The Impact of Fiscal Policy on Nigerian Economy For The Period (1985-2015) An Empirical Analysis

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Abstract:

This study examines the effect of fiscal policy on Nigerian economy for the period (1985 - 2015). The study aims to test the correlation ship behavior between taxes, government expenditure, government revenue, and GDP on Nigerian economy. The study hypothesized that, There is a positive relationship between (taxation, government expenditure, government revenue, and GDP. For this purpose, OLS technique used in order to test the relationship among the above macroeconomic variables. The main findings of the study are that, the value of coefficients (0.846, 1.337, and 4.391) are the estimates for government expenditure, government revenue and tax respectively. This results showed the positive significant relationship between (taxation, government revenue, government expenditure, and GDP). Means an increase in any of these variables will bring a direct increase in the economic real sector performance.

1. Introduction

Macroeconomic policy is a set of government rules and regulations to control or stimulate the aggregate indicators of an economy frames. Aggregate indicator involves national income, money supply, inflation, unemployment rate, growth rate, interest rate etc, so as to meet the macroeconomic goals of the nation. The main two steering regulatory policies of macroeconomic are fiscal and monetary. The fiscal policy deals with legislative and executive branches of government and deals with managing a nation's budget or tax to stimulate growth. While monetary policy deals with the parameters that affects the supply of money in the economy through central bank of the country in Nigeria is called (CBN).

The growth and development of Nigerian economy has not been stable over the years, as a result of that the economy has witnesses so many disturbances and shocks both internally and externally over the decades. The Internal one is the unstable investment and consumption patterns as well as the improper implementation of public policies, also the changes in future expectations and the accelerator are some of the factors responsible for the internal disturbances. The cyclical fluctuations in economic activities has led to the periodical increase in the unemployment and inflation rates as well as the external sector disequilibria. In other words, fiscal policy is a major economic stabilization tool that involves measure taken to regulate and control the volume, cost and availability as well as direction of money in an economy to achieve some specified macroeconomic policy objective and to counteract undesirable trends in Nigerian economy problems identified (Ndiyo and Udah, (2003)). This may include either an increase or decrease in taxes as well as government expenditures which constitute the bedrock of fiscal policy. But in reality, government policy requires a mixture of both fiscal and monetary policies. This depression continued until (1990s) without recovering from it. Drawing the experience of the great depression, government policy measure to curb the depression was in the form of increase government spending (Nagayasu, 2003). According to Okunroumu, (1993), the management of the Nigerian economy in order to achieve macroeconomic stability has been unproductive and negative hence one cannot say the Nigerian economy is performing. This is evidence in the adverse inflationary trend, government fiscal policies, undulating foreign exchange rates, the fall and rise of gross domestic product (GDP), and unfavorable balance of payments as well as increasing unemployment rates are all symptoms of growing macroeconomic instability. As such, the Nigerian economy is unable to function well in an environment where there is low capacity utilization attributed to shortage in foreign exchange as well as the volatile and unpredictable government policies (Isaksson, 2001). Because of the above reasons, the targets and aims of this study, is to assess the effect of fiscal policy on Nigerian economy for the period (1985 – 2015).

2. Importance of Study

Fiscal policy is important for allocating resources to maintain a balance between the three keys assets of the society: human capital, physical capital, and natural capital. Fiscal policy is therefore a powerful instrument, capable of affecting the orientation of asset accumulation and economic growth in dramatic ways. Fiscal policy is powerful enough to influence macroeconomic expansion, contraction, to affect intergenerational transfers through debt, and social security, and taxation.

3. Problem Statements

There have been a lot of challenges facing the Nigerian economy. These challenges include ineffective economic policies, lack of harmonization, and coordination of fiscal policy mismanagement of public funds. Despite the emphasis placed on fiscal policy in Nigerian economy, then

Nigerian economy is yet to come on the path of sound growth and development because of low output to the economy (GDP).

4. Objectives of the Study

This study depends on the following objectives:

1. To find out how the Government Expenditure affects the level of output on Nigerian economy.
2. To examine the relationship between Government Revenue and Gross Domestic Product (GDP) on Nigerian economy.
3. Finally to test the correlation between taxes and GDP in Nigeria.

5. Hypothesis

The study depends on following hypothesis:

1. There is a positive relationship between government expenditure and GDP.
2. There is a positive relationship between government revenue and GDP.
3. There is a positive relationship between taxes and GDP.

6. Methodology

The study investigates the effects of fiscal policy on Nigerian economy in order to promoting the level of economics activities. To do so, the study used time series data that were compiled by Central Bank of Nigeria (CBN) and National Bureau of statistics for the period (1985-2015), by applying Ordinary Least Squared method (OLS).

