

Fiscal Operations and the Growth of the Nigerian Economy

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Abstract

This paper is an empirical study that looks at fiscal operations and the growth of the Nigerian economy. The Federal government have been trying to promote economic activities through different policies and expenditures, which this paper captures as Federal Government Expenditure on Administration (FGEA), Federal Government Expenditure on Economics Service (FGEES), Federal Government Expenditure on Social and Community Service (FGESCS), which are taken as the independent variables in this study, and RGDP (as proxy for economic growth) as the dependent variable. The null hypothesis; "government expenditure has no significant impact on economic growth in Nigeria" was rejected after carrying out the regression analysis the alternative hypothesis; "government expenditure has significant impact on economic growth in Nigeria" was accepted. The ADF (Augmented Dickey Fuller) test for stationarity, shows that the logged variables are not stationary at levels including the dependent and independent variables. At first difference they are all stationary that is RGDP (proxy for economic growth); which is the dependent variable, FGEA (Federal Government Expenditure on Administration), FGEES (Federal Government Expenditure on Economics Service), and FGESCS (Federal Government Expenditure on Social and Community Service), are all stationary at first difference in their logged form. The Johanson Cointegration test shows the presence of one cointegrating equation among the variables, at five percent level of significance. This guaranteed the study to estimate the ECM (Error Correction Model). The restricted Error Correction Model shows that FGEES has a negative but insignificant impact on economic growth in Nigeria, while FGEA and FGESCS has positive but insignificant impact on economic growth in Nigeria at five percent level of significance. This gave room for the rejection of the null hypothesis and therefore accepting the alternative hypothesis. The F-statistics on the various post estimation test shows that the model is not serially correlated, is well specified, normally distributed and homoscedastic. Conclusion and Recommendations are based on the result of the regression analysis and laid down hypothesis. This paper recommends that a more efficient fiscal operation should be practiced or better still, a different system of governance should be tried with the aim of achieving efficiency in its fiscal operations in Nigeria.

Keywords:

Fiscal Operation,
Economic growth,
and Nigeria.

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Background to the Study

A nation cannot be said to be developed without achieving a nation state, which is the socio-economic integration among the citizens. Nigeria is not developing because development can be said to be an increase in the production of goods and services plus social change that allows people to achieve their human potentials. Which of cause, Nigeria has not achieved due to negligence of our social and political aspects of the nation. Fiscal operations are actions taken by the government to implement budgetary policies, such as revenue and expenditure measures, as well as issuance of public debt instruments and public debt management. Fiscal Operations enhances development, because it brings about unity among the citizens. If there is unity among the citizens, there would be no political division, absence of ethnicity considerations or tribalism, absence of religious fights and linguistic diversities. All the above mentioned factors are the challenges which Nigeria is facing. This paper argues that the presence of these challenges is what hinders good fiscal policies and that is called "corruption". Despite all these challenges Nigeria as a "nation" still practice federal system of government which we all know that is going to be cumbersome and complicated to practice in Nigeria, because development has to be achieved in Nigeria we need to have unity among citizens, which language is an aspect. This paper agrees that Nigeria has a lingua franca which connects all tribes of Nigeria together but education which spices these has not been achieved despite the various visions to achieve education in Nigeria.

Fiscal Operations are actions taken by the government to implement policies such as expenditure and revenue, which the government uses in regulating the country. Nigeria as a country has employed so much policies to achieve growth, but it has not been achieved in recent years, Nigeria are good policy makers but not very good at implementing the policies. These study would look at the various federal government expenditures aggregately, to know if the problem is policy making or implementation of policy.

Objective of the Study

The objective of the study is to examine the impact of fiscal operation on economic growth in Nigeria between 1981 and 2016.

Review of relevant literature

Keynesian Theory

According to the Keynesian theory, fiscal policies can enhance economic activity in recession only through expansionary fiscal policy. The Keynesian school of thought are of the view that government should borrow more during recession.

