is induced by the conflicting opinions of various researchers on the manipulation of fiscal policy variables to stimulate growth in Nigeria. While some authors such as Osuala and Jones (2014), Agu, et la (2014), Ozogwu (2012), Sikiru and Umaru (2012), Eze (2010) etc posited that fiscal policy variables impact the economic growth positively, others such as Imoisi (2013), Nathan (2012), Abata and Kehinde (2012), Isiaka, Abdulraheen and Mustapha (2011) etc argued that there exist inverse relationship between economic growth and some fiscal policy variables. Also most of the works only show the relationships that exist between fiscal policy and economic growth without showing the direction of causality that exist between them. This therefore provides the gap for this study since relationship and causality does not mean the same thing.

Based on these assertions, the questions this study tend to answer are therefore stated as follows: what impact does fiscal policy variables have on economic growth in Nigeria, what are the direction of causality between fiscal policy variables and economic growth in Nigeria, and what are the policy implication of the effect of these fiscal variable on economic in Nigeria?.

## 1.3 Objectives of the study

The broad objective of this study is to ascertain the impact of fiscal policy variables (taxation, government expenditure, government borrowing, public debt etc.) on economic growth in Nigeria. The study has the following specific objectives:

5

- To identify the theoretical and empirical insight into the link between fiscal policies and economic growth in Nigeria.
- To ascertain the direction of causality that exists between fiscal variable and economic growth
- To examine if short run relationship exist among the fiscal policy variables.
- To know the effectiveness of fiscal measures in stimulating economy during SAP and post SAP era
- To make policy recommendations based on the findings

  This study hope to reveal to some extent the potentials for the growth of economy in Nigeria if the right fiscal policy measures are adopted and implemented

## 1.4 Research hypothesis

Based on the objectives stated above, the hypothesis that would guide this study is therefore stated as follows:

- $H_0$: Fiscal policy variables does not impact economic growth in Nigeria

  $H_1$: Fiscal policy variables have impact on economic growth in Nigeria

- $H_0$: There is no causality between fiscal policy variables and economic growth in Nigeria

  $H_1$: There is causality between fiscal policy variables and economic growth in Nigeria

- $H_0$: There is no short run relationship between fiscal policy variables and economic growth in Nigeria

  $H_1$: There is short run relationship between fiscal policy variables and economic growth in Nigeria

This study hopes to reveal to some extent the potentials for the growth of economy in Nigeria if the right fiscal policy measures are adopted and implemented.

## 1.5 Significant of the study

According to Eze (2010), Fiscal policy management remains one of the most important functions of the modern state. Policies adopted in this respect have proved to be major tools in macroeconomic management. This is so because public sector fiscal operations determine the source of government revenue and direction of government expenditure. It implies therefore that any misapplication of public sector funds will easily park off chains of macroeconomic disequilibria.

The study will contribute immensely in aiding the government, policy makers, economic planners, researchers, the academia and the student in general. It will provide an insight and understanding to the government on how to be prudent in spending public funds that would bring about economic growth and development. It is also of immense help in providing an insight and knowledge to the general public, policy makers, economic planners, and other regulatory authorities on the impact of fiscal policy on economic growth in Nigeria. To the academia, the findings of the study will contribute to the available literature on the current scenario of economic growth in Nigeria and its level of contribution to the GDP. The findings of this research will assist monetary authorities in assessing the performance of the fiscal policy in Nigeria particularly in terms of their impact on the output of all sectors of the economy; and finally for students the study will broaden their horizon on what fiscal policy means and how the policy can be used to influence the Nigerian economy.

## 1.6 Justification of the study

It is believed that every macroeconomic policy including fiscal policy has long run impact on the economy. Therefore past researches on this topic have been looking at the impact fiscal policy variables has on Nigeria economic growth without giving consideration to the direction of causality and the short-run effect of the independent variables on the dependent variable. These justify the bases for this study as the study

will not only evaluate at the long run impact of fiscal policy on economic growth but also on the short-run effect using the Error Correct model[ECM] and the direction of causality will be evaluated as well, which will make the work contribute to the existing knowledge.

## 1.7 Scope of the study

The study will cover the period from 1970 -2013. This span is chosen due to available data and also to cover the period of pre SAP, SAP and post SAP periods of the fiscal policy measure that was used to regulate the economy.

## 1.8 Organisation of the study

The study will be divided into five chapters. The work will commence with the introductory part which is the chapter one. It contains background to the study, objectives of the study, justification for the study, scope and limitation of the study and the necessary definition of terms used in the study.

The chapter two will be divided into segments which will include the theoretical review, Conceptual frame work and the empirical literature review. The chapter will also analyze fiscal policy tools, Fiscal measures during SAP, Post SAP fiscal policy measures, Fiscal policy and economic growth in Nigeria and so on.

The third chapter will explain the research methodology of the project, the fourth will feature the analysis of the data collected and finally, the fifth chapter will contain summary, conclusion and recommendations of the research work.

## 1.9 Definition of terminologies

**Fiscal policy:** Reem (2009) define Fiscal policy as the means by which government adjusts its levels of spending in order to control and influence the economy of nation. It is

the use of fiscal tools such as taxation and government expenditure to stimulate economic activities.

**GDP:** Gross domestic product is defined by organization for economic co-operation and development (OECD) as an aggregate measure of production equal to the sum of products values added of all resident, institutional units engaged in production plus taxes, and minus any subsidies on products not included in the value of their outputs.

**Government expenditure:** According to Anyanwu (1997), government expenditure can simply be seen as the absorption of resources by the public sector. Here, the public sector broadly defined is that portion of the national economy in which economic and non economic activities are under the control and general direction of the state. It can also be seen as the expenses government incur for its own maintenance, also for the society and the economy as a whole (Bhatia 1976).

**Taxation:** Taxes are compulsory transfer/payments of money from private individuals, institutions, companies and groups of government. According to Powell (1993), tax can be defined as a compulsory levy for its expenditure. It could also refer to levy on an individual's income by the government which is used to provide social amenities to the society. It may be levied on wealth, income, or in the form of surcharge on prices. Taxation, being one of the most effective instruments of fiscal policy, is imposed to reduce private consumption, increased investment, and transfer resource to the government for economic surplus.

**Public debt:** According to Eze (2010), public debt is a term used to denote obligations of government to pay stated sums of money to debt holders at some future time.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.0 Introduction

This chapter will manage the survey of significant writing on the past work of a few who have written on the subject areas of fiscal policy considered apposite to the study.

## 2.1 Conceptual issues/theoretical perspective

As indicated by the Longman word reference of contemporary English, a policy can be defined as a course of action for dealing with a particular matter or situation especially as chosen by a political party or government. The word 'fiscal' is a terminology drawn from the old Greek, 'Fisc', which means basket; i.e public purse or public financial market. Fiscal policy can therefore be define based on the above analysis as deliberate strategies taken by government of a country in the allocation of the economy's resources acquired either through taxation or borrowing in order to direct economic variables towards the achievement of macroeconomic goals.

Anyanwu (1997), defines fiscal policy as that part of government policy that concerns the raising of revenue through taxation and deciding on the level and pattern of expenditure for the purpose of influencing economic activities or maintaining some desirable macroeconomic goals. Such fiscal policy can be used for allocation, stabilization and distribution. The Central Bank of Nigeria defined fiscal policy as measures that government adopt using specific instrument to control, stimulate, structure or restructure their economies so as to attain the desired objectives, which may include increasing output in the industrial, agriculture or other sectors of the economic, employment generation, control of inflation, adjustment in the balance of payments and mobilization of savings.

In essence, a primary objective of fiscal policy is to balance the use of resource of the public and income inequity. It can also be used for allocation, stabilization and distribution purposes. To gear the economy towards the desired goal, government

spending and economic activities, this is done by changing the levels and contents of taxations, government spending and public debts. Some aspects of fiscal policy therefore relate to actions affecting government spending while some others have bearing on revenue.

Fiscal policy is concerned with deliberate actions which the government of a country take in the area of spending money and or levying taxes with the objective of influencing macroeconomic variables such as the level of national income or output, the employment level, aggregate demand level, the general level of prices etc in a desired direction (Buhari, 1993). According to Bhatia (2008), fiscal policy consists of steps and measures which the government takes both on the revenue and expenditure sides of its budget; it is the aggregate effects of government expenditures and taxation on income, production and employment. Dwivedi (2009) stated that it is government's programme of taxation, expenditure and other financial operations to achieve certain national goals. He posited that whatever the objectives and the order of priorities, the two basic instruments of fiscal policy used to achieve social goals are taxation and public expenditure. Jhingan (1997) referred fiscal policy as government actions affecting its receipts and expenditures which ordinarily are taken as measured by the government's net receipts, its surplus or deficit.

Also, Ijeh (2008) referred to fiscal policy as government action plan concerning how to raise funds and disburse funds. He further posited that it is the use of government revenue and expenditure programmes to affect the economy in a way to produce desirable effect such as achieving full employment, general good price level, aggregate demand and economic growth and development. The author noted that the instruments of fiscal policy are taxation, government expenditure, government budget, public debts and subsidy. Government intervention in the economy through its fiscal policy is usually enunciated in its budget. Government tries to manipulate the fiscal policy instruments to stabilize the economy and achieve a desired level of economic growth (Eze, 2010).

11

Cook and Jackson (1979), argue that bequest of the Keynesian revolution was a belief that governments could exert a close control over the level of aggregate demand and hence the volume of output and unemployment, by controlling the balance of its own budget. Amassoma (2015) opines that if demand was insufficient to support some desirable level of economic activities, then government should spend more than they receive in tax and other so as to run a budget deficit(expansionary fiscal policy) and if the demand was excessive, then the balance should be changed so that government budget will be surplus.

## 2.1.1 Objective of fiscal policy

Nigeria fiscal policy objectives can be summarized as follows;

- Generation of sufficient and significant revenues
- Reduction in tax burden on individual and corporate bodies.
- Maintenance of economic equilibrium in order to maintain and control inflationary pressures, economic growth, acceleration, reduction in balance of payment deficit and increased employment generation.
- Promotion of self reliance development.
- Promote transparency and accountability in the management of public finance.
- Reduction on the healthy burden of both external and internal debt.

## 2.1.2 Fiscal policy tools

Taxation, public debt and public expenditure are three instruments used by government to regulate the economy through fiscal tool [Jinghan, 1998].

In Nigeria in particular, the fiscal policy instruments are not different from the ones listed above. The instruments utilized include changes in taxation rates, government expenditure as well as public debt.

## 2.1.3 Government expenditure and economic growth Nigeria

Government use can just be seen as the assimilation of assets by people in general division. Here, the general population area extensively characterized is that partition of the national economy in which monetary and non financial exercises are under the control and general course of the state (Anyanwu, 1997). It can likewise be seen as the costs government bring about for its own particular upkeep, additionally for the general public and the economy all in all (Bhatia 1976).

On the other hand, government expenditure constitute an instrument for direct resource allocation while generating employment opportunities and influencing the general public level, as well as determining the extent of fiscal deficit or surplus for each fiscal year.

Government expenditure has gone beyond the Adams Smith prescription of Defence, maintenance of itself 'and administration of justice'. There is a growing need for the intervention of government in various sectors of the economy, which if left for the private sector will either lead to exploitation or inefficiency due to lack of required capital in producing these goods and services efficiently.

Government expenditure is usually categorized into recurrent and capital expenditure. Recurrent expenditure include all expenditure involved in running cost, such as wages and salaries of government employees, interest or charge on public debt and other transfer payments. Capital expenditure are those involving capital projects such as expenditure on constructions of new hospitals, roads, schools, military hardware, new machineries and equipments for factories etc.

The second national development plan (1970-1974) accorded a leading role to government just as it considered public enterprises as crucial to growth and self-reliance due to capital scarcity, structural defects in the private sector. However against the background of the austere fiscal outlook of the government, under the Third National

13

Development Plan (1981-85), the role of fiscal policy was viewed mainly as the generation of revenue through increased tax effort and the control of public spending.

The growth rate of the economy can be enhance only when public expenditure fulfill the short-term and long term objective of the development plan .

In order for expenditure to be carried out efficiently, some scholars have provided some rule to guide expenditure decision. For expenditure to be meaningful, it must be economical (permitting no wastage), sanctioned (use of public fund should be authorized and it must be used for the purpose for which it has been sanctioned), beneficial (public expenditure should be incurred only if it is beneficial to the society) and surplus (by this, the government is expected to be prudent and should aim at meeting its current revenue. Government should not overspend and run into dept, instead it should always work towards having a surplus).