7. Empirical Studies

Several attempts have been made by different scholars in different countries to provide empirical evidence concerning the fiscal policy. Eze, Onyekaechi, ogiji, and ezikiel in (2013) studied the impact of fiscal policy on investment expenditure in Nigeria. A multiple regression model is specified in the study to assess the impact of fiscal policy on investment. Using government expenditure, gross domestic product, and corporate income tax. The estimation technique employed in this paper is the ordinary least squares (OLS) method. The study reveals that, fiscal policy has a significant impact on investment expenditure in Nigeria. Government expenditure and gross domestic product have significant impact on investment. But corporate income tax has a positive effect instead of a negative impact on investment expenditure in Nigeria. They recommended that, the government should use an expansionary fiscal policy to encourage increase in investment in Nigeria. Also, government spending should be channeled to capital projects and social overhead capital, that will encourage investment, such as constant electricity supply and good road networks.

In contrast to Keynesian policy prescription, Bailey (1980), Feldstein, and Iwata (1980) indicated a negative effect between fiscal policy and economic growth. Based on these theoretical propositions, empirical questions have been raised on whether the effect of fiscal policy on the real output holds for the different sectors of the economy In Nigeria.

Studies by Ekpo (1994), Omitogun, Ayinla (2007), Ogunmuiwa, (2008), Nurudeen, Usman (2010), Oseni, Olomola, (2011), Ogunmuiwa, (2011), Oseni, and Onakoya (2012-2013); these studies investigated the relationship between fiscal policy and real output growth. They concentrated on the aggregate output, but neglected growth effects. The neglecting of these important issues in the existing literature created an empirical gap for their researches, which can be carried out. This might have undermined the policy relevance of inferences from the empirical evidence from such studies especially on Nigeria.

8. Literature Review:

Since (1980 country have had the best fiscal policy, and this policy lays hand on that fiscal policy effect. Therefore a policy makers need to coordinate a programs based on flexibility, and the individual needs of the country. Macroeconomics is the Study of the behavior of the whole (aggregate) economies or economic systems Instead of the behavior an individual. Macroeconomic is concerned with the national, through the analysis of major economic factors that show predictable pattern and trends. They Influence one another as for example; level of employment and unemployment, and gross national product (GNP). The great depression which results to high unemployment rate, to the society greatly influenced the development of macroeconomic. In (1936), John Maynard Keynes published the general theory of employment, Interest rate, and monetary policy. Keynes wrote that, government spending and tax policies could be used to stabilize the economy. The Keynesian school argues that an increase in government expenditures or an increase in taxes reduce Inflation (Jhingan, 1997).

9. Macroeconomic Policy Objectives:

The Macroeconomic Policy Objectives, which most governments strive to attain are: full employment, sustainable economic growth, economics development, stable prices, and balance of payments.

9.1. Full Employment:

Full employment has been ranked among the foremost objectives of economic policy. The wish of governments has been to provide employment to all available capital and human resources. Thus, government does this by making a policy that will provide employment. A condition of full employment exists if the number of unfilled vacancies is equal to the number of people looking for job (Hanson, 1977). The principal aim of full employment is to eradicate mass unemployment. According to Keynes, full employment implies the absence of involuntary unemployment (Jhingan, 1997).

9.2. Sustainable Economic Growth and Development:

Economic growth is defined in terms of an increase in a nation's output of goods and services as measured by (GDP). Economic development encompasses growth, that is, structural, and institutional changes and essential elements that make for a better quality of life, such as education, health, nutrition, and a better environment. Nevertheless, economic growth is particularly the result of capital accumulation as it is generally accepted that more capital goods will be required if there is to be growth. If all gross investments are devoted to depreciation of capital thus merely keeping the existing capital stock intact, there will be no net investment and therefore no basis for economic growth (Jhingan, 1997).

9.3. Price Stability:

One of the macroeconomic policy objectives is to stabilize the price level. Both economists and laymen favor this policy because fluctuations in prices bring uncertainty and instability to the economy. Every government desires a stable economy which refers to a situation where there is market equilibrium, that is, prices are neither falling nor rising. Government seeks to achieve stable prices so as to maintain a high purchasing power for its currency which facilitates social, political, and industrial harmony. A policy of price stability keeps the value of money stable, eliminates cyclical fluctuations, brings economic stability, help in reducing inequalities of income and wealth (Ezigbo, 2006).