Monetarist Theory

The monetarist is of the view that fiscal policies has no effect on real output on the long run. Government on the other hand should seek or aspire to be at equilibrium that is government should run on a balanced budget.

Economic growth is an increase in the output of a nation while economic development on the other hand has been defined in various ways by various writers, as such laying emphasis on the socio and economic aspect of it. Okowa (1995) in his book "How The Tropics Underdeveloped the Negro", defined development using the man centred conception; that man is born in an unfavourable environment thus he needs to manipulate and exploit nature in other to make it favourable to him, thus bringing about development. Therefore, development cannot be achieved if the citizens are lazy and idle. "Development comes from hard work, discipline, commitment, skills and the intelligent Utilization of the above faculties of man in a sustained manner over a fairly long period of time" Okowa (1995). Development is a goal, which involves series of objectives which needs to be achieved, and nation building is one of those objectives which needs to be achieved to gain development. "Schumpeter greatly admired Marx's ability to blend economic analysis and economic sociology, defined in these two senses". Elliott (2017) Marx theory is a combination of political and economic philosophy, in which there is a class struggle which brings about a development from primitive communism to slavery, from slavery to feudalism, from feudalism to capitalism, and from capitalism finally to socialism. "Development is critical and essential to the sustenance and growth of any nation. A country is classified as developed when is able to provide qualitative life for her citizenry." Research by Lawal and Oluwatoyin (2011).

Qualitative life in the above context can be said to be health, education and other social amenities, we would then concur that "qualitative life" does not comprise only of economic factors but also include sociological factors. Lawal (2007) Defines development to involve a change in the economy, social, polity and culture of a country. "Development is seen as the process by which a type of (social) change is introduced into a system in order to produce a better production method and improved social arrangement. It involves a structural transformation of the economy, society, polity and culture of a country" Other authors defined development using inequality gap between the citizens as it is seen Dudley Seer 1977 study (as cited in lawal, 2007)"Sees development to mean not only capital accumulation and economic growth but also the condition in which the people in a country have adequate food and job and the income inequality among them is greatly reduced" Therefore Nigeria can be said to achieve development if unemployment is reduced to at least 5% in the economy and the citizens can boost of at least eating 3 square meals a day. Letham (2010) According to Idris and Bakar (2017), Fiscal operations has been ineffective in bringing about economic growth in Nigeria due to its ineffectiveness in providing a macroeconomic environment.

"There is an urgent need to ensure that appropriate fiscal operations are conducted and do not result in excess liquidity beyond the absorptive capacity of the economy." Idris, Bakar and Ahmad(2018). Babalola (2015) "study examined the short and long run impact of fiscal policy on economic development in Nigeria between a period of 1981 and 2013 using annual time series data sourced from World Development Indicators (2014) and the Central Bank of Nigeria (2014). It used government recurrent expenditure, government capital expenditure, government investment and tax revenue to indicate fiscal policy.

Economic development was proxy by real percapita income. The model was estimated using Pair-wise Correlation to ascertain the relationship and then Cointegration and Error Correction Mechanism for impact after confirming the data's stationarity using Unit Root. The result showed that government recurrent expenditure and government investment have significant positive impact on economic development in both the short and long run within the period under consideration. Capital expenditure appeared to have a short run positive impact but not in the long run. Tax revenue had an inverse significant impact in both short and long run."