### 2.1.4 Taxation and economic growth in Nigeria

Taxes are compulsory transfer/payments of money from private individuals, institutions, companies and groups of government. According to Powell (1993), tax can be defined as a compulsory levy for its expenditure. It could also refer to levy on an individual's income by the government which is used to provide social amenities to the society. It may be levied on wealth, income, or in the form of surcharge on prices. Taxation, being one of the most effective instruments of fiscal policy is imposed to reduce private consumption, increase investment, transfer resource to the government for economic surplus. Taxes also provide incentives and/or disincentives in certain specific socio-economic activities. Other reasons for taxation are as follows;

To promote economic growth which is done by giving generous taxation allowances for investment expenditure.

To exercise an overall control over the economy; this is done mainly with the objective of achieving full employment. To secure this, the government adjusts the individual taxes in order to influence consumption, savings and investment. The government also varies the relationship between its own expenditure and revenue through a budget surplus or deficit.

Taxation also helps to modify the influence of price system in order to protect the infant industries, improve the terms of trade by levying an import duty on goods whose supply is less elastic than the demand for them, develop a vital industry, improve the balance of payment by imposing duties to restrict import compensate for external cost and benefit e.g protecting health by taxing cigarette.

## TYPES OF TAX

Taxes can be distinguished from the other on the basis of the incidence. It is asserted that when the impact of tax falls on a taxpayer, it is direct tax. On the other hand, if this impact can be shifted totally or partially from the payer to some other persons, the tax is indirect.

a) DIRECT TAX: these are taxes whose incidence cannot be shifted nor shared by the taxpayer. Direct taxes are usually imposed by the government to curtail the consumption power of the consumer. Direct tax includes: inheritance tax, gift tax, company tax (tax which a particular percentage is deducted as tax from all profit whether distributed or not made by a company), personal income tax (tax on income of an individual), property tax, petroleum profit tax.

b) INDIRECT TAX: these are taxes whose incidence can be transferred totally or partially. Some of these are either specific or ad-valorem. It is specific when it is charged per item and ad-valorem when charged as a percentage on the value of the good. Examples of indirect taxes are tax (tax imposed on the sale of goods and service which is computed as a percentage of the total sales price. It is imposed either on the gross receipts during a given period of time), consumption tax (imposed on retail level), value Added

Tax (discussed in details below), excise duty (levied on home made goods and service), custom duties (duties on imported goods which are levied on approved rate on goods and services and can be categorized into export and import duties).

C) VALUE ADDED TAX (VAT): This tax was introduced in Nigeria by decree No.102 of 1993. This tax was levied on most goods and services at each stage of production at a basic rate. The revenue generated from VAT is distributed to the government as state government including the FCT Abuja 80% while federal government 20%. The goods that are taxable under the law in Nigeria are:

- All goods manufactured and assembled in Nigeria.
- All goods imported in Nigeria and all second –hand goods.
- All household and office furniture and equipment.
- All petroleum product and petroleum equipment, minerals and mining.
- All mineral, bottled water and liquors.

Good and services taxed under the decree 102 of value added tax in Nigeria are:
- All services rendered by financial institution to their customers.
- Services supplied consulting engineers.
- Services supplied by auctioneers, estate agents etc
- Restaurant services supplied by restaurant owners.
- Entertainment services including place and performance, cinema shows and music concerts.
- Letting video tapes or any other audio visual records.
- And other services as may be prescribe by the board.

Goods and services exempted from VAT are;
- All medical products.

- Basic food item.

- Books and educational materials.

- Baby product.

- Commercial vehicles and their spare parts.

- News paper and magazines

- Plant and machinery imported for use in the export processing zone.

Tariff measures are extensively used by government. Government had deliberately kept import duties, especially those on finished products, high as a way of discouraging their importation. Apart from the desire to protect local industries and to save foreign exchange, import duties have also been used to control the price of importation of goods that are considered essential to life. According to Adam smith a good tax must be equitable, economical, convenient, certain, flexible, simple, productive, impartial. He calls it cannon of taxation.

## 2.1.5 Public debt and economic growth in Nigeria

Nigeria's public debt may be classified into two major categories, the internal and external debts depending on whether the source of funding is from within or outside the country. Public debt is a term used to denote obligations of government to pay stated sums of money to debt holders at some future time. Debts in other words are simply borrowed funds.

Public debt may be interest bearing (in which case it either carries a coupon, which entitles the bearer to a specific amount of interest periodically or the loans may be discounted, that is sold below its redemption value) or non-interest bearing.

Government resorts to borrowing when there is a shortfall in domestic savings and the desired level of investment in the country. Government may borrow at this period to finance expenditure on the basis of bringing about increased output and greater economic stability by lessening the severity of depression. Borrowing will therefore enable

government to invest in productive areas where jobs could be created in order to reduce unemployment.

Government may also resort to borrowing during wars or natural disasters capable of disrupting economic activities for a reasonable period of time. Also, in a bid to speed up economic development, underdeveloped countries operate a budgetary policy of capital accumulation but since there is no ready capital due to poor financial base and low saving ratio, government may therefore resort to borrowing to bridge the gap.

Public debt can sometimes be a source of problem, although it can play a significant role in economic growth.

For instance, at full employment, any increase in government expenditure not offset by an equivalent decline in private spending will lead to inflation. Thus, increasing government expenditure by accumulating debt becomes a problem to the economy. Another major negative effect of public debt is that it leads to arbitrary redistribution of income when interests are paid on government securities. This can only be afforded by the rich, as this further widens the gap between the rich and the poor. Another is the issue of debt servicing which serves as a drain on the resources of the debtor country.

Nigeria has contracted a number of debt obligations from external sources some of which are: Paris club of creditors, London club of creditors, multilateral creditors, Promissory note creditors, Bilateral and Private sector creditors.

Public debts carry different maturities such as short, medium and long term. This classification indicates the maturity pattern of the original debts. Short-term debts have original maturity usually of not more than a year. Medium-term debts have original maturity spanning over a year, while long-term debts have original maturity exceeding five years. The structure of the maturity pattern of the debts of a country determines the relative ease with which interest and principal payment are made.

## 2.2 Nigeria fiscal policy measures

The main fiscal policy instrument used by Nigerian government in regulating the economy in the period under review is changes in taxation rate, government expenditure and public debt. These three tools were manipulated with discretion to achieve the macro economic objectives.

In reviewing some of the fiscal policies and their impact on the manufacturing sector, we shall use the objectives of the SAP period, the first, second, third, fourth national plans, first and second rolling plans and from the various annual federal budgets.

### 2.2.1 Fiscal policy measurement during sap

The Structural Adjustment Programme was introduced in the year 1986 as a result of the economic recession that bedevilled the country; the side effect of the oil boom (1972 - 1974) which affected not only the investment, production and consumption patterns of the country, but also its social values, style of economic management and policies and programs implemented (Olaniyan 1996).

He argued that the major causes of this were the increase in debt burden on the nation and the increasing amount allocated for servicing this debts. This crisis led to the introduction of new economic measures in June 1986 with a view to dampening the expected inflationary impact of deregulation in the foreign exchange market, influencing the pattern of consumption and production such that imports would be reduced while real domestic production is encouraged.

The main SAP elements included a reduction in government expenditure, a movement in the direction of a balance budget, a reduction in consumer desire for imports, rationalization in the allocation and utilization of resources in both the public and private sectors and the encouragement of domestic production and improved non-oil exports.

The fiscal measures of 1986 were designed to significantly reduce government budget deficit, generate an increase in revenue and improve efficiency in government fiscal

programs. In achieving these objectives, the policy measures included; the continuation of the national economic fund, levy on all factor income duties varying from 2-15%, import duties on basic industrial raw materials, 5% reduction in agricultural input including tractors, reduction in the duties on imported agricultural commodities from the range of between 50-100% to 20%. However the range of import duties on capital goods and on essential consumer goods was raised from 5-10% to 10-20% and from 15-30% to 20-30%, respectively. In the move to reducing expenditure, petroleum subsidies was reduced by 80%, import levy of 30% was introduced, a 50% reduction in non-statutory transfer and the government decision to disengage itself from participating in non-strategic industrial and commercial enterprises. Also, in order to boost aggregate demand and ameliorate the impact of the restrictive policy focused on in the 1986 fiscal year, personal allowance of ₦1,200 plus 12% of earned income in excess of ₦6,000 was replaced by ₦1,000 plus 12% of earned income.

In the area of company income tax, the turnover tax that was in existence before SAP was abolished in 1985. But in 1987, the rate of company income tax was reduced from 45% to 40% while graduate tax free dividends were allowed to individuals. The policy measures implemented in the 1988 fiscal year were; provision of a deflationary package of ₦2.5m in addition to the built-in deficit of ₦6m, during the fiscal year (thus projecting an overall deficit of ₦8.5m), exemption from taxation of all investment income earned outside Nigeria, and repatriated to Nigeria through channels.

In line with the pursuit of objectives of SAP, the 1989 fiscal policy measures were aimed at revenue generation, protection of domestic industries, reduction in the escalating cost of transportation and those directed towards the promotion of research and development.

In raising revenue, high taxes were imposed on a number of products formerly exempted from tax, and removal of subsidies on fertilizers. The withhold tax of Directors' fees was fixed at 15%, so also that on rental income.

Of all the fiscal *policy tools, it is the tariff measures that have been* most often changed such fluctuation reflect similar trend in the nation's external earnings. In fact, when prospective earnings are high, a liberalization approach is adopted but restrictive measures are taken when induced import demand exceeds the import capacity.

In 1986, following the adoption of SAP, adjustment were made in customs and excise tariff to give advantage to locally assembled agricultural equipment, while some items were placed under ban. In 1987, three import duty surcharges earlier abrogated in 1986 were reintroduced while a comprehensive customs and excise tariff review was completed in 1987.

Though a move liberalized trade regime came into force, a number of items were placed on import and export prohibition.

In 1988, the comprehensive tariff structure was adopted (designed to last for seven years), partly to provide higher degree of protection to local industries and make for continuity.

There was a reduction in the number of excisable products from 412 to 182. The harmonized commodity and coding system (H.S) was incorporated into the new tariff structure while anti-dumping tariff on certain items came into force.

Totally collected revenue amounted to ₦12,302m in 1986 with oil sector contributing ₦8,107.3m and non-oil sector ₦4,194.7m in 1989; federally collected revenue rose to ₦50,200.0m out of which the oil sector's contribution stood at ₦41,334.4m and the non-oil sector's contribution stood at ₦8,865.6m.

The federal government recurrent and capital expenditure stood at ₦7680.0m and ₦8526.8m, respectively. This summed up to a total expenditure of ₦16,206.8m. By the end of 1989 fiscal year, total expenditure rose to ₦41,028.3m of which recurrent expenditure was ₦25,994.2 and capital expenditure, ₦15,034.1m. The increase in recurrent expenditure can be attributed to the high debt-servicing burden. Total

expenditure as a percentage of GDP within this period fell from 22.5% in 1986 to 18.5% in 1989.

The total debt obligation as at 1986 was ₦69903.1m. This rose to ₦137,579.7m and ₦297.4437 in 1987 and 1989, respectively. Three quarter of this debt was from external sources. Total public debt as a percentage of the GDP was 96.9% in 1986 and 133.7% in 1989.

### 2.2.2 Post-SAP fiscal policy measures

Eze (2010) posits that the unrealistic nature of the four national planning model and the realization that the resources could no longer be projected over a long period, especially for a monocultural economy such as Nigeria which depended on crude oil export (the price of which has been unstable), it thus became pertinent that a more realistic development plan be implemented.

National Rolling Plan (1990 - 1992), legislature went for endeavours to battle expansion, hence substantial budgetary shortage were to be maintained. Government uses were to be made more financially savvy and kept at levels that were steady with the country's assets through accentuation on private area interest and privatization and commercialization. In such manner, the general population division was to put more noteworthy accentuation on limited time exercises, including procurement of a fitting approach environment, essential bases and sufficient institutional backing for private venture to flourish (Federal Republic of Nigeria 1990).

On the other hand, the Second Rolling Plan (1991-93) went forward at targeting a balanced budget in 1991 and a surplus in 1992 coupled with continued selective withdrawal from commercial activities and increased privatization and commercialization of public enterprises (Federal Republic of Nigeria, 1991).

Furthermore, based on the recommendations of the study group on indirect taxation, the government decided to adopt the Modified Value Added Tax (MVAST) in principle with a lead period of 2 years during which necessary machinery will be set in motion for the introduction of the scheme. Consequently, the government approved as follows:

- ➢ In order to avoid a multiplicity of tax structures, MVAT replace sales tax in its entirely.