9.4. Balance of Payment (BOP):

A balance of payments means that, the central bank of a country is adding to its foreign exchange reserve holdings. To achieve a balance of payments surplus require achieving the other macroeconomic goals of employment, price stability, and economic growth. But these variables that affect the balance of payments are in conflicts. There is an inverse relationship between employment and inflation. For example, to achieve a balance of payments surplus requires anti-inflation measures which could worsen an unemployment situation. Hence full employment may be achieved only at the expense of rapidly rising prices (inflation), or a balance of payments surplus may result in an unacceptable level of unemployment (Ezigbo, 2006).

10. Macroeconomic Management:

There is no doubt that government can exert a significant influence on economic affairs. Lipsey (1989) identifies two macroeconomic tools of demand management as fiscal policy and monetary policy. Fiscal policy seeks to influence demand through government budget. The main thrust of monetary policy is to ensure price stability as a basis for promoting sustainable growth. Monetary policy and fiscal policy constitute the principal instruments of macroeconomic management not for the developing countries of Africa, Asia, and Latin America but also for the advanced industrialized nations of the world.

10.1. Fiscal Policy:

Fiscal policy involves the adjustment of tax rates and/or government spending so as to affect the aggregate demand and the economy as well. Fiscal policy can be expansionary or contractionary. It is expansionary or loose when taxation is reduced or public spending is increased with the aim of stimulating total spending in the economy, known as aggregate demand. Expansionary policy might occur when a government feels its economy is not growing fast enough or unemployment is too high. By increasing spending or cutting taxes, the government leaves individuals and businesses with more money to purchase goods or invest in new equipment. When individuals or firms increase their purchases, they raise demand, which requires additional production, creating jobs and generating more spending. On the other hand, fiscal policy is contractionary or tight when taxation is increased or public spending is reduced in order to restrict demand and slow down the economy. A tight fiscal policy is more likely when inflation is high. A contractionary fiscal policy reduces the amount of money in the economy available for purchasing goods, thus decreasing spending, demand, and ultimately, pressure on prices. An important decision a government must make regarding fiscal policy is whether or not to run a budget deficit; by spending more money than the government rises. Deficits can be financed in two ways: borrowing or printing more money. If the government borrows money, it will decrease the supply of money available in the economy for lending; and the cost of borrowing money, the interest rate may raises. If the government prints more money, it will increase the supply of money in the economy without a corresponding increase in available goods; prices, and inflation is likely to rise. The tax systems in African countries are generally rather inflexible, the tax base is narrow, and tax administration is weak (Iyoha, 2007).

10.2. Monetary policy:

The central bank has a primary responsibility of formulating monetary policy. A monetary policy deals with the discretionary control of money supply by the monetary authorities so as to achieve stated or desired economic objectives. The effectiveness of any central bank in executing its functions hinges crucially on its ability to promote monetary stability. Price stability is indispensable for money to perform its role of medium of exchange, store of value, standard of deferred payments and unit of account. Attainment of monetary stability rests on a central bank's ability to evolve effective monetary policy and to implement it efficiently. In practice, implementation is often difficult because of conflicting conceptual issues and constraints. Standard tools of monetary management applied by the central bank include open market operation (OMO), reserve requirements (cash, liquid assets, and supplementary reserves) interest rate regulation, direct, and selective credit control, variable discount rate, and moral suasion. Fiscal and monetary policy may be supplemented with the remaining four instruments: income policy, commercial policy, exchange rate policy, and debt management strategy- as the need arises and depending on the particular circumstances in a country (Iyoha, 2007, cited in Ezigbo, 2010).

10.3. Public Expenditure:

This study is hinged on (Wagner's 1962) "Law of increasing scale of public expenditure". The public sector plays a significant role in the management of an economy at all level. This role is usually through its revenue and expenditure policy. The theory of public expenditure development posits that the role of public spending evolves in the course of development since the budgetary function must adapt to the changing needs of the economy. The varying needs of the economy relates to both the allocation and distribution perspectives of public expenditure. The allocation perspective deals with the rising share of the public sector in the economy. Such fiscal policy can be used for allocation, stabilization and distribution. In essence, a primary objective of fiscal policy is to balance the use of resources of the public in appropriate way, and the impact of fiscal policy depends on the state of the economy (Iyoha, 2007, cited in Ezigbo, 2010).