Fiscal operations and economic growth in Nigeria

As earlier outlined in the introduction, Nigeria seems to be increasing in output. These could be as a result of expenditures by the government, but the goal of a sustainable growth is not achieved in Nigeria. The challenges of sustainable growth can be said to be caused by religious crisis, ethnic clashes (tribalism), political divisions and linguistic diversities, which is broadly called "corruption". For instance, if there is no religious crisis among Nigerians, a Muslim would not be forced not to vote for a candidate because he is a Christian. A group of tribe in Nigeria would not be forced to fight against another tribe because of marginalization of the later. A man would not be denied a particular position which he merits because he does not belong to a particular party. These instances are what we call corruption and due to these forces a desperate person who wants to achieve these, would therefore try to use money to conquer these barriers, which will then bring us to bribery and corruption. Nigeria which is practicing federal system of government, has 250 ethnic groups, with more than 520 spoken languages, all under one umbrella of federalism, not forgetting that Nigeria is classified as an underdeveloped country. According to Alubo in his journal "citizenship and nation making in Nigeria" he argues that after the break of the civil war, ethnic group tend to divide and most group are in search for ethnic kingdoms. " As part of the new challenges, many of the various ethnic groups that constitute Nigeria are regrouping under regional and/or ethnic umbrellas, and the Nigerian nation, touted after the civil war as one and indivisible, faces the threat of dissolving into ethnic kingdoms." Alubo (2004).

The worst part is that ethnicity conflicts , has now collided with religious crisis not withstanding that we are a federation that these would cause more harm than good because as a federal state , nation building can only be achieved if there is ethnic and religious diffusion. "Whereas federalism is widely acclaimed as the appropriate governmental principle for societies with vast ethnic, religious, and cultural diversities, the Nigerian federation has been be-devilled with bitter ethno-religious crises since independence." Adeyeri (2010).

Religious crisis is a drawback to growth in Nigeria that is the reason why we have religious wars in Nigeria. The most tragic part of it is that these religions we are practicing are not part of our history, it was an adopted religion from our colonial masters. The problem Nigeria is facing is that we want to achieve a sustainable growth, but we don't want to induct our history in achieving it. Religion crises has caused a lot of death in Nigeria, and

we all know that growth in an economy does not involve death of the citizens but neither it involves unity among citizens. "Starting from a theoretical stand point that ethno-religious conflicts which are widespread in Nigeria have a long history and a characterized by violent confrontations among the various ethnic and religious groups that make up the Nigeria nation. The article argues that the causes of these ethno-religious conflicts are multi-dimensional. Some of the., causes mentioned and discussed in this paper are accusations and allegations of neglect, oppression, domination, victimization, discrimination, marginalization, nepotism and bigotry; the inability of the Nigerian leaders to establish good governments; breakdown of traditional vehicles of social control;" Salawu(2010).

From the above Salawu (2010) argues that the breakdown of our tradition, which can be termed our cultural heritage has led to a lot of damages in the nation. In the aspect of language, Nigeria adopted the language of her colonial master, which is "English language" in other to unify the country, so we could be able to have a lingua franca but these objective is not achieved due to most of the citizens of Nigeria are uneducated and cannot really express themselves in the country's lingua franca, therefore Nigeria suffers from language diversity, because most citizens of Nigeria are familiar with their native language and these becomes a problem in communication among the citizens of Nigeria these becomes among others a challenge in National building and development in Nigeria.

While it comes to politics, Nigeria is a country were a political ideology is maintained, someone might be associated with a political party this year, the next year he moves to another political party. These actions distort the follow of sustainable growth, because of growth is a continuous process. Therefore, the government is left with no option but to try to maintain unity in the economy through various expenditures which causes more harm than good.

Point of Departure or gap to be filled by this Study

This study uses FGEEA, FGEE, and FGESCS to represent the expenditures which government of Nigeria uses to tackle or solve the challenges of growth in Nigeria and RGDP is a proxy for economic growth, using the error correction model (ECM), this is a gap to be covered.

Model Specification

Statement of hypothesis

H0 = Government expenditure has no significant impact on the economic development of Nigeria.

Model specification from our above definition, we concluded that development is the achievement of unity where there are no diversities such as political crisis, religious crisis language barrier. The presence of this diversity would bring about insecurities. The federal government tries to control the various challenges of nation building through its administration. Therefore, challenges of development in Nigeria can be captured as

government expenditure on administration, and government expenditure on education for language barriers, which is captured by federal government expenditure on social and community services. Economic development is proxy as GDP growth rate.