- ➢ MVAT will cover manufacturers' and importers' level in respect of goods

- ➢ MVAT will cover professional services excluding medical and pharmaceutical services; and

- ➢ MVAT legislation will pay special attention to state federal fiscal relationship.

The preparatory action program includes, among other registration of companies to be covered by MVAT, design and production of necessary forms, education of participants and preparation of relevant legislation.

The government, however, started to implement the MVAT from January 1994 covering 15 groups of taxable goods and 23 services, attracting a rate of 5% for taxable goods and services. Later in 1995 the coverage was broadened.

The fiscal policy adopted was more liberals, example, and the introduction of manufacturing in board scheme as a further assistance to exporters of manufactured goods. Under the scheme, manufacturers could import duty-free the raw materials for the production of exportable goods, a move taken by the government to stimulate production. Other policies were tax exemption for locally produced sugar to make it more competitive, the increase in the level of foreign participation in joint ventures to a minimum of ₦250,000 or ₦2.0m and the liberalization of ECOWAS trade.

The rolling plan of 1991-1993 brought with it the following objectives; consolidation of the gains of the Structural Adjustment Programmed, laying a durable foundation for industrialization which is the key to self-sustaining and dynamic growth and creating a

conductive environment for the successful thriving of private sector activities. In view of increasing demand to stimulate growth of official trade within the ECOWAS sub-region, the 1993 fiscal year policy measures were a tax exemption of income under ₦5,000 and the ECOWAS liberalization scheme which was expanded to include a number of industrial products from designated companies.

At the end of the 1993-95 plans, lingering socio-economic problems identified are; high and unstable interest rates, unsustainable fiscal imbalances, and fast depreciating value of the ₦ (naira), high rates of inflation and unemployment. Against this background the policy thrust of the 1994-96 rolling plan was articulated to address the problem of low performance and the declining trend in the growth of the production sectors of the economy, particularly the persistent low level of capacity utilization in industries. Policies were aimed at achieving overall macroeconomic policy stability in the 1994 fiscal year. Among these was the maintenance of an overall balance budget of zero-deficit, implementation of a progressive tax policy, which would reduce the tax burden on workers and encourage investment. In line with this, government revised the rate of withholding tax upwards from 5.0-10% increase in directors' fees for property and Investment Company from ₦3,000 to ₦10,000 and extended the capital tax to include moveable assets and an introduction of a 5% flat rate value added tax to replace the sales tax.

The three-year rolling plan of 1995-97 strategy entered a new cycle with the 1995 budget of renewal. The main focus of the rolling plan was on the prompt allocation of resources to ensure that targeted capital projects are completed within the planned period. The fiscal policy measures as proposed in the 1995 budget were to ensure that revenue would be adequate to meet the total expenditure of the federal government. In line with this, an intensive revenue drive policy was pursued by the federal government, strategies were: increase in the price of petroleum products in the domestic market, improvement in the working condition of the staff of the Nigeria Custom Services and the Federal Inland Revenue services and the payment of performance booms for surpassing revenue

collection target. Still as a motivation to work, the personal income tax was reduced to 30% while children and dependent allowance was increased from ₦600 to ₦1000, respectively. Also in a bid to raise more revenue a new customs and exercise tariff structure was adopted by allowing the importation of commodities which were hitherto prohibited such as day old chicks and parent stock 5%, sparking wire and champagne 100% etc. As an incentive for producers to increase their productivity of exportable goods, there was a tax holiday for small companies in the area of manufacturing, enhanced capital allowance for minimizing and agricultural production.

The economy during the 1995 fiscal year was accessed by the 1996-1998 rolling plan review section as "not impressive", probably due to the unstable political atmosphere both at the domestic and international fronts which continued to affect the performance of the key macroeconomic aggregate vis a vis the economy. In view of the above scenario, the 1996-1998 rolling plan was focused on the following macroeconomic policy objectives.

> Sustenance of managed deregulation of exchange rate with the goal of merging the official and the autonomous rates.

> Continuation of reforms in the finance and banking sector as a prelude to deregulation of interest rate.

> Curtailment of fiscal deficit to a maximum of 3.2% of Gross Domestic Product.

> Operation of light monetary policy stance

> Reduction in inflation rate

> Enhance efficiency in resource allocation in the public sector

The fiscal policy of the plan is to bring revenue and expenditure into the budgetary process, to ensure maximum transparency, accountability and discipline in the fiscal process and keep the fiscal deficit as a percent of GDP not more than 50% per year.

25

During the plan period the policies implemented in pursuing the objective of this plan in the 1996 and 1997 fiscal year can be summarized as; intensive revenue drive, elimination of extra budgetary expenditure, consolidation of all government revenue and expenditure in the budget, interest on loan granted for agriculture, machine fabrication and cottage industry is to be tax free, reduction in import duty, rebate and tariff on a large number of items, the attainment of a fiscal surplus of ₦19m in 1996 and an operational deficit of ₦42m in 1997. To boost aggregate demand, personal income tax was reduced from 30%-25%, also increased was a tax free on earned income from 7,500 to 10,000 and the review of children allowance from ₦1,000 to ₦1,500 per child.

Finally, various tax incentive and tax relief measures was granted to the manufacturing sector accompanied by a reduction of company income tax rate, all aimed at increasing the rate of capital formation in the nation.

Totally collected federal government revenue as at 1990 fiscal year was ₦68,570.5m, out of which the oil revenue was ₦54,713.2m and non-oil revenue stood at ₦13,857.3m. Total collected government revenue rose to ₦88, 158.7m in 1991. This increased persistently each fiscal year attaining the sum of ₦6,000,357.2 in 1997 with oil revenue of ₦474,357.2 and non-oil revenue totalling ₦166,000.0m. Over the period, total receipt of the oil sector was higher than that from non-oil sector. Total federal collected revenue rose to ₦463,608.8 in 1998 and to ₦286,313.5 in 1999.

The expenditure of the federal government rose persistently from ₦61,491.11m in 1990 to ₦67,530.4m in 1991, ₦92,890.2m in 1992, ₦233,806.5m in 1993, ₦202,513 in 1994, ₦284,768.1m in 1995, ₦288,094.6m in 1996, ₦356,262.3m in 1997, ₦367, 261.6m in 1998 and ₦443,563.3m in 1999.

Total expenditure as a percentage of GDP was 23%, increasing to 33.5% in 1993, falling thereafter to 10.4% and increased to 11.4% in 1996 and 1997, respectively.

The changes in the total debt outstanding since the inception of the rolling plan have increased persistently.

As at 1990, total debt was ₦54,093.2m. This increased to ₦441,696.5m, ₦899, 4238.0m, ₦965,550.1 in 1991, 1993 and 1995, respectively. It then fell to ₦960,994.1m in 1996 and increased again in 1997 to ₦4,186,169.8m.

The public debt as a percentage of the GDP was 143.3% in 1990, falling to 128.4% in 1992 and 40.8% in 1996 and then rose again to 133.8% in 1997.

## 2.3 Theoretical Literature

## 2.3.1 The classical theory of fiscal policy

Adam smith and David Ricardo are the major proponents of the classical theory of fiscal policy in the 1970s and 80s, respectively (Eze, 2010). Supply-side determine growth. According to Imoisi (2013) Smith's population growth was endogenous: it depends on the accessibility to carry on and have capacity for the increasing workforce; Investment was also endo established by the rate of savings (mostly by capitalists); land growth was reliant on invasion of new lands (e.g. colonization) or technological enhancement of fertility of old lands. Technological advancements could also add to overall growth (Imosi, 2013). Smith's renowned thesis that the division of labour (specialization) enhances growth was an essential argument. Smith also saw developments in machinery and international trade as engine of growth as they aided further specialization. He also assumed that "division of labour is restricted by the degree of the market" - thus speculating an economic of scale dispute. Thus, he argued that growth was self-fortifying as it demonstrates increasing returns to scale. Lastly, because savings of capitalists is what generates investment and hence growth, he saw the allocation of income as being one of the most significant determinants of how fast (or slow) a nation would grow.

Smith's model of growth remained the main model of Classical Growth. David Ricardo (1817) adjusted it by incorporating diminishing returns to land. Output growth demands growth of factor inputs, but, unlike labour, land is "variable in quality and fixed in supply". This means that as growth continues, more land must be taken into development, but land cannot be "produced". This has two consequences for growth: firstly, raising

land owner's rents over time (due to the limited supply of land) cut into the proceeds of capitalists from above; secondly, earnings from goods (from agriculture) will be rising in price over time and this then cuts into profits from below as workers require higher wages. This, then, brings in a quicker limit to growth than Smith allowed, but Ricardo also asserted (at first) that this fall off can be freely curbed by technological advancements in machinery (albeit, also with diminishing productivity) and the specialization brought by trade, although he also had static states. Ricardo's description is somewhat more cynical than Smith's. The decisive depressing picture, however, was painted by T.R. Malthus (1796) with his famous assertion that if population growth was not curbed, it would rapidly surpass growth and cause rising depression all around. John Stuart Mill enhanced little upon Ricardo, perhaps only to highlight the necessity for management of population growth to put a brake on declining growth and his view of stationary states as magnificent things to achieve.

## 2.3.2 Traditional Keynesian theory of fiscal policy

The Keynesians are the twentieth century economists who embraced and also broadened John Maynard Keynes's principle in the existence of incessant unemployment equilibrium, different from the classical economists position on Say's law of market that argues that market economy are self adjusting therefore there is no need for government intervention in the economy. They trust that fiscal policy is the most intense approach measure to make the economy stable and improve growth. They are at times alluded to as 'Demand-side Economist'.

The components of aggregate demand are consumption, investment, government purchases, and net exports. Let's denote aggregate demand by AD. Thus we have, $AD = C + I + G + X$ where X stands for net exports. In the Keynesian model, aggregate supply denoted AS is just equal to the actual value of GDP that we observe. Thus: $AS = GDP$

Setting aggregate supply equal to aggregate demand, we have,

GDP = C + I + G + X

This equation should account for GDP that we studied in Chapter 2. But in the context of the Keynesian model, it is also a statement about how *GDP* is determined. It says that GDP is determined by the sum of demand from the four sectors of the economy. Economists sometimes characterize the Keynesian model by saying that in it GDP is "demand determined."

The consumption function that we discussed in the previous section says that the consumption component of aggregate demand can, in turn, be expressed as a function of disposable income which we called Y. Let's write disposable income as,

Y = GDP - T

where we can think of T as taxes net of transfer payments. In the simplest version of the Keynesian model presented here, we treat T as a lump sum amount, not as a function of GDP. A more sophisticated model would allow T to be a function of GDP, so that we could study the effect of a change in the tax rate.

The consumption function is then,

C = a + b • Y = a + b • (GDP - T)

Substituting for C in the expression for GDP we get

GDP = a + b • (GDP - T) + I + G + X

Keynesians subsequently demanded that just government obstruction (open part) through the utilization of unlimited strategy measures would take the free endeavour economy out of wretchedness and guarantee steady growth (Imoisi, 2010).

From the above equation we can solve for GDP. The result is,

GDP= 1/ (1-b).[a+I+G+X]-b/(1-b).T

This equation shows how the level of GDP will change in response to a change in any of the autonomous components of spending. Hence a change in either a, I, G, or X will result in a change of 1/ (1-b) in GDP. Of course, this is just the spending multiplier again, but we see that it applies not just to government spending but also to any increase in

spending by any sector. The tax cut multiplier is still b/(1-b), keeping in mind that a tax cut is a negative increase in T. Keynes accepts that the forces of demand and supply could not attain full employment condition. Keynesians therefore insisted that only government interference (public sector) through the use of unrestricted policy measures would take the free enterprise economy out of depression and ensure steady growth (Imoisi, 2010).

The traditional Keynesian multiplier captures how effective increasing government spending or decreasing taxes stimulate output (Skovmos, 2010). Thus, a multiplier of one mean that an increase in government spending will increase national income hence positive relationship exist between government spending and economic growth.

### 2.3.3 The Neo-classical theory of fiscal policy

The neoclassical model of fiscal policy and growth is also known as Solow's model. Robert Solow's (1956) idea was to clarify economic growth by taking into account improve technology, i.e. permitting it to decide growth outside the post-Keynesian theory, where the interference taken by public sector is seen as the main engine for economic growth. Beginning from the classical economists, it has been under examination for a long time to scrutinize why growth rates differ in various countries and what are the fundamental issues in constructing economic development. The essential postulation is that the step up of factors of production is the simplest way to attain better economic growth. Traditional factors of production are: natural resources, labour and capital. The equation $Y(t) = F [ A(t), B(t), L(t) ]$ represents the standard neoclassical equation .

