

Fiscal Policy and Economic Growth in Nigeria

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Abstract. This study examined the relationship between fiscal policy and economic growth in Nigeria between the periods 1981 to 2017 using time series data. The study employed a disaggregate analysis of various components of government expenditure while taxes and other sources of revenue proxied by government revenue are employed as a measure of fiscal policy. Series of estimation techniques were employed in the process of research and they include unit root test, co-integration test, multiple regression and error correction model. Findings reveal that three of the six proxies of fiscal policy, namely, government expenditure on economic, social services and tax have a positive and significant relationship with gross domestic product, while government expenditure on administration and fiscal deficit have a negative relationship with economic growth in Nigeria. The study thus concludes that fiscal policy over the years has significantly promoted economic growth in Nigeria. As such, the study recommends that government should adopt fiscal mechanism that will encourage increase in revenue through tax and ensure that more of government spending should be channeled to areas such as economic and social that help to grow the economy given their positive and significant effect on the growth of the economy of Nigeria.

Keywords: Fiscal Policy, Government expenditure, Gross Domestic Product

1. Introduction

Government intervention began to be more popular in the management of the economy

following the work of Lord Keynes. As such, government over the years embarks on diverse macroeconomic policy options to direct the economy on the path of growth and development. Amongst the policy options readily employed is that of fiscal policy, which entails government management of the economy through the manipulation of its income and spending power to achieve certain desired macroeconomic objectives (goals) amongst which is economic growth (Medee& Nenbee 2011). The effectiveness of fiscal policy as an instrument of economic stabilization was acknowledged and discussed in the works of Jhingan (2006), Gbosi (2008), Philips (1997), Tombofa (1999), Agiobenebo (2003), Brennon and Buchana (1980), (Monogbe and Davies 2016).

Following the postulations of fiscal policy theories, it is crystal clear that if fiscal policy is used with circumspection and synchronized with other measures or policies, it will likely smoothen out business cycles and lead to economic growth and stability. However, despite the fact that fiscal policy has become a major economic growth tool/ instrument in Nigeria since her independence, Okunroumu (1993), opined that the management of the Nigerian economy in a bid to achieve macroeconomic stability has been unproductive and negative hence one cannot prove that the economy is performing. This assertion according to Audu (2012) is evidenced in the adverse inflationary trend, undulating foreign exchange rate, fluctuating gross domestic product, unfavourable balance of payment, price instability as well as increasing unemployment rate in the country.

These problems have created a lot of dichotomy between theoretical postulations and empirical findings in Nigeria with respect to fiscal policy and economic growth.

The question then is, to what extent has fiscal policy in Nigeria been an effective tool in achieving economic growth? In order to address these problems, this paper tends to investigate the relationship between government sectoral expenditure and economic growth. This is a departure from previous studies which investigated the relationship between total government expenditure and economic growth without any attempt to consider such expenditure on sectoral basis.

In this work, economic growth will be measured by percentage changes in gross domestic product instead of absolute gross domestic product as with the case of most previous works. Taking a cue from the works of Wosowei (2013), Onoh, (2007) and Tanzi, and Zee, (1996), we will consider fiscal deficit as a proxy for fiscal policy in an effort to bridge the gap between theoretical postulations and empirical findings of fiscal policy and economic growth. Surplus is not considered in this cause of study because the record of the Central Bank of Nigeria statistical bulletin shows that Nigeria only recorded a surplus in 1994 and 1995. As such, data are only available for two years.

2. Theoretical Reflections

The theoretical foundation of the relationship between economic performance and fiscal deficit revolves around the Keynesian proposition that the government intervention in an economy can help spur long term growth by ensuring efficiency in resource allocation, regulation of markets, stabilization of the economy, and harmonization of social conflicts (Keynes, 1936). The financing of any level of fiscal deficits which involves the absorption of real resources by the public sector that otherwise would have been available to the private sector.