Therefore, our functional relationship of our model becomes:

$$RGDP = F(FGEE, FGEA, FGESCS)$$

Where;

RGDP= Real Gross Domestic Product

FGEA= Federal Government Expenditure on Administration

FGEE= Federal Government Expenditure on Economics

FGESCS= Federal Government Expenditure on Social and Community Service

The mathematical relationship

$$RGDP = b_0 + b_1FGEA + b_2FGEE + b_3FGESCS$$

where

b_0 =constant. b_1, b_2, b_3, b_4 = parameters

Econometric relationship

$$RGDP = b_0 + b_1FGEA + b_2FGEE + b_3FGESCS + b_4ecm(-1) + e$$

Regression analysis

Unit root test for time series in the nation building model

Before conducting the unit root test, the properties of the time series were first determined. The results derived are presented in table 1.0below:

Table 1: Properties of Time Series in the nation building model

Variables	Intercept (a)	Trend (b)	Decision
(RGDP)	0.10	0.00***	Trend
(FGEA)	0.00***	0.00***	Intercept&Trend
(FGEE)	0.00***	0.00***	Intercept&Trend
(FGESEC)	0.00***	0.00***	Intercept&trend

Source: Author's Computation using Eviews 9

NB: *** implies significance at 5%.

Hence, in conducting the unit root test, the respective properties were selected in the appropriate boxes in the econometric software (i.e. Eviews 9) used in the data analysis. The ADF unit root test results are presented table

Table 2: ADF Test Results for Times Series in the nation building at Levels

Time Series	ADF Test Statistics	5% Test Critical Values	Decision
LOG(RGDP)	0.09	-2.95	Not Stationary
LOG(FGEA)	-1.17	-2.94	Not Stationary
LOG(FGEE)	-0.92	-2.94	Not Stationary
LOG(FGESCE)	-0.85	-2.95	Not Stationary

Source: Author's Computation using Eviews 9

NB: The statistics in the table are in absolute terms. And *** implies significance at 5% significant error.

The results presented in the *levels test* panel shows that the macro econometric time series variables in the nation building model are all not stationary at levels. This conclusion was reached because the absolute values of the ADF statistics for all the time series are less than the absolute values of the 5% test critical values. Moreover, the results presented in *first difference* panel shows that the variables in the model are all stationary at first difference. This conclusion was reached because the absolute values of the ADF statistics for all the time series are greater than the absolute values of the 5% test critical values. Hence, we conclude that the time series are integrated of the same order one [i.e. I(1)].

Table 3: ADF Test Results for Times Series in the nation building model at 1ST Difference

Time Series	ADF Test Statistics	5% Test Critical Values	Decision
LOG(RGDP)	-3.22***	-2.95	Stationary
LOG(FGEA)	-9.88***	-2.95	Stationary
LOG(FGEE)	-6.09***	-3.54	Stationary
LOG(FGESCE)	-9.28***	-2.95	Stationary

Source: Author's Computation using Eviews 9

NB: *** implies significance at 5%.

Since all the variables are stationary at 1(1), therefore we have to do the Johansen cointegration test, to notify if there is any cointegrating variables among the variables in the long run.

Table 4: Julius-Johansen Test of Cointegration for nation building Model

Null Hypothesis	Trace Stat.	5% Crit. Value
0	67.26***	63.87
1	39.16	42.91
2	15.63	25.87
3	4.38	12.51

Source: Author's Computation using Eviews 9

NB: *** implies significance at 5%.

The trace statistics shows that the hypothesis of no cointegration, H_0 , among the variables can be rejected. The result revealed the existence of one cointegrating vector. This conclusion was reached because the trace test statistics for one VAR equation is greater than the 5% critical values. The existence of one cointegrating equations confirms the existence of a long run relationship among the variables. It also implies that the study can proceed to estimating the error correction mechanism (ECM) model.