Where; Y represents output at time (t)

K (t) represents stock of fashion at time (t)

L (t) represents stock of Labour at time (t)

A (t) represents measure of physical capital

B; Will depend on level of work force education, health etc.

A; will depend on level of technological development.

Hence the equation states that at any moment, the total output of an economy depends on the quantity and quality of physical capital; employed quantity of labourers used and the average level of skills of labour force.

Hence, increase in either K, L, A or B will lead to increased output. If the stock of capital per work or average quality of labour is increased, output per work will also increase. However, with a reduction in return to physical capital, the economy will tend to have constant capital/labour ratio. Where the return for additional investment equates its exact cost; once the economy reaches a steady state, additional growth will be a result of capital stock per worker which will take place only if the productivity of capital stock is enhanced through technological innovation ( an increase in A) or improvement in the quality of labour force ( increase in B).

In the Solow- Swan model (1956), production function shows decreasing marginal return to both labour and capital. A and B are exogenous and equal, that is, with constant return to scale $Y=A(K,L)$. Thus K will always reach a steady state; the value of $K^*$ and long-run per capita output growth will be determined by the rate of exogenous technological changes.

Hence Gerson (1998) opines that policy that raises the after tax rate return on investment cannot lead to per capita growth in the long run, unless A is increased persistently. Gerson.(1998) further argues that it is likely that firm will take some time to converge to the new steady state because of its expenses  to add capital stock and will make per capital income to jump discontinuously to its new level ($K=K^*$) but rather will increase gradually.

### 2.3.4 The Endogenous growth theory

Due to the fact that Solow's theory could not give details on all models of economic growth, new theories were developed. One of these is the new theory of growth, also known as endogenous growth theory, developed by Paul Romer. Romer's (1986, 1987) key line of reasoning is that technological alteration is not "a manna from heaven" and its trends and degree can be directed. If this is the case, technology can then be made endogenous to growth, rather than being an exogenous factor as in Solow's model. In addition to this, human capital and investments in innovations can then be perceived to be vital in the process. The new growth theory views knowledge as a public good (Romer, 1990). In general, the new growth theory exists in complete difference to the law of diminishing returns, due to the fact that the law of diminishing returns implies that output reduces if we increase the inputs. However, over the last 100 years, output in developed countries has increased and the new growth theory attributes this to an overflow of knowledge and innovations.

### 2.4 Empirical evidence

Mueller (2011) examined the economic, political and institutional constraints to fiscal policy implementation in sub-Saharan Africa. The researcher found out that planned fiscal adjustments or expansions are less likely to be implemented. The larger they are, the more inaccurate the growth forecasts they are based on. The finding supports the endeavours in the area to enhance the quality and opportuneness of monetary information, improve gauging limit, embrace reasonable fiscal plans, and reinforce administration, budgetary organizations, and public financial management procedures.

Karimi and Khosravi (2010) examined the impact of monetary and fiscal policies on economic growth in Iran using autoregressive distributed approach to co-integration between 1960 and 2006. The experimental results showed presence of

demonstrate a negative effect of exchange rate and inflation (as proxies for monetary policy) on growth, but a positive and significant impact of government expenditure on growth.

Enache (2009) investigated the connection between fiscal policy and economic growth in Romania using Forecasted time series data which covered periods between 1992 and 2013. The empirical results indicated that fiscal policy has little impact of on economic growth. The study presumed that administration powers could utilize fiscal policy tools to influence economic growth in an aberrant way.

Mansouri (2008) investigated the relationship between fiscal policy and economic growth in Egypt, Morocco and Tunisia. The spans of data for each country are: 1970-2002 for Morocco, 1972-2002 for Tunisia and 1975-2002 for Egypt. The observational results demonstrated that 1 percent expansion out in the open spending raised the genuine GDP by 1.26 percent in Morocco, 1.15 percent in Tunisia and 0.56 percent in Egypt. The outcomes additionally showed presence of long-run connections for all the three nations.

Zagler and Dürnecker (2003) studied the writing on fiscal policy and economic growth. They introduced a bringing together system for the investigation of long run growth ramifications of government spending and income. They found that the level of education expenditure and the growth rate of public infrastructure investment both exhibited a positive impact on the growth rate of the economy.

Yasin (2003) mulled over the relationship between fiscal policy and economic growth. His studies re-evaluated the impact of government spending on monetary development utilizing panel data set from Sub-Saharan Africa. The outcomes from the estimation procedure demonstrated that administration spending, and private investment spending all had positive and significant effect on economic growth.

Abu-Bader and Abu-Qarm (2003) used multivariate co-integration and variance decomposition techniques to investigate the causal relationship between government expenditure and economic growth. Cross section growth regressions had been used to

assess the relationship between defence expenditure and economic growth. They found that when considering general government use, there was bi-directional causality between government going through and monetary development with a negative long run relationship in the instances of Israel and Syria, and a unidirectional negative short-run causality from economic growth to government spending on account of Egypt.

Devarajan, *et al.* (1996) researched the relationship between the compositions of public expenditure and economic growth. Using a simple, analytical model, they derived conditions under which a change in the mix of public spending could lead to a higher steady-state growth rate for the economy. In view of the model, their observational results proposed that consumptions that were regularly viewed as beneficial could get to be useless if there was an exorbitant measure of them.

Landau (1986) inspected the likelihood that the effect of defence expenditure on output growth was nonlinear, with relatively low levels of defence expenditure enhancing output growth, but relatively low levels of defence expenditure inhibiting growth. He found that this was in fact the case, with a positive relationship between defence expenditure and output growth holding until defence expenditure reached about 4 percent of GDP and a negative relationship taking over at about 9 percent of GDP. For sub-samples restricted to Latin America and Africa, he discovered a huge, positive relationship between safeguard use and the offer of government training and health expenditure in GDP.

Agu, Idike, Okwor and Ugwunta (2014) analyze the impact of fiscal policy on Nigeria economic growth within 1961-2010, utilizing descriptive statistic and OLS into show contribution of government component of fiscal policy to economic growth. The findings survey that total government expenditure increases government revenue with expenditure rising faster than revenue. Thus it indicates that there is positive correlation between government expenditure on economic services and economic growth.

Osuala and Jones (2014), examine the impact of fiscal component the impact of fiscal policy on economic growth in Nigeria using time series data from 1986-2010. He adopted the OLS method of multivariate regression; utilizing Augmented Dickey Fuller unit root,

the outcome is that government recurrent and capital expenditure has positive impact on economic growth and non oil tax and government total debt does not have significant impact on GDP.

Onwe (2014) examined the impact of fiscal components on economic growth in Nigeria. The researcher uses time series between 1980- 2010. Methodologically, unit root tests of stationary and co-integration tests were conducted. However the result indicated that there is negative impact of federal expenditure on economic service and transfer payment on growth of the Nigeria economy and that federal expenditure on administration as well as social and community service has positive impact on economic growth.

Imosi (2013) examined the problem that surrounds procedure of fiscal policy from 1970-2009. He uses OLS procedure to test the effect of government spending and taxation of the Nigeria economic growth. The result shows that there is a positive relationship between government expenditure and taxation which is the independent variable and GDP which was proxy for economic growth.

Ozougwu (2012) assess the impact of fiscal policy on the economic growth of Nigeria within the year 1978- 2011. He uses the augmented dickey-fuller technique and granger causality test procedure. The results indicate that government expenditure and budget deficit financing have positive impact on economic growth, also that government revenue impacts Nigeria economy negatively.

Audu (2012) evaluates the causal relationship between money supply, fiscal deficit and export as a means of analyzing the impact of fiscal policy on economic growth in Nigeria between 1970 and 2010. Using co-integration error correction mechanism [ ECM ], the result shows that there is significant causal relationship between export and gross domestic product GDP and hence fiscal policy.

Babalola and Aminu (2011) investigated the impact of fiscal policy on the economic growth in Nigeria, using time series data for 33 years from 1977 to 2009. Augmented Dickey –fuller technique and Engel granger approach were used and the results show that

the productive expenditure has positive impact on economic growth and a long-run relationship exist between them.

Medee and Nendee (2011) in their study on econometric analysis of the impact of fiscal policy variables on Nigeria's economic growth (1970–2009) using gross domestic product as the dependent variable and Federal government expenditure, Federal government revenue, inflation rate and capital inflow as the regressors and by adopting arcane method of Vector autoregression and error correction mechanism techniques argued that there exists long run equilibrium relationship between fiscal policy variables and economic growth in Nigeria.

Dauda (2010) examined the effect of investment spending in education on economic growth in Nigeria over the period 1977- 2007. The study employs co-integration and error correction techniques. The result shows positive and significant effect of educational expenditure on economic growth.

Nurudeen and Usman (2010) analyzed the impact of government expenditure on economic growth in Nigeria over the period 1970 – 2008. Their results indicate that government total capital expenditure, total recurrent expenditures and expenditure on education have negative effect on economic growth while expenditures on health, transport and communication have positive impact on growth.

Appah (2010) in his study of the relationship between fiscal policy and economic growth in Nigeria (1991–2005) utilizing the multiple regression analysis, adopting gross domestic product as proxy for economic growth and tax revenue, government debt, government recurrent expenditure, government capital expenditure, government recurrent expenditure budget and government capital expenditure budget as the explanatory variables argued that significant relationship exist between fiscal policy variables jointly and economic growth and that the specific variables contributing to the GDP is public expenditure both on capital and consumer goods.

Abdullah *et al.* (2008) used the Pedroni Cointegration method to establish a long run relationship between fiscal policy and economic growth. They found a positive and statistically significant impact of health and education expenditure, aggregate of government expenditure and aggregate of fiscal policy on real per capita GDP. They also found that the defence expenditure, distortionary taxation and budget balance are significantly and negatively related to real per capita GDP.

Omitogun and Ayinla (2007) in their research on fiscal policy impact on Nigerian economy (1981–2004) using Solow growth model estimated with the ordinary least square method claimed that fiscal policy has not been successful in the area of promoting sustainable economic growth.

Ajisafe and Folorunso (2001) in their study demonstrate that monetary policy as opposed to fiscal policy have an awesome impact on economic growth in Nigeria. They therefore observed that the emphasis of government fiscal actions on the economy has led to a greater distortion of the Nigerian economy.

Odedokun (1998) in his study posits that the growth of financial aggregates in real terms has positive effect on economic growth of development countries, regardless of the level of economic development that has been attained.

Anyanwu (1996) examined the Nigeria's urban unemployment using the monetary and fiscal policy implication to analyze the Nigeria's full employment level. However, all the fiscal variables used are significant and they reduced unemployment in Nigeria than monetary policy measure.

Ekpo (1994) considered the commitments of open consumption to economic in Nigeria over the periods 1960 to 1992. The findings from the study provided support for fiscal policy which led growth through crowd-in private investment resulting from government expenditure on infrastructure. Co-integration and error correction techniques were used by the researcher. The result indicates a positive and significant effect of educational expenditure on economic growth.

# CHAPTER THREE

## RESEARCH METHODOLOGY

### 3.0 Introduction

Research methodology refers to the approaches used in conducting an investigation. This chapter explains how data collected for this project were obtained, the specification of the research model and the method of data analysis. Haavelmo, (1994) posit that every economic research primarily aim at arriving at a conjunction of economic theory and actual measurement using the theory and techniques of statistical inference as the matching bridge. Economic theory makes statements or postulates hypotheses that are mostly qualitative and quantitative in nature and as such, it is the choice of the researcher to validate these hypotheses using appropriate models in line with current development and befitting technique of estimation and inference as opined by (Ozougwu,2012).

### 3.1 Models specification

According to Ozougwu (2012), the specification of a model is based on the available information relevant to the study in question. However for the work to be theoretical, formulation of an economic model depends on the available information on the study as embedded in standard economic theory and other major empirical works, or else, the model will be non-theoretical. According to the Keynes, it is believe that the increase in AD will have multiplier effect on the economy thereby stimulating economic growth. Hence, functional form of the model is developed in line with the Keynesian theoretical framework of fiscal policy with little modification in which the components of aggregate demand are consumption, investment, government purchases, and net exports. Let's denote aggregate demand by AD. Thus we have,

$AD = C + I + G + X$

where X stands for net exports. In the Keynesian model, aggregate supply, denoted AS, is just equal to the actual value of GDP that we observe. Thus:

AS = GDP

Setting aggregate supply equal to aggregate demand, we have, GDP = C + I + G + X. Assuming a linear relationship between our dependent variable and independent variables, our equation using the multiple regression analysis is stated as follows:

RGDP=f (GEXP, TREV, TDEBT, ERES, FPI) --------------- (1)

Consequently, the study adopts a multiple regression equation model approach with an econometrics procedure in estimating the impact and extent of fiscal policy on economic growth in Nigeria.