However, in the view of classical economists, government fiscal operations are inefficient in the stabilization of the economy, and therefore

stifle rather than promote growth. As to whether government fiscal policy in this case of fiscal deficit stimulates or stifles growth remains a research question. The conventional view embodied in the Washington Consensus and held by the international financial institutions (IFIs) is that fiscal deficit, particularly in the context of developing countries, represents the most important policy variable affecting the rest of the economy. According to this view, the relationship between fiscal deficit and other macroeconomic variables is set to depend on how the deficit is financed (World Bank Research Observer, 1993). The works of Anyanwu (1997), and Robini (1991), revealed that fiscal deficit in developing countries is heavily influenced by the degree of political instability.

3. Empirical Review

Olawunmi and Ayinka (2007) examined the role of fiscal policy in the achievement of sustainable economic performance in Nigeria using the ordinary least square method. Their result revealed that fiscal policy has not been effective in the area of promoting sustainable economic performance in Nigeria. Omitogun and Ayinla (2007) also examined the contribution of fiscal policy in the achievement of sustainable economic performance in Nigeria. With the use of the same ordinary least square method, they found out that fiscal policy has not been effective in the area of promoting sustainable economic performance in Nigeria; and as such suggested that Nigerian government should put a stop to the incessant unproductive foreign borrowing, wasteful spending and uncontrolled money supply and embark on specific policies aimed at achieving increased and sustainable productivity in all sectors of the economy.

Medee and Nenbee (2011) investigated the impact of fiscal policy variables on economic performance in Nigeria between 1970 and 2009. They employed the use of vector auto regression (VAR) and error correction mechanism (ECM) techniques, and their result revealed that there exists a mild long-run equilibrium relationship between economic performance and fiscal policy in Nigeria for the period studied. Adefeso and

Mobalaji (2010) analysed the fiscal-monetary policy and economic performance in Nigeria with the aim of re-estimating and re-examining the relative effect of fiscal and monetary policies on economic performance in Nigeria over the periods 1970-2007. Employing the error correction mechanism and co-integration technique, they found that the effect of monetary policy is much stronger than fiscal policy. And as such, they suggested that there should be more emphasis and reliance on monetary policy for the purpose of economic stabilization in Nigeria. Using quarterly data, Chuku (2010) investigated the monetary and fiscal policy interactions in Nigeria between the periods 1970-2008. Employing vector auto-regression (VAR) model, the result indicates that monetary and fiscal policies in Nigeria have interacted in a counteractive manner for most of the sample period (1980-1994) while at other periods no symmetric pattern of interaction between the two policy variables was observed. Mueller (2011) analysed the economic, political and institutional constraints to fiscal policy implementation in sub-Saharan Africa. The paper revealed 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. Ogbole, Amadi and Essi (2011) studied fiscal policy: its impact on economic performance in Nigeria covering the periods 1970-2006. The study did a comparative analysis of the impact of fiscal policy on economic performance in Nigeria in both the regulation and deregulation periods. Their empirical results indicate that there is a difference in the effectiveness of fiscal policy in stimulating economic performance during and after regulation period. As such, they recommended among others, appropriate policy mix, prudent public spending, setting of achievable fiscal policy targets and diversification of the nation's economic base. In the same vein, Adeoye (2011) studied the impact of fiscal policy on economic performance in Nigeria over the periods 1970-2002, and found that public investment negatively affects output growth; by crowding out private investment. Similarly, Ezeabasili, Wilson and Tsegba (2012) studied the effect of fiscal deficits on economic performance in Nigeria over the period 1970 to

2006. Using ordinary least squares method of estimation, their result indicates that there is a negative effect of fiscal deficit on economic performance of Nigeria for the period and as such support the findings of Gummel (2001) in Ezeabasili and Tsegba (2012). Wosowei (2013) employed the use of ordinary least square method in evaluating the relationship between fiscal deficit and macroeconomic performance in Nigeria over the period 1980 to 2010. The empirical findings show that fiscal deficit even though met the economic a priori in terms of its negative coefficient, yet did not significantly affect macroeconomic output within the period studied. Ogundipe and Oluwatobi (2013) investigated the effect of government expenditure (both recurrent and capital) on growth rate in Nigeria using the Johansen co-integration analysis. Evidences from the analysis spanning from 1970-2009 shows that the components of total government expenditure induced a negative (except spending on education and health) and insignificant in explaining the trend of economic performance. Also, the study shows the possibility of long-run equilibrium convergence between the components of capital expenditure and growth while the long-run convergence between the components of recurrent expenditure and economic performance may not be attainable.