Error correction mechanism

Table 5: Parsimonious ECM Per Capita Income (GPC) Model Result

Predicting Variables	Coefficients	Prob.
C	0.04	0.00
DLOG(FGEA)	0.00	0.05
DLOG(FGEE)	-0.01	0.03
DLOG(FGESCE)	0.02	0.09
ECM(-1)	-0.11	0.00
R ² = 0.55 f statistics=2.52		

Source: Author's Computation using Eviews 9

Note: *, **, and *** implies significance at 10%, 5%, and 1% respectively.

Interpretation of Result

FGEA has a positive relationship with RGDP and significant according to the probability test. FGEE has a negative but significant relationship with RGDP. FGESCS has a positive relationship but not significant at 5% level of significance, this means that federal government expenditure in trying to solve the problem of language barrier through education is insignificant, and also in achieving social and community equity is insignificant.

Ecm(-): The ECM has a negative sign, which is a good sign and also significant, the negative sign shows that equilibrium would be achieved in the future but the rate or speed of adjustment from disequilibrium to equilibrium is at 11% which is low.

F statistics: The f statistics shows the overall significance of our model, since our f statistics is an absolute number therefore our model is statistically significant.

R²: This is also called the coefficient of determination; it shows that 55% variation in RGDP is been explained by the independent variable while 45% is captured by the error term.

Post estimation test for nation building model

Table 6: Post-Estimation Tests Results for nation building Model

Tests	Test Stat.[prob.]	Decision
Breusch-Godfrey Serial Correlation LM Test	1.38 [0.26]	Not Serially Correlated
Breusch-Pagan-Godfrey Heteroscedasticity Test	1.08[0.38]	Homoscedasticity Confirmed
Ramsey RESET Test		
Normality test	0.83[0.36] 1.28(0.52)	Model well specified. Normally distributed

Source: Author's Computation using Eviews9

From the above post estimation test the paper argues that the residual in the model is not serially correlated since the p value is greater than 0.05 in Breush-Godfrey serial correlation LM test, the null hypothesis would be rejected. The null hypothesis is rejected in both Breush-Pagan-Godfrey Heteroscedasticity and Ramsey reset test because their p value is higher than 0.05. Therefore, the model is well specified and homoscedastic. The Jarque -Bera, shows that the model is normally distributed.

From the above analysis it means that the null hypothesis would be rejected, that is government expenditure has no significant impact on the economic development of Nigeria. If government expenditure that is fiscal operations is meant to tackle these problems and bring about development, then why is the case different in Nigeria?

Conclusion

In conclusion based on our empirical findings, we could see that the impact of government expenditures is all significant and positive except expenditure on administration which is negative. The coefficients of these variables are very low which shows that the impact of federal government expenditures on the growth of Nigerian economy is low. These could be because of corruption, marginalization of some ethnic groups in the economy and also the expenditures are not in line with policies that were made.

“The defective federal structure has also promoted bitter struggles between interest groups to capture the state and its attendant wealth; and facilitated the emergence of violent ethnic militias, while politicians exploit and exacerbate inter-communal tensions for selfish reasons. Thus, communities throughout the country increasingly feel marginalized and alienated from the Nigerian state.” Adeyeri (2010)

Recommendations

1. The methodology of government expenditure should be reviewed in Nigeria or better still another system of governance should be adopted which takes better care of the regions and also take better care of the minority groups in the country.

2. The low coefficient of the independent variables shows that the impact of the expenditures is very low. Therefore, the expenditures of the government should be on necessary projects, and not elephant projects which might not be concluded. Our expenditure should mainly be on the recurrent and not capital such as the maintenance of tertiary schools (to solve ASUU STRIKE), Maintenance of worn out roads and not picking up new projects that would not be completed.
3. The expenditures of the nation should not always be drawn out from borrowing, because if these happens in every annual budgetary allocation. Sustainable growth would be very far from achieving.

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