### 3.1.1 Description of variables

However, RGDP is the dependent variable while GEXP, TREV, PDEBT, ERES and FPI are the independent variable based on Keynesians economic theory.

RGDP= Gross Domestic Product at Constant Prices (i.e. Real GDP).

TREV= Total Tax Revenue that is federally collected.

GEXP= Total Federal Expenditure. It is the total gross expenditure both on capital goods and consumption goods by government.

TDEBT= This is the total government debt. It comprise of domestic [internal] and foreign [external] debt.

ERES = This is the country's external reserve

FPI = Foreign Private investment

The econometrics model is therefore as follows;

RGDP= $\beta_0$ + $\beta_1$GEXP + $\beta_2$TREV + $\beta_3$TDEBT+ $\beta_4$ERES+$\beta_5$FPI+ $\mu$-------- (2)

Where;

$\beta_0$= Y-intercept term. This gives the mean or average value of GDP when all the explanatory variables included in the model.

And $\beta_1$, $\beta_2$, $\beta_3$, $\beta_4$ and$\beta_5$= the parameters known as partial slope coefficient or partial regression coefficients that is to be estimated respectively (Gujarati, 2009).

$\mu$= Stochastic $_{variable}$ or error term

Given that the estimation is a time series analysis, we incorporate the time factor in the model; thus our equation becomes:

$$RGDP_t = \beta_0 + \beta_1 GEXP_t + \beta_2 TREV_t + \beta_3 TDEBT_t + \beta_4 ERES_t + \beta_5 FPI_t + \mu_t \text{--------} (3)$$

Where;

t= time variable

For statistical reason we will adopt a lin-log model to know the level of growth for an absolute change in the independent variables. Thus the log-linearised form is stated as:

$$RGDP_t = \beta_0 + \beta_1 \log GEXP_t + \beta_2 \log TREV_t + \beta_3 \log TDEBT_t + \beta_4 \log ERESt + \beta_5 \log FPI_t + \mu_t \text{----}$$
$$\text{----------------------} (4)$$

Moreover, the Error- Correction Methodology (ECM) would enable us to integrate both short-run dynamic and long-run equilibrium models in a unified system. It would enhance data coherence and equally ensure a rigorous theoretical validation. The error correction mechanism is applied at the same time by placing the lag length on all the variables to two; this is to allow for sufficient degrees of freedom

In order to estimate the short-run relationship among variables in equation (4), the corresponding error correction equation is estimated as:

$$\Delta RGDP_t = \alpha_0 + \sum_{i=1}^{2} \Delta\beta_1 RGDP_{t-1} + \sum_{i=1}^{2} \Delta\beta_2 GEXP_{t-1} + \sum_{i=1}^{2} \Delta\beta_3 FPI_{t-1} + \sum_{i=1}^{2} \Delta\beta_4 RESERVE_{t-1} + \sum_{i=1}^{2} \Delta\beta_5 TDEBT_{t-1} +$$
$$\sum_{i=1}^{2} \Delta\beta_6 REVENUE_{t-1} + \lambda ECM_{t-1} + \varepsilon_t \qquad\qquad (5)$$

The $ECM_{t-1}$ is the error correction term. The coefficient of the $ECM_{t-1}$ measures the speed of adjustment towards the long run equilibrium

APIORI EXPECTATION

$\Delta RGDP/\Delta GEXP > 0$,

$\Delta RGDP/\Delta FPI > 0$,

$\Delta RGDP/\Delta RESERVE > 0,$

$\Delta RGDP/\Delta TDEBT > 0,$

$\Delta RGDP/\Delta TREV < 0.$

## 3.2 Evaluation of estimates

The estimated result will be evaluated subject to three criteria: economic, statistical and econometric criteria.

### 3.2.1 Test base on economic criteria;

In the economic method of evaluation, it is expected that the parameter signs and sizes based on the apriori expectations of the economic theory would be met. The economic criterion evaluates the regression results based on the theoretical expectations which is called the a priori expectation therefore the apriori expectation for the variables are;

**Government Expenditure (GEXP):** Government capital expenditure is positively related to gross domestic product. An increase in government total expenditure will increase investment and hence increase income as a result of investment multiplier. Apriori theoretical economic expectation is that the regression co-efficient of government expenditure would be positive.

**Government Tax revenue (TREV):** Tax is a leakage from the economy. The higher the tax the lower the disposable income, investment opportunities and inhibits growth of the gross domestic product. From economic theory, the expected sign of the regression coefficient of government tax revenue is negative.

**Total Debt (TDEBT):** This is the process of borrowing from both domestic and foreign source. Apriori theoretical economic expectation is that the regression co-efficient of total debt is positive.

**External Reserve (ERES):** The economic expectation is that the regression co-efficient is positive.

**Foreign Private Investment (FPI):** The economic expectation is that the regression co-efficient is positive.

### 3.2.2 Test base on statistical criteria;

In evaluating the result for this test, the necessary statistical test will be carried out.

- The coefficient of multiple determinations ($R^2$): This measures the proportion of the variation in the dependent variable (GDP) that is explained by the variations in the independent variables [GEXP, TREV, TDEBT, ERES and FPI]. Coefficient of determination known as $R^2$ will be used to measure the goodness of fit of the model. Its value ranges from 0 to 1 ($0 \leq R2 \leq 1$).

  Decision rule for $R^2$

  The closer it is to 1 the better the goodness of fit.

- F-Test: Is any statistical test in which the test statistic has an F-distribution under the null-hypothesis. F-Test of Significance should be carried out to investigate the overall significance of the entire regression plane. This will be done at 5% level of significance.

Decision Rule for F-Test

If $f* > f0.05$ we will reject the Null hypothesis and accept the alternative. Otherwise, the alternative hypothesis H1 will be rejected and the null hypothesis Ho be accepted.

- The student t-test: This is used to test for the statistical significance of the individual regression coefficient. When the computed t-statistic is greater than the tabulated t-statistic, the parameter in question is significant but otherwise is insignificant.

Decision Rule for T-Test

If $t* > t0.025$, we will reject the null hypothesis and accept the alternative.

### 3.2.3 Test base on econometric criteria;

**a) Stationarity (Unit Root) Test:** The importance of stationarity test in this study cannot be over emphasized because the estimated time-series data from 1970-2013 will be used. In order not to run a spurious regression, it is necessary to carry out a unit root test to ensure that all the variables are mean reverting that is, their mean, variance and covariance are constant. In other words, that they are stationary. The Augmented Dickey-Fuller (ADF) test would be used for this analysis since it adjusts for serial correlation. Decision Rule:

If the absolute value of the Augmented Dickey Fuller (ADF) test is greater than the critical value either at the 1%, 5%, or 10% level of significance, then the variables are stationary either at order zero, one, or two+

**b) Normality test:** A normality test is used to determine whether sample data has been drawn from a normally distributed population (within some tolerance). There will be a **normality test**, which helps to determine if the error term of the variables under consideration are normally distributed.

Decision Rule

If the Chi-Square calculated is less than the Chi- Square tabulated, then it shows that the variables are normally distributed.

**c) Co-integration test:** In order to avoid spurious estimates, the study intends to establish that there is long-run relationship among the variables included in the model; hence it is necessary to adopt the Engle-Granger Approach to co-integration. This approach is based on conducting unit root test on residual obtained from the estimated regression equation. In econometric, two variables are said to co-integrate if long run relationship or equilibrium relationship exists between them. Gujarati (2004), recommend that the ADF test statistic should be employed on the residual.

Decision Rule: if the ADF test statistic is greater than the absolute critical value at 5%, then the variables are co-integrated.

d) **Autocorrelation test:** The aim of this test is to see whether the errors corresponding to different observations are serially correlated or not. Uncorrelated errors are desirable. The Durbin – Watson (D-W) statistics at 5% will be used to test for the presence of autocorrelation problem. The region of no autocorrelation remains:

du< d* < (4-du)

Where:

du = Upper Durbin – Watson

d* = Computed Durbin-Watson

Decision Rule:

If the computed value of D-W lies within, it means that autocorrelation problem does not exist. But if the D-W computed value lies outside the region, it shows that autocorrelation problems exist. If this occurs, spurious regression will be avoided by employing the Heteroscedasticity Autocorrelation Correction (HAC) to remove its influence in the model.

e) **Engel-Granger causality test:**

This test is suggested by Engel and Granger (1987) to run static regression. Although regression analysis deals with the dependence of one variable on other variable(s), it does not necessarily imply causation. Since the existence of a relationship between variables does not necessarily imply causality or the direction of influence (Gujarati, 2004), the essence of causality analysis using the granger causality test is to ascertain whether a causal relationship exists between the variables of interest. Also the test shows the direction of relationship that is whether unilateral or bilateral relationship exists.

Granger causality test rely on two basic equations:

$$X_t = \Upsilon_0 + \sum_{i=1}^{k_3} \Upsilon_i H_{t=1} + \sum_{i=1}^{k_4} \lambda_i X_{t=1} + \omega_t \quad \text{.......................................(6)}$$

$$H_t = \alpha_0 + \sum_{i=1}^{k_1} \alpha_i H_{t-1} + \sum_{i=1}^{k_2} \beta_i X_{t=1} + \sum_t \quad \text{.............................. (7)}$$

## 3.3 Sources and method of data collection

To investigate how fiscal policy has affected economic growth in Nigeria, secondary time series data is required in a number of variables. These variables consist of government capital expenditure, government consumption expenditure, and total borrowing from internal and external sources and tax receipt for the period of 1970-2013. Hence secondary data used in this study were sourced from World development indicator and Central Bank of Nigeria's (CBN) statistical bulletin for year 2014.

# CHAPTER FOUR

## 4.0 Introduction

In this chapter, we will present both the long-run and short-run regression results and subject them to various economic, statistical and econometric tests. Thus, the hypotheses posed earlier in this study will be tested based on these empirical results.

## 4.1    Data Analysis and Interpretation

## 4.1.1 Pre- analysis Test

## 1) Descriptive Statistics

The descriptive statistics of the variables is provided in table 1 below. From the table, the averages of the variables are 9.26, 11.47, 8.4, 11.98, 12.26 and 11.82 for foreign private investment *(LFPI)*, government expenditure *(LGEXP)*, reserves *(LRES)*, economic growth (*LRGDP*), total debt (*LTDBT*) and total revenue *(LTREV)*, respectively. The maximum values of the variables are 14.12, 15.46, 10.88, 13.76, 15.95 and 16.22 foreign private investments*(LFPI)*, government expenditure *(LGEXP)*, reserves (*LRES*), economic growth (*LRGDP*), total debt (*LTDBT*) and total revenue *(LTREV)*, respectively, while the minimum values of the variables are 4.85, 6.81, 5.05, 8.34, 7.13 and 6.45foreign private investment*(LPI)*, government expenditure *(LGEXP)*, reserves (*LRES*), economic growth (*LRGDP*), total debt (*LTDBT*) and total revenue *(LTREV)*, respectively. The standard deviation showed that foreign private investment (3.39) was the most volatile variable in the time series. This is followed by total debt (3.06), total revenue (3.00), government expenditure (2.70) and reserves (1.55) while the real gross domestic product (economic growth) (1.54) was the least volatile of the time series.

The skewness statistic from table below revealed that government expenditure, reserves, real gross domestic product and total debt were negatively skewed while foreign private

are platykurtic, suggesting that the distributions is flat relative to normal distribution while real gross domestic product, suggesting that the variable has a normal distribution. The Jarque-Bera statistic rejected the null hypothesis of normal distribution for real gross domestic product *(RGDP)* at five per cent critical value while the Jarque-Bera statistic could not reject the null hypothesis of normal distribution for the remaining variables at five per cent critical value.