Oni, Aninkan and Akinsanya (2014) investigated the joint impact of total capital expenditure and total recurrent expenditure on economic performance in Nigeria through the use of ordinary least squares multiple regression analytical method. Their study shows that total capital expenditure and total recurrent expenditure are important determinants of economic performance in Nigeria. Monogbe and Davies (2016) also investigated the contribution of the stabilization policies (monetary and fiscal policy) on performance of the Nigeria economy between the periods 1981 to 2014. The study considered total money supply and total government expenditure as proxies for stabilization policies and found that the proxy for fiscal policy (total government expenditure stimulates economic performance in Nigeria as it reported a positive and significant relationship with gross domestic product while total money

supply which is a proxy for monetary policy exhibited a negative and significant influence on the economy. The study thereby concluded that fiscal policy is more coherent in promoting economic performance in Nigeria.

4. Methodology

This study used time series data obtained from the publications of the Central Bank of Nigeria statistical bulletin 2017. Data were collected for the period of 1981 to 2017 (36 years) on Gross Domestic Product (GDP), Government Expenditure on Administration (ADM), Tax Revenue (TAX), Government Expenditure on Social Community Service (SCO), Government Transfers (TRA), Fiscal Deficit (FIS), and Government Expenditure on Economics Services (ECO).

4.1 Model Specification

In the establishment of the relationship between the variables, multiple linear regression used and its functional form is represented thus:

$$GDP_t = f(ADM_t, ECO_t, SOC_t, TRA_t, TAX_t, FIS_t)$$

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To have the estimable version of above equation, equation (1) can be rewritten to have

$$GDP_t = \alpha_0 + \beta_1 ADM_t + \beta_2 ECO_t + \beta_3 SCO_t + \beta_1 TRA_t + \beta_2 TAX_t + \beta_3 FIS_t + \mu_{it}$$

2
Where:

GDP = Gross domestic product

ADM = Government expenditure on administration

ECO = Government expenditure on economic services

SOC = Government expenditure on social services

TRA = Government transfers

TAX = Tax revenue

FIS = Fiscal deficit

α_0 = Constant

$\beta_1 - \beta_3$

= Coefficients of Independent Variables

μ_{it} = Error Term

Where $b_1, b_2, b_3, b_4, b_5, b_6 > 0$

5. Results and Discussions

Table 1: Presentation of Descriptive Statistic Result

	GDP	ADM	TAX	SOC	TRA	FIS	ECO
Mean	13893821	377.2737	3242802.	223.4517	688.6703	-421.5446	107.8252
Median	2702719.	144.5301	949187.9	71.37120	107.5772	-101.3975	28.59193
Maximum	89043620	1297.200	10654747	904.5000	4629.400	32.04940	562.7534
Minimum	47619.66	0.896808	10508.70	0.288914	3.392902	-3679.500	0.172176
Std. Dev.	24579628	464.9940	3796603.	312.9587	1090.862	761.1198	146.8282
Skewness	1.972696	0.891018	0.747747	1.191101	2.079661	-2.669007	1.326965
Kurtosis	5.578651	2.185043	1.949494	2.755806	6.928075	10.71962	3.896582
Jarque-Bera	34.24898	5.919702	5.149261	8.840719	50.45834	135.8007	12.09778
Probability	0.000000	0.051827	0.076182	0.012030	0.000000	0.000000	0.002360
Sum	5.14E+08	13959.13	1.20E+08	8267.714	25480.80	-15597.15	3989.533
Sum Sq. Dev.	2.17E+16	7783898.	5.19E+14	3525953.	42839238	20854923	776106.8
Obs	37	37	37	37	37	37	37