10.4.The Exchange rate and Fiscal Policy:

The effect on the exchange rate of a change in fiscal policy, not accommodated by monetary policy, is indeterminate in theory. For example, an increase in the **ex-anti**government budget deficit would be expected to raise the level of activity, the demand for money, and interest rates in the short run (assuming unused resources and that the interest-rate effects of the policy shift do not fully crowd out other expenditures). The magnitude of the effect on interest rates will depend on both the size of the spending multiplier and the income and interest elasticity of money demand and supply. The interest-rate increase will attract incipient capital inflows and put upward pressure on the exchange rate, the extent of these movements depending on the interest elasticity of capital flows. At the same time stronger economic activity will worsen the current account (the extent of deterioration depending on the demand elasticity of trade and the size of the domestic multiplier) and will very likely raise the rate of inflation, adversely affecting the country's price performance relative to competitors. This in turn will further worsen the current account (depending on the price elasticity of trade) and could also give rise to downward pressure on the exchange rate, to the extent that it adversely affects expectations (Iyoha, 2007, cited in Ezigbo, 2010).

11. The Effect of Taxes on GDP:

Tax changes taken because spending was rising or to offset another factor likely to affect output are clearly actions that are correlated with other developments affecting output. Tax changes taken to deal with an inherited budget deficit or to achieve a long-run goal, in contrast, are changes motivated by past decisions, philosophy, and beliefs about fairness. As a result, they are unlikely to be systematically correlated with other factors affecting output in the short or medium run, and so are legitimate observations to use.

12. Fiscal policy Savings and Investment:

Fiscal policy has been used as an antidote to weak activity during the most recent downturn and fiscal consolidation has been delayed in some countries because of its perceived costs in terms of lower activity. However, the impact of fiscal policy on aggregate demand depends on the responses of private saving to changes in fiscal stance. In certain circumstances budget deficit shifts can be offset by simultaneous compensating changes in private saving.

Investment is the key to economic growth. In fact, the theories of investment dating back to Keynes (1936), first called attention to the existence of an independent investment function in the economy. It is important to distinguish between private and public investment, particularly as similar arguments could also apply to the latter and, perhaps more interestingly, public investment may have differentiated (or at least unclear) effects on growth.

13. The Nigerian Economy:

Nigeria became an independent country within the Commonwealth in (1960). One of the developments during the (1960s) was the declaration of independence, in (1967), Economic crisis and political instability was experienced. Nigerians second Republic was born amidst great expectations. The coalition that determined Federal policies was not strong; the military seized power because there was virtually no confidence in the civilian regime. Allegations of fraud associated with election in (1983) served as a pretext for the takeover, although the military was in fact closely associated with the ousted government. The Nigerian economy was in chaos at that time and the cost of failure to use earlier revenues and foreign resources to good effect now became apparent. Attempted to secure public support by reducing the level of corruption. Demonstrated its commitment to austerity by trimming the federal budget. In a further effort to mobilize the country, in (1984) the Nigerian government launched war against indiscipline in (1984). This national campaign which lasted for (15) months, preached work ethic, emphasized patriotism, decried corruption and promoted environmental sanitation. The campaign achieved few of its aims. The economic crisis, the campaign against corruption, and civilian criticism of the military undermined. In (1995), as a result of various human rights violations, the European Union, which had imposed sanctions in (1993), suspended development aid and Nigeria, was temporarily expelled from the Commonwealth. Corruption flourished and was later found to have siphoned off oil revenues into personal bank accounts in Switzerland. In (2005), Nigeria began to recover (458 million) US dollars of illicit funds deposited in Swiss banks.

14. Fiscal policy and Nigerian economy:

With the collapse of the crude oil prices in the world market as a result of glut in the world oil market, the Nigeria economy took a dive into depression in the early (1980’s). The impact of oil shock on the fiscal variables was more direct as there was fiscal crisis of the state. Federal revenue dropped to (N15.3) billion in (1983) (CBN). Though the total expenditure of the government declined, it was still greater than the total revenue although. This led to a large budget deficit and more public borrowing. In order to control the level of government fiscal operations, the economic stabilization Act of April (1982) containing several counter depression measures was enacted. Some of the fiscal measures adopted include increases in the tariff rates on important goods, public sector wages were frozen and the upward revision of existing allowances was also not permitted. Spending was limited to ongoing and viable projects in order to reduce capital outlay and therefore the overall budget deficit. The main policy focus of the (1999) federal budget was to establish and strengthen the frame work for public sector intervention in the economy. Owing to revenue short falls in the preceding year from drops in oil prices, fiscal policy was geared towards promoting greater budget discipline. The total federally collected revenue for the year was (N949.188billion). The fiscal operations resulted in a current account surplus of (N212.923 billion) representing (6.3%) of GDP. However, there was an overall deficit of (N285.105 billion) or (8.4%) of GDP, which was mostly financed by borrowing from domestic economy and the banking system.

15. Fiscal Policy Objectives in Nigeria:

The objectives of fiscal policies are to be achieved through expansionary or contractionary fiscal policies. The Nigerian government directly or indirectly influenced the way resources are used