**Table 1: Descriptive Statistics**

| Variables | LFPI | LGEXP | LRES | LRGDP | LTDBT | LTREV |
|---|---|---|---|---|---|---|
| Mean | 9.261100 | 11.47040 | 8.400826 | 11.98123 | 12.25664 | 11.81716 |
| Median | 9.558686 | 11.27220 | 8.375848 | 12.50414 | 13.24757 | 11.83998 |
| Maximum | 14.12322 | 15.46134 | 10.87805 | 13.76434 | 15.95470 | 16.22397 |
| Minimum | 4.856707 | 6.806719 | 5.053567 | 8.347353 | 7.133216 | 6.452049 |
| Std. Dev. | 3.388063 | 2.697983 | 1.554395 | 1.535049 | 3.061483 | 2.996770 |
| Skewness | 0.037014 | -0.038118 | -0.240190 | -1.136978 | -0.438537 | 0.003693 |
| Kurtosis | 1.393876 | 1.676414 | 2.530925 | 3.189341 | 1.703068 | 1.647893 |
| Jarque-Bera | 4.739379 | 3.222436 | 0.826460 | 9.545661 | 4.494037 | 3.351790 |
| Probability | 0.093510 | 0.199644 | 0.661510 | 0.008456 | 0.105714 | 0.187141 |
| Observations | 44 | 44 | 44 | 44 | 44 | 44 |

Source; Author' computation (2015)

## 2) Unit Root Test

Following the descriptive statistics of the variables, this time series properties of the variables was conducted by the Augmented Dickey-Fuller (ADF) and the result presented in table 2. The Augmented Dickey Fuller (ADF) test showed that all the variables were integrated of order one; that is, the variables became stationary after first difference.

**Table 2: Unit Root Test Result**

| Augmented Dickey-Fuller (ADF) Test | | | |
|---|---|---|---|
| Variables | Level | 1$^{st}$ Diff | Status |
| LFPI | -0.3123 | -9.4142* | I(1) |
| LGEXP | -1.1994 | -7.5373* | I(1) |
| LRES | -2.0997 | -6.8311* | I(1) |
| LRGDP | -2.4016 | -6.0472* | I(1) |
| LTDBT | -1.5325 | -5.3741* | I(1) |
| LTREV | -1.2008 | -7.2656* | I(1) |

Note: * denotes one percent significance level.

**Source; Author's computation (2015)**

3)     **Co-integration Estimate**

The result of the co-integration estimate is presented in table 3 below. From table 3, it is observed that the null hypothesis of no co-integration, for r=0 was rejected by both the trace and the maximum eigen-value statistic. The statistical values of these tests were greater than their critical values. The null hypothesis of no co-integration for r≤1 was rejected by the trace statistics because the trace statistical value was greater than the critical values. However, null hypothesis of no co-integration for r≤1 could not be rejected by the maximum eigen-value statistics because the statistical value was less than the critical values, thereby indicating the existence of two co-integrating equation. With respect to the trace statistics, it is noted that the null hypothesis of no co-integration for r≤2 could not be rejected by the trace statistics because the statistical value was less than the critical values, thereby indicating the existence of three co-integrating equation.

Despite the conflict in results above, both the trace and maximum eigen-value revealed the existence of co-integration among the variables.

**Table 3: Summary of the Co-integration Estimate**

| Trace Test | | | | Maximum Eigen value Test | | | |
|---|---|---|---|---|---|---|---|
| Null | Alternative | Statistics | 95% critical values | Null | alternative | Statistics | 95% critical values |
| r=0 | r≥1 | 116.64 | 95.75 | r=0 | r=1 | 45.68 | 40.08 |
| r≤1 | r≥2 | 70.96 | 69.82 | r≤1 | r=2 | 27.06 | 33.88 |
| r≤2 | r≥3 | 43.90 | 47.86 | r≤2 | r=3 | 17.56 | 27.58 |
| r≤3 | r≥4 | 26.34 | 29.80 | r≤3 | r=4 | 10.93 | 21.13 |

Source; Author's computation(2015)

### 4.1.2 Empirical result

### 4) Long Run Regression Estimate on the impact of Fiscal Policy on Economic Growth in Nigeria

The long run regression estimate of the impact of fiscal policy on economic growth in Nigeria from 1970 to 2013 is presented on table 4 below. The coefficient of determination (that is $R^2$) showed that the explanatory variables jointly explained about 91 per cent of variations in economic growth in Nigeria during the study period. The F-statistics (78.46; $p<0.05$) showed that the model estimated is appropriate while the Durbin Watson statistics is 1.91, indicating the absence of serial auto-correlation in the long run estimate.

The long run estimate presented on table 4 below showed that foreign portfolio investment *(LFPI)* had a negative (-0.48) and significant impact on economic growth in Nigeria, suggesting that a one percent decrease in foreign private investment will enhance economic growth by 47.5 per cent in the long run. The long run estimate also showed that government expenditure *(LGEXP)* and *(LRES)* had a positive and insignificant impact on economic growth in Nigeria, suggesting that government expenditure and reserve had no significant influence on economic growth in Nigeria during the study period. Total debt *(LTDBT)* had a positive (0.64) and very significant effect on economic growth, suggesting that a one percent increase in total debt will enhance economic growth by about 64 per cent in the long run. Finally, total revenue, had a negative (-0.18) and insignificant impact on economic growth in Nigeria, suggesting that changes in total revenue had no impact on economic growth during the study period.

With respect to the focus of study on the impact of fiscal policy variables on economic growth in Nigeria, the regression estimate showed that only total debt had strong influence on economic growth in Nigeria in the long run.

**Table 4: Long Run Regression Estimate**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 3.491541 | 0.648392 | 5.384923 | 0.0000 |
| LFPI | -0.475463 | 0.113924 | -4.173517 | 0.0002 |
| LGEXP | 0.492087 | 0.316944 | 1.552597 | 0.1288 |
| LRES | 0.173604 | 0.109019 | 1.592417 | 0.1196 |
| LTDBT | 0.642458 | 0.098471 | 6.524347 | 0.0000 |
| LTREV | -0.176373 | 0.280581 | -0.628600 | 0.5334 |
| R-square | 0.911691 | Mean dependent var | | 11.98123 |
| Adjusted R-squared | 0.900072 | S.D. dependent var | | 1.535049 |

50

| | | | |
|---|---|---|---|
| S.E. of regression | 0.485251 | Akaike info criterion | 1.517823 |
| Sum squared resid | 8.947810 | Schwarz criterion | 1.761122 |
| Log likelihood | -27.39212 | Hannan-Quinn criter. | 1.608050 |
| F-statistic | 78.46170 | Durbin-Watson stat | 1.917793 |
| Prob(F-statistic) | 0.000000 | | |

Source;Author'scomputation(2015)

## 5) Short Run Regression Estimate on the impact of fiscal policy on Economic growth in Nigeria

The short run relationship between fiscal policy and economic growth is examined below. Prior to the short run regression estimate, the stationarity property of the residual from the long run estimate is examined and the result is presented on table 5 below. Using the Augmented Dickey Fuller (ADF) test, the stationarity test showed that the residual is integrated of order one at five per cent significant level.

**Table 5:     Residual Stationarity Test**

| Variable | ADF Test | Order of Integration |
|---|---|---|
| Resid | -3.6414* | I(0) |

Note: * implies 1% significance level.Source; author's computation

With respect to the parsimonious regression estimate capturing the short run analysis, it is observed from table 6 that the coefficient of determination (that is $R^2$) from the short estimate showed that the explanatory variables jointly explained about 58 per cent of variations in economic growth in Nigeria. The F-statistics (17.13; $p<0.05$) showed that the model estimated is appropriate while the Durbin Watson statistics is 2.19, indicating the absence of serial auto-correlation in the long run estimate. The short run regression

51

estimate also showed that the coefficient of the error-term for the ECM model is both statistically significant at five per cent and negative. The coefficient estimate of the error correction term of -0.30 implied that the model corrects its short run disequilibrium by about 30 per cent speed of adjustment in order to return to the long run equilibrium. Also, the negative sign of the error correction term indicates a move back towards equilibrium.

In addition to the above, it was observed that none of the coefficients of the independent variables was significant in the short run. This indicates that fiscal policy variables do not affect economic growth in the short run.

**Table 6: Parsimonious Short Run Regression Estimate.**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.146405 | 0.109980 | 1.331196 | 0.1935 |
| ECM(-1) | -0.297225 | 0.138226 | -2.150274 | 0.0400 |
| DLRDGP(-1) | 0.294693 | 0.182805 | 1.612058 | 0.1178 |
| DLFPI | -0.146896 | 0.102795 | -1.429024 | 0.1637 |
| DLGEXP(-1) | 0.395400 | 0.261412 | 1.512557 | 0.1412 |
| DLGEXP(-2) | -0.301767 | 0.248259 | -1.215535 | 0.2340 |
| DLRES(-1) | 0.051053 | 0.074411 | 0.686103 | 0.4981 |
| DLTDBT(-1) | -0.342194 | 0.245692 | -1.392777 | 0.1743 |
| DLTDBT(-2) | 0.204957 | 0.250781 | 0.817275 | 0.4204 |
| DLTREV | 0.194106 | 0.198141 | 0.979636 | 0.3354 |
| DLTREV(-1) | -0.137995 | 0.207323 | -0.665603 | 0.5109 |
| DLTREV(-2) | -0.109409 | 0.202600 | -0.540023 | 0.5933 |
| R-squared | 0.581805 | Mean dependent var | | 0.128508 |
| Adjusted R-squared | 0.58351 | S.D. dependent var | | 0.335338 |
| S.E. of regression | 0.321933 | Akaike info criterion | | 0.810146 |

52

| Sum squared resid | 3.005592 | Schwarz criterion | 1.311679 |
| Log likelihood | -4.607983 | Hannan-Quinn criter. | 0.992776 |
| F-statistic | 17.13134 | Durbin-Watson stat | 2.191347 |
| Prob(F-statistic) | 0.048814 | | |

**Source; Author's computation (2015)**

## 6) Causality Estimate

With respect to the nature of causality between fiscal policy variables and economic growth, this study employs the pairwise granger causality test. The result of the causality estimate is present in table 7 below.

From the table, it is observed that there is a unidirectional causality from government expenditure to foreign private investment. This indicates that changes in government expenditure cause changes in foreign private investment. Also, the study observed from the causality estimate, that a unidirectional causality from foreign private investment to reserves; thereby indicating that changes in foreign private investment cause changes in foreign reserve. More so, unidirectional causality was observed from total debt to foreign private investment, indicating that changes in total debt cause changes in foreign private investment. Unidirectional causality was observed from foreign private investment to total revenue; thereby indicating that changes in foreign private investment cause changes in total revenue in Nigeria.

In addition, a unidirectional causality was observed from government expenditure and total revenue to foreign reserves; thereby indicating that changes in government expenditure and total revenue cause changes in foreign reserve while no feedback was observed from foreign reserve to government expenditure and total revenue. A unidirectional causation was also noted from economic growth (real gross domestic product) to total revenue; indicating that changes in economic growth cause changes in

total revenue. Finally, the causality estimate showed the existence of bi-directional causality between total revenue and total debt; indicating that changes in total debt cause changes in total revenue while changes in total revenue cause changes in total debt.

Therefore, with respect to the objective of this study on the nature of causality between fiscal policy and economic growth, the findings from the pairwise causality estimate showed that causality only exist between economic growth and total debt. The direction of causation ran from economic growth to total debt and not from total debt to economic growth.

### 4.1.3 Post Analysis Test

Normality Test: This is a test to indicate that the normality of the error terms is normally distributed. It goes with the following decision rule: if the Jague-Bera test is less than the $X^2$ (chi- square) tabulated, then the error term is normally distributed otherwise it is not.



| Series: Residuals | |
| --- | --- |
| Sample 1970 2013 | |
| Observations 44 | |
| | |
| Mean | 9.261100 |
| Median | 9.558686 |
| Maximum | 14.12322 |
| Minimum | 4.856707 |
| Std. Dev. | 3.388063 |
| Skewness | 0.037014 |
| Kurtosis | 1.393876 |
| | |
| Jarque-Bera | 4.739379 |
| Probability | 0.093510 |
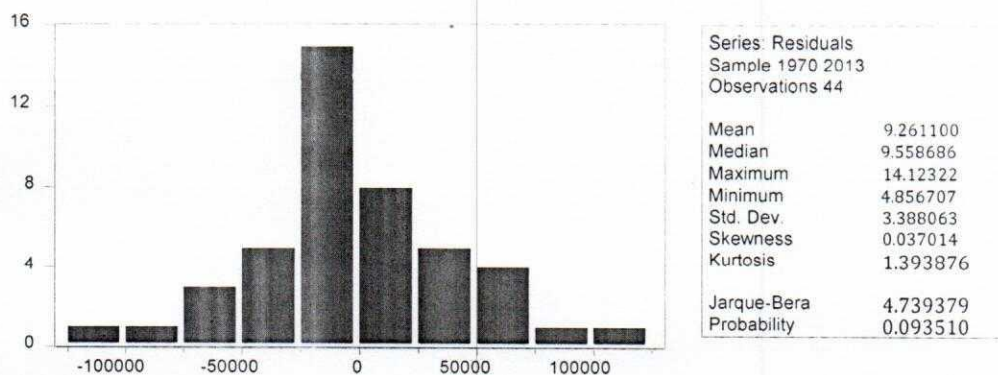
**Source: Author's computation(2015)**

For the variables under consideration, the JagueBera test calculated = 4.739379; and the tabulated $X^2$ chi square (43.773). Since the JagueBera test calculated is less than the tabulated $X^2$ (chi- square), we conclude that the error term of the variables under consideration are normally distributed.