Source: Extraction from E-views

The mean value of the gross domestic product (GDP), government expenditure on administration (ADM), tax revenue (TAX), government expenditure on social services (SOC), government transfers (TRA), fiscal deficit (FIS), and government expenditure on economic services (ECO), variables are 138938, 377.2737, 3242802, 223.4517, 688.670, -421.5446, and 107.8252 respectively. The maximum values of each of the variables are 89043620 for gross domestic product, 1297.200 for ADM, 1065474 for TAX, 904.5000 for SOC, 4629.400 for TRA, 32.04940 for FIS, and 562.75 for ECO. The minimum values for

the series were 47619.66, 0.896808, 10508.70, 0.28891, 3.392902, -3679.500, and 0.172 for gross domestic product (GDP), government expenditure on administration (ADM), tax revenue (TAX), government expenditure on social services (SOC), government transfers (TRA), fiscal deficit (FIS), and government expenditure on economic services (ECO) respectively. The measure of dispersion or spread (standard deviation) for each of the series were 24579628, 464.9940, 3796603, 312.9587, 1090.862, 761.1198, and 146.8282 for gross domestic product (GDP), government expenditure on administration (ADM), tax revenue (TAX), government expenditure on social services (SOC), government transfers (TRA), fiscal deficit (FIS), and government expenditure on economics services (ECO) respectively.

Table 2: Result of ADF Unit Root Test at level zero

Variables	ADF Stat @ 1 st Diff	Critical Value @ 5%	Order of Integration	Remarks
GDP	-5.89172	-2.94840	I(1)	Stationary
ADM	-6.48344	-2.94840	I(1)	Stationary
ECO	-5.34697	-2.94840	I(1)	Stationary
FIS	-8.30491	-2.95112	I(1)	Stationary
SOC	-4.25314	-2.94840	I(1)	Stationary
TAX	-6.90019	-2.96397	I(1)	Stationary
TRA	-10.7549	-2.95112	I(1)	Stationary

Source: Extraction from E-view 9.0 Output

From Table 2 presented above, it could be revealed that all the variables (for gross domestic product (GDP), government expenditure on administration (ADM), tax revenue (TAX), government expenditure on social services (SOC), government expenditure on transfers (TRA), Fiscal Deficit (FIS), and government expenditure on economic services (ECO)) are stationary at first difference in the order of I(1) integration. This is because their respective ADF test statistics value is greater than Mackinnon critical value at 5% and at absolute term. Hence, we accept H_1 for all the variables and reject H_0 . Thus, the study model variables were processed at first order of integration.

Table 3: Presentation of Multiple Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	48278.22	1839681.	0.026243	0.9792
ADM	-183018.6	33466.70	-5.468677	0.0000
ECO	105055.1	26528.93	3.960019	0.0004
FIS	-16414.25	10494.72	-1.564048	0.1283
SCO	203848.8	25980.75	7.846149	0.0000
TAX	13.44374	2.670763	5.033671	0.0000
TRA	-35574.44	7844.375	-4.535025	0.0001
R-squared	0.909955	Mean dependent var		13893821
Adjusted R-squared	0.891946	S.D. dependent var		24579628
S.E. of regression	8079723.	Akaike info criterion		34.81627
Sum squared resid	1.96E+15	Schwarz criterion		35.12104
Log likelihood	-637.1010	Hannan-Quinn criter.		34.92372
F-statistic	50.52760	Durbin-Watson stat		2.175256
Prob(F-statistic)	0.000000			

Source: Extraction from E-view 9.0 Output

5.1 Government Expenditure on Administration

The coefficient of government expenditure on administration is negative -183018.6 with a significant P-value of 0.0000, implying that there a significant and negative relationship between government expenditure on administration and gross domestic product as against our apriori expectation. Based on the result, it means that 1% increase in government expenditure on administration will bring about 183018.6unit decrease in gross domestic product; this deviation from our expected could be as a result of expenditures in these sector being spent on consumables and most at times outside the Nigerian economy by political office holders in addition to the fact that most of the recorded misappropriation cases were witnessed in this sector.

5.2 Expenditure on Economic Services

Government expenditure on economic services has a positive coefficient of 105055.1 with probability of 0.0004 implying that there is a positive and significant relationship between expenditures on economic services and gross domestic product. The result indicates that 1 unit increase in government expenditure on economic services will lead to approximately 105055.1unit increase in gross domestic product holding other variables constant. This support our apriori expectation since theoretically, an increase in government expenditure will lead to increase in economic growth holding other variables constant.

5.3 Expenditure on Social Services

The 203848.8 coefficient of government expenditure on social services indicate a positive relationship between government expenditure on social services and gross domestic product which support our expectation. Holding other variables constant, a unit increase in government expenditure on social services will bring about 203848.8unit increase in gross domestic product. This is explained by the fact that increases in government spending on productive services will increase output of the nation following

theory; and interestingly, it was found to be statistically significant as evidenced from the probability of 0.0000.

5.4 Government Transfer

Government transfer has a coefficient of -35574.44 alongside a significant P-value of 0.0001, indicating a negative relationship between government expenditure on transfer and gross domestic product in Nigeria for the period under study; this implies that 1 unit increase in expenditure on transfer will lead to 35574.44 unit decrease in gross domestic product holding other variables constant. This result although against our expectation may be due to mismatch in government revenue and expenditures and also as a result of too much external borrowings; since debt servicing attracts the major aspect of transfer expenditures. However, it is statistically significant based on its probability of 0.0001. This implies that if this government transfers are properly managed, it is capable of stimulating economic growth in Nigeria.

5.5 Government tax revenue

With the coefficient of 13.44374 and the probability value of 0.0001, the result indicates a significant and positive relationship between government tax revenue and gross domestic product. Holding other variables constant, a percentage increase in tax revenue increases gross domestic product by 13.44374unit. This agrees with our apriori expectation because an increase in government tax revenue through her expenditure will lead to increase in nation's output.

5.6 Fiscal Deficit

The coefficient of fiscal deficit is -13881.86 and an insignificant P-value of 0.1283, implying a negative relationship between fiscal deficit and gross domestic product in Nigeria for the period under study. It indicates that 1 unit increase in fiscal deficit will lead to about 16414.25 unitdecrease in gross domestic product. This is against our expectation because theory (Keynesian) asserts that government expenditure especially fiscal deficit could provide a short-

term stimulus to help halt a recession or depression.

5.7 F-statistics:

It is used in determining the overall fitness of the model, result shows that F-statistics exhibited a coefficient of 50.52760 alongside a significant P-value of 0.0000 which suggest the overall fitness of the model and thus justifies that the study variables were statistical significant and fit for the study.

5.8 Co-efficient of Determination R²

The 0.89194 Co-efficient of Determination is an indication that our explanatory variables explained about 89 % of the total variation in our dependent variable while the Durbin Watson statistic exhibited a coefficient of 2.17525 which is within the acceptable range and thus suggest absence of auto correlation.

Table 4: Presentation of Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.979178	413.7667	125.6154	0.0000
At most 1 *	0.937671	278.2557	95.75366	0.0000
At most 2 *	0.879832	181.1192	69.81889	0.0000
At most 3 *	0.730965	106.9589	47.85613	0.0000
At most 4 *	0.635701	61.00694	29.79707	0.0000
At most 5	0.422056	15.49471	14.66458	0.0611
At most 6	0.168893	6.841694	4.474872	0.0859