## 9) Heteroscedasticity Test

For the heteroscedasticity test it is a test ascertaining the level of distribution of the errors. The following decisions rule is therefore made: if the $x^2$ (chi square) calculated is less than the $x^2$ (chi-square) tabulated, we accept Ho and conclude that the error term is homoscedastic otherwise we reject.

H0: $\beta_0 = \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$ (homoscedastic)

H1: $\beta_0 = \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 \neq 0$ (heteroscedastic)

Decision Rule

We reject $H_o$ if $n \, R \, x \, tab$ □□□at 5% critical value.

Where n = 43, and $R^2$=0.911691(from auxiliary regression).

Therefore, = 43(0.911691) = 39.202713

$x^2$tab at 5% level of significance with 38 degrees of freedom gives 43.773 from the $x^2$ (Chi-square) distribution table.

Conclusion: Since $n \cdot R^2$ is less than $x^2$tab, we accept the null hypothesis ($H_0$) of homoscedasticity. Therefore the study concluded that the errors in the regression result have constant variance.

## 10) Auto-Correlection

To check for the presence of auto-correlation, we use the value of Dubin statistics. Since the value of the dubin-wason statistics is 1.917793 which can be approximated to 2. it shows the absence of series auto- correlation.

### 4.2 Evaluation based on economic criteria

This section is concerned with evaluating the long-run regression results based on apriori (i.e. theoretical) expectations. The sign and magnitude examined to know if it conforms to theoretical expectations.

All the variables except foreign direct investment conform to apriori expectation. Government tax revenue show a negative sign indicating negative relationship with economic growth which is in conformation with the theoretical expectation. Foreign direct investment also shows a negative sign with economic growth and

does not go along side with aprior expectation. However this can be attributed to mismanagement by public managers, corruption and so on. Government expenditure, external reserve and total government debt have positive impact on economic growth.

## 4.3 Evalution based on statistical criterion

Statistically, the t-statistics of the variables is interpreted based on the following assumptions: If the t-values of the variables are less than or equal to minus two or greater than or equal to positive two then, it shows that the variables under consideration are statistically significant, otherwise it is not. For the variables under consideration, the following values were obtained:

| Variable | t-Statistics | Probability |
|---|---|---|
| LOG(GEXP) | 0.492087 | 0.1288 |
| LOG(FPI) | -0.475463 | 0.0002 |
| LOG(RESERVE) | 0.173604 | 0.1196 |
| LOG(TDEBT) | 0.642458 | 0.0000 |
| LOG(REVENUE) | -0.176373 | 0.5334 |

**Source; Author's computation(2015)**

The result obtained shows that all the variables under consideration were significant statistically. The F-statistics is interpreted based on the following assumption: If the F-calculated is greater than the F –tabulated, reject Ho otherwise accept. The hypothesis is stated as follows:

$$H_0: \alpha_1 = \alpha_2 = \alpha_3 = \alpha_4 = \alpha_5$$

$$H_1: \alpha_1 \neq \alpha_2 \neq \alpha_3 \neq \alpha_4 \neq \alpha_5$$

$V_1 = K-1$

$V_2 = N-K$

Where K = number of parameters

N = number of observation

From the regressed result, K-1 = 5-1 = 4,

N-K= 44 -5 = 39

The $R^2$, which measures the overall goodness of fit of the entire regression, exhibited the following value: 0.911691= 91%, while the adjusted $R^2$ value is 0.900072 = 90%. The result indicates that independent variables explain the dependent variable to the tune of 96 %. Also, the Durbin –Watson statistics DW= 1.917793 which is greater than the $R^2$ equally shows that the overall regression is statistically significant.

The F-statistics (78.46; p<0.05) showed that the model estimated is appropriate while the Durbin Watson statistics is 1.91, indicating the absence of serial auto-correlation in the long run estimate. The $R^2$ showed that the independent variable explains the dependent variable to a tune of 91 per cent.

## 4.4 Evaluation of research hypotheses

From the above analysis we accept the null hypotheses ($H_0$) GEXP, ERES and TREV and reject their alternative hypotheses ($H_1$). We also reject the null hypothesis ($H_0$) for FPI and TDEBT and accept the alternative hypothesis.

Therefore, we conclude that; government expenditure, government revenue and external reserve have no significant impact on economic growth in Nigeria; while foreign direct investment and total government debt have significant impact on economic growth in Nigeria. These are attributed to the high level of corruption, mismanagement and

misappropriation of the nation fund and the allocation of borrowed funds to unproductive sectors of the economy.

## 4.5 Discussion of the findings

The result of this study indicates that government expenditure, total debt and external reserve are positively related to the Real GDP with while foreign private investment and total tax revenue have negative impact with Real GDP. In the t-statistical test, GEXP, TREV and ERES are not statistically significant while FPI and TDEBT are statistically significant. The result indicates that during the period under review, total government debt contributed positively to the real GDP. The positive (0.642458) coefficient of the total debt is in contrast with the findings of Osuala and Jones (2014) that non-oil tax and government total debt does not have an impact on GDP in the Nigerian economy.

The F-statistics (78.46; $p<0.05$) showed that the model estimated is appropriate while the Durbin Watson statistics is 1.91, indicating the absence of serial auto-correlation in the long run estimate. The $R^2$ showed that the independent variable explains the dependent variable to a tune of 91 per cent.

In the short run regression, the coefficient estimate of the error correction term of -0.30 implied that the model corrects its short run disequilibrium by about 30 per cent speed of adjustment in order to return to the long run equilibrium and it was observed that none of the coefficients of the independent variables was significant in the short run which indicates that fiscal policy variables do not affect economic growth in the short run. The result also indicates that there are unidirectional relationship between all the variables expect for total debt and total revenue that have bi-directional relationship.

# CHAPTER FIVE

## SUMMARY, RECOMMENDATION AND CONCLUSION

### 5.1 Summary of findings

In this study we did an assessment of fiscal policy impact on economic growth within the year 1970-2013. Based on the finding of the work, the descriptive statistics for the dependent and independent variables all have positive mean with FPI having the highest standard deviation of (3.39) and was the most volatile variable in the time series while GEXP has the lowest standard deviation of 2.848204.

The Augmented Dickey Fuller (ADF) test showed that all the variables were integrated of order one and stationary after first difference. The co-integration estimate shows that there are three co-integrating equations. In the long-run regression result, only FPI and TDEBT are significant while GEXP, ERES and TREV are insignificant. The empirical result of this study shows that government expenditure (0.492087), total debt (0.642458) and external reserve (0.173604) have positive and significant impact on economic growth in Nigeria. This means that increase in government expenditure, total borrowing and external reserve will stimulate economy and hence induced growth. The results further suggest that foreign private investment (-0.475463) co-efficient and the total tax revenue (-0.176373) co-efficient did not contribute positively to economic growth in Nigeria.

The coefficient estimate of the error correction term of -0.30 implied that the model corrects its short run disequilibrium by about 30 per cent speed of adjustment in order to return to the long run equilibrium. Also, the negative sign of the error correction term indicates a move back towards equilibrium. The short-run regression indicates that none of the variables is statistically significant. The causality result showed that there is a unidirectional causality from government expenditure to foreign private investment, from foreign private investment to reserves; from total debt to foreign private investment, from foreign private investment to total revenue; from government expenditure and total

revenue to foreign reserves; and from economic growth (real gross domestic product) to total revenue. The causality result also showed the existence of bi-directional causality between total revenue and total debt.

Finally, the result shows that all the variables used in the study have long run effect on the economic growth of Nigeria but no short run relationship exist among them. The overall outcome of the result indicated that fiscal policy variables impact economic growth in the long run than in the short run.

## 5.2    Conclusion

Based on the summary of these findings, the study concluded that while FPI and TREV have negative impact on economic growth, GEXP, ERES, and TDEBT have positive impact on economic growth in the long run. More so, the short-run dynamic result indicated that none of the fiscal policy variables has significant impact on economic growth in the short-run. Finally, the causality result indicated that unidirectional causality existed among all the variables except for TREV and TDEBT which have bi-directional causality.

## 5.3 Recommendations

Based on the findings, the following recommendations are made so as to enhance sustainable economic growth in Nigeria:

- There should be fiscal discipline to encourage the fiscal policy and time limit should be set for the realization of goals which would encourage commitment, probity, accountability and transparency by public fund managers.
- The government should ensure that there is mechanism to certify that borrowed funds are not side funded to private pockets, embezzled or misappropriated.
- Government should also ensure a more friendly tax policy to avoid the crowding out effect it may have on private sector contribution to the growth of the economy. This crowding out of essential investments might have an adverse impact on the long-run economic growth and should be avoided.

- Government should also ensure that revenue got from tax is expended on economically beneficial project so that the multiplier effect can be enjoyed by the vast majority.

- The government is advice to reduce its deficit financing by engineering the reduction in unproductive government spending and safeguard public expenditure on infrastructure so as to encourage private sector investment.

# REFERENCES

Abata, M.A, Kehinde, J.S and Bolarinwa, S.A.(2012): fiscal/Monetary Policy and Economic Growth in Nigeria: A Theoretical Exploration , *International Journal of Academic Research in Economics and Management Sciences*

Abacha, S. (1993):*Budget of Renewal,CBNBullion,January/March, Vol.19, No.1.*

Abacha, S. (1995): *Budget of Renewal,CBNBullion,January/March, Vol.19, No.1.*

Abu-Bader, S. and Abu-Qarm, A.S. (2003), "Government Expenditure, Military Spending and Economic Growth: Causality Evidence from Egypt, Israel, and Syria". *Journal of Policy Modeling, 25,* 567-583.

Abdullah, H. A. (2000). The Relationship between Government Expenditure and Economic Growth in Saudi Arabia.*Journal of Administrative Science.12(2):*173 – 191.

Ajisaf, R.A. and Folorunso,B.A: The relative effectiveness of fiscal and monetary policy in macroeconomic management in Nigeria, *The Nigerian Economic andFinancial Review, 6(1)* (2001), 147-161.

Ammassoma, D. (2014/2015), Lecture Note on fiscal policy and economic growth.

Anyanwu, J.C. (1993): *Monetary Economics: Theory, Policy and Institution,*

Hybrid publishers limited, Onitsha.

Anyanwu, J.C (1995): *Modern Macroeconomics: Theory and Appliances in Nigeria.* Joanee Educational publishers Ltd: Onitsha.

Anyanwu, J.C. (1996). Beyond SAP: A case of monetary sector, *Selected Paper of the 1996 Annual Conference of Nigerian Economic Society,* 369-390.

Anyanwu, J.C (1997): *Nigeria Public Finance,* Joanee Educational Publishers ltd: Onitsha.

Audu, N.P. External debt management policies and economic growth in Nigeria, *Journal of Global Economy, Business and Finance, 1(1)* (2010b), 35-59.

Audu, N.P (2012): the impact of fiscal policy on Nigeria economy, *International Review of Social Sciences and Humanities Vol. 4, No. 1 (2012), pp. 142-150*

Barro, R. (1990). Government Spending in a Simple Model of Endogenous Growth", *Journal of political economy, No. 98(5), Part 2, S103-26.*

Bhatia, H.L. (1976): *Public Finance*, Vickas Publishing House, PVT Ltd, Jang Pura.

Dauda, R. O. (2010). Investment in Education and Economic Growth in Nigeria: An Empirical Evidence. *International Research Journal of Finance and Economics, 55*:158-169.

Devarajan, S.V., Swaroop, V. and Zhou, H., (1996). "The composition of public expenditure and economic growth", *Journal of Monetary Economics, 37*, 313-344.

Dwivedi, D.N. (2005). *Managerial Economics* Sixth Edition VIKAS Publishing house PVT LTD New Delhi India

Easterly, W. and Fischer S. (1990), "The Economic of Government Budget Constraint." *The World Bank Observer, Vol. 5, No. 2*, July 1990.

Ekpo, A. H. (1994) "Public Expenditure and Economic Growth in Nigeria 1960 – 1992."*African Economic Research Consortium (AERC),* Nairobi, Kenya.

Enache, C. (2009). Fiscal Policy and Economic Growth in Romania. *Annales Universitatis Apulensis Series Oeconomica, 11(1)*: 502-12.