Trace test indicates 5 cointegrating eqn(s) at the 0.05 level

*denotes rejection of the hypothesis at the 0.05 level

* Mackinnon-Haug-Michelis (1999) p-values

Source: Extraction from E-view 9.0 Output

The result of the co-integration analysis from Table 4, indicates that at most five co-integrating equations exist in the model at 5% level of significance. This however implies that there is a long-run relationship between real gross domestic growth, government expenditure on administration, government expenditure on transfer, government expenditure on social community, government expenditure on economic, fiscal deficit and taxes. By implication the result shows that all the variable under investigation share mutual stochastic trend. Hence, the hypothesis of no co-integration (H₀) is rejected and that of presence of co-integration (H₁) is upheld. Having justifies the existence of co-integration among employed variables, we proceed to error correction model.

Table 5: Presentation of Error Correction Model Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9330.346	1936841.	0.004817	0.9962
ADM	-165337.4	41450.59	-3.988783	0.0004
ECO	85473.63	37467.25	2.281289	0.0303
FIS	-13881.86	11260.58	-1.232783	0.2279
SOC	201155.4	26895.19	7.479233	0.0000
TAX	12.58179	2.964523	4.244120	0.0002
TRA	-35670.14	8039.201	-4.437026	0.0001
ECM(-1)	-0.216057	0.284505	-0.759416	0.0510
R-squared	0.910965	Mean dependent var		14278438
Adjusted R-squared	0.888707	S.D. dependent var		24815116
S.E. of regression	8278485.	Akaike info criterion		34.88935
Sum squared resid	1.92E+15	Schwarz criterion		35.24124
Log likelihood	-620.0083	Hannan-Quinn criter.		35.01217
F-statistic	40.92633	Durbin-Watson stat		2.062251
Prob(F-statistic)	0.000000			

Source: Extraction from E-views 9.0 output

From the error correction model, ECM is rightly signed, that is, it is negative and statistically significant with about 21% speed of adjustment over a year. This result shows long run relationship and reasonable dynamics of GDP to the explanatory variables. Further, it implies that gross domestic product adjust gradually to change in the explanatory variables jointly to the tune of 21 percentage

Table 6: Presentation of Pairwise Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
ADM does not Granger Cause GDP	35	4.15803	0.0255
GDP does not Granger Cause ADM		3.44377	0.0450
ECO does not Granger Cause GDP	35	3.77607	0.0345
GDP does not Granger Cause ECO		0.38725	0.6823
FIS does not Granger Cause GDP	35	6.50331	0.0045
GDP does not Granger Cause FIS		3.13000	0.0583
SOC does not Granger Cause GDP	35	7.11193	0.0030
GDP does not Granger Cause SOC		4.07957	0.0271
TAX does not Granger Cause GDP	30	20.9803	4.E-06
GDP does not Granger Cause TAX		7.22881	0.0033
TRA does not Granger Cause GDP	35	3.59833	0.0397
GDP does not Granger Cause TRA		12.3287	0.0001

Source: Extraction from E-views 9.0 Output

The result of the causality test shows the existence of unidirectional relationship between government expenditure on economic and gross domestic product with causality flowing from economic to GDP while the result further shows the existence of bidirectional relationship between admin, government revenue, social, tax, transfer and GDP with causality flowing from both side thus suggesting as the economic grows, government expenditure increase and as government expenditure increase, the economic grows.

6. Conclusion

The paper concludes that for the period under study, social and community service expenditure, government expenditure on economic and government tax revenue significantly and positively relates with gross domestic product in Nigeria. Furthermore, government expenditure on administration and transfer relate negatively with a significant relationship with gross domestic product, while fiscal deficit relate negatively with gross domestic product over the years of our study. The study also concludes that there is an

existence of long run equilibrium relationship between the variables in the model and economic growth.

7. Recommendations

- Government should intensify its tax drive because the study has shown that tax revenue of government can facilitate economic growth in the country.
- Government should channel more of its spending on social services and economic sectors of the economy for their salutary effect on the economy.
- There is the need to comprehensively tackle the issue of corruption to ensure fiscal discipline.

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