Eze,C.K. The impact of fiscal policy on the manufacturing sector in Nigeria. *A case study of Uniliver Nigeria Plc*

Gbosi, A.N. *Contemporary Macroeconomic Problems and Stabilization Policies inNigeria,* (2001), Antovic Ventures, Port Harcourt.

Gerson, P. (1998). The Impact of Fiscal Policy Variables on Output Growth" *International Monetary Fund.Working Paper, 98/1.*

Granger C.W.J. (1986), "Developments in the study of integrated economic variables Growth: Evidence from OECD Countries", *Journal of Public Economics, No. 74,* pp. 171-90.

Gujarati, D. (2004): *Basic Econometrics.* New York- McGraw-Hill and Irwin.

Imoisi, A.I. (2013): An Appraisal of Fiscal Policy Measures and its Implication for Growth of the Nigerian Economy: 1970-2009. *Advances in Management & Applied Economics, vol. 3, no.4,* 2013, 193-204

Isiaka, S.B and Abdulraheem,A. (2011): Impact of fiscal and monetary policies on the level of economic activities in Nigeria, *A Publication of the Department of Business Administration. IBB University,* Lapal-Niger state.

Iyoha, M.A (1997): *External Debt and Economic Growth in Sub-Sahara African Countries*

Jhingan, M.L. (1998): Economic of Development and Planning, 30th Edition. *karnak Publishers, PVT Ltd*; India.

Karimi, M. S. &Khosravi, A. (2010). To Investigation the Relationship between Monetary, Fiscal Policy and Economic Growth in Iran: Autoregressive Distributed Lag Approach to Co-integration. *American Journal of Applied Sciences, 7(3):* 420-424.

Mansouri, B. (2008). Fiscal Policy and Economic Growth: Egypt, Morocco and Tunisia Compared. Proceeding in UNECA Conference on: *Macroeconomic Policy, Productive Capacity and Economic Growth in Africa. Addis Ababa, 23-25 November, 2008.*

Medee, P.N and Nembee, S.G (2011).Econometric Analysis of the impact of Fiscal Policy Variables on Nigeria's Economic Growth (1970 - 2009).*International Journal of Economic Development Research and Investment*, 2(1), April

Musgrave, R.A and Musgrave, P.B. (1959): *Public Finance in Theory and Practice,* McGraw Hall Book Company, New York.

National Rolling Plan, 1990-1992, 1991-1993, 1993-1995, 1994-1995,1994-1996,1995-1997 and 1996-1998, vol.1, *Published by National Planning Commission.*

Nurudeen, A. &Usman, A. (2010). Government Expenditure and Economic Growth in Nigeria, 1970-2008: *A Disaggregated Analysis. Business and Economics Journal,* Volume 2010: BEJ-4.

Ogbole, F.O. (2010). Fiscal Policy and Macroeconomic Performance in Nigeria. *Unpublished PhD Thesis, Department of Banking and Finance,* Rivers State University of Science and Technology, Port Harcourt.

Okunrounmu T.O. (1995): Fiscal Policy Issues and Expenditure Program under the 1995 Federal Budget, *ZCBN Bullion July/September Vol.17*, No. 3

Olaloku F.A, Fajaria F.O, Omori S.T and Ukpong I.I (1987): *Structure of the Nigeria Economy*, Macmillan Publishers and Unilag Press.

Olaniyan, I.F. (1996): Beyond SAP. *A policy framework MES 1996 op.cit.35-43*

Ojo,M.O and Okunroumu J.O: Why Fiscal Policies Matter in African Countries. *CBN Economic and Financial Review, vol.30, No.4*

Omitogun, O and Ayinla, T.A (2007). Fiscal Policy and Nigerian Economic Growth. *Journal of Research in National Development.5 (2)* December

Osuala, A.E .and Jones, E. (2014): Empirical Analysis of the Impact of Fiscal Policy on Economic Growth of Nigeria.

Ozugwo, N.B. (2012): The Impact of Fiscal Policy on Economic Growth in Nigeria.

Philip, D. (1991): Formulation of an Effective Tax Policy, *Paper presented at the National workshop on the Review of the Nigeria Tax System and Administration,* Lagos.

W. Easterly: Fiscal policy and economic growth: An empirical investigation.

Yasin, M. (2003). "Public Spending and Economic Growth: Empirical Investigation of Sub-Saharan Africa". *Southwestern Economic Review, 59-68.*

Zagler, M. and Dürnecker, G. (2003). "Fiscal Policy and Economic Growth." *Journal of Economic Survey,* 17(3), 397-418.

## APPENDIX

### 1) DATA

| YEAR | RGDP | GEXP | RESERVE | TDEBT | REVENUE | FPI |
|------|------|------|---------|-------|---------|-----|
| 1970 | 4219 | 522.2042 | 104.6 | 1266 | 634 | 128.6 |
| 1971 | 4715.5 | 526.0088 | 132.3 | 1405.5 | 1168.8 | 142.8 |
| 1972 | 4892.8 | 578.2032 | 191.6 | 1252.9 | 1405.1 | 297.8 |
| 1973 | 5310 | 606.1504 | 241 | 1334.1 | 1695.3 | 186.3 |
| 1974 | 15919.7 | 763.4291 | 3112.5 | 1584.8 | 4537.4 | 181.6 |
| 1975 | 27172.02 | 812.2807 | 3380.1 | 2025.4 | 5514.7 | 253 |
| 1976 | 29146.51 | 659.9408 | 3057.6 | 3001.5 | 6765.9 | 212.5 |
| 1977 | 31520.34 | 593.1978 | 2521 | 3771.8 | 8042.4 | 245.5 |
| 1978 | 29212.35 | 818.4285 | 1249.1 | 6065.8 | 7371 | 134.4 |
| 1979 | 29947.99 | 1133.702 | 3043.2 | 8825.5 | 10912.4 | 184.3 |
| 1980 | 31546.76 | 1738.238 | 5445.6 | 10082.4 | 15233.5 | -404.1 |
| 1981 | 251052.2811 | 2028.936 | 2424.8 | 13523.8 | 13290.5 | 334.7 |
| 1982 | 246726.571 | 3008.96 | 1026.5 | 23827 | 11433.7 | 290 |
| 1983 | 230380.797 | 7149.03 | 781.7 | 32799.1 | 10508.7 | 264.3 |
| 1984 | 227254.7346 | 7985.596 | 1143.8 | 40480.8 | 11253.3 | 360.4 |
| 1985 | 253013.2721 | 11409.53 | 1641.1 | 45249.7 | 15050.4 | 434.1 |
| 1986 | 257784.4462 | 13971.48 | 3587.4 | 69891.1 | 12595.8 | 887.4 |
| 1987 | 255996.9617 | 10279.15 | 4643.3 | 137578.2 | 25380.6 | 6805.4 |
| 1988 | 275409.5533 | 15179.99 | 3272.7 | 180985.9 | 27596.7 | 4330 |
| 1989 | 295090.8036 | 21421.25 | 13457.1 | 287443.3 | 53870.4 | 12258.6 |
| 1990 | 328606.06 | 22015.08 | 34953.1 | 382707.5 | 98102.4 | 4250.8 |
| 1991 | 328644.5392 | 18887.79 | 44249.6 | 444652.5 | 100991.6 | 6321.2 |
| 1992 | 337288.6393 | 18594.29 | 13992.5 | 722225.8 | 190453.2 | 51314.9 |
| 1993 | 342540.47 | 16153.79 | 67245.6 | 906980.8 | 192769.4 | 29283.3 |
| 1994 | 345228.4632 | 17578.89 | 30455.9 | 1056395.7 | 201910.8 | 22025.7 |
| 1995 | 352646.2243 | 14697.41 | 40333.2 | 1194599.5 | 459987.3 | 70155.6 |
| 1996 | 367218.0936 | 38628.29 | 174309.9 | 1037295.6 | 523597 | 99235.7 |
| 1997 | 377830.798 | 41975.99 | 262198.5 | 1097683 | 582811.1 | 105666.9 |
| 1998 | 388468.1151 | 70953.43 | 226702.4 | 1193847.2 | 463608.8 | 80111.5 |
| 1999 | 393107.1674 | 129943.6 | 921715.02 | 3372181 | 949187.9 | 93808.2 |
| 2000 | 412332.0085 | 148569.3 | 1129894.36 | 3995637.8 | 1906159.7 | 167031.3 |
| 2001 | 431783.1839 | 242689.9 | 871420.795 | 4193265 | 2231532.9 | 224952.6 |
| 2002 | 451785.6655 | 262973.1 | 947661.282 | 5098885.5 | 173837.5 | 250014 |
| 2003 | 495007.1653 | 261997.5 | 2322837.74 | 5808019.3 | 2575095.9 | 281944.1 |
| 2004 | 527576.0283 | 1028579 | 3756873.12 | 6260594.8 | 3920500 | 271765.6 |
| 2005 | 561931.39 | 1393553 | 5456456.19 | 4220978.8 | 5547500 | 770228.18 |
| 2006 | 595821.61 | 217371.1 | 5425578.57 | 2204719.9 | 5965101.9 | 984812.28 |

67

| 2007 | 634251.142 | 900011.7 | 6055669.04 | 2600708 | 5715500 | 1091928.21 |
|------|------------|----------|------------|---------|---------|------------|
| 2008 | 672202.5541 | 286858.9 | 7025860.22 | 2813489.7 | 7866590.1 | 807588.71 |
| 2009 | 718977.335 | 2305496 | 6339615.24 | 3818473.6 | 4057499.2 | 969473.8 |
| 2010 | 776332.2141 | 2465023 | 6540764.63 | 3315781.7 | 5962044.65 | 86959.85 |
| 2011 | 834000.8322 | 2468836 | 6682737.73 | 3567227.6 | 5009771.925 | 130419.75 |
| 2012 | 888892.9988 | 4009176 | 6440189.93 | 3441604.7 | 5485908.288 | 195991.95 |
| 2013 | 950114.0318 | 5727972 | 6611751.18 | 3504416.1 | 5247840.106 | 237483.3 |

**Source: CBN statistical bulletin**

## 2) Pairwise Granger Causality Tests

| Null Hypothesis: | F-Statistic | Prob. |
|------------------|-------------|-------|
| LGEXP does not Granger Cause LFPI | 0.08931 | 0.9148 |
| LFPI does not Granger Cause LGEXP | 4.75447 | 0.0145 |
| LRES does not Granger Cause LFPI | 0.21150 | 0.8103 |
| LFPI does not Granger Cause LRES | 4.15374 | 0.0236 |
| LRGDP does not Granger Cause LFPI | 1.71299 | 0.1943 |
| LFPI does not Granger Cause LRGDP | 0.73202 | 0.4878 |
| LTDBT does not Granger Cause LFPI | 6.38840 | 0.0041 |
| LFPI does not Granger Cause LTDBT | 0.99566 | 0.3792 |
| LTREV does not Granger Cause LFPI | 0.60397 | 0.5519 |
| LFPI does not Granger Cause LTREV | 3.05044 | 0.0594 |
| LRES does not Granger Cause LGEXP | 2.39232 | 0.1054 |
| LGEXP does not Granger Cause LRES | 4.75078 | 0.0146 |
| LRGDP does not Granger Cause LGEXP | 0.20019 | 0.8195 |
| LGEXP does not Granger Cause LRGDP | 2.21933 | 0.1229 |
| LTDBT does not Granger Cause LGEXP | 1.65372 | 0.2052 |
| LGEXP does not Granger Cause LTDBT | 0.11410 | 0.8925 |
| LTREV does not Granger Cause LGEXP | 2.79108 | 0.0743 |
| LGEXP does not Granger Cause LTREV | 2.83536 | 0.0715 |
| LRGDP does not Granger Cause LRES | 1.02993 | 0.3670 |
| LRES does not Granger Cause LRGDP | 1.85321 | 0.1710 |
| LTDBT does not Granger Cause LRES | 2.19898 | 0.1252 |
| LRES does not Granger Cause LTDBT | 1.00690 | 0.3751 |
| LTREV does not Granger Cause LRES | 4.28781 | 0.0211 |
| LRES does not Granger Cause LTREV | 0.28277 | 0.7553 |
| LTDBT does not Granger Cause LRGDP | 0.78886 | 0.4619 |
| LRGDP does not Granger Cause LTDBT | 3.49664 | 0.0407 |

| | | |
|---|---|---|
| LTREV does not Granger Cause LRGDP | 1.06517 | 0.3550 |
| LRGDP does not Granger Cause LTREV | 0.72006 | 0.4934 |
| | | |
| LTREV does not Granger Cause LTDBT | 3.42873 | 0.0430 |
| LTDBT does not Granger Cause LTREV | 4.01040 | 0.0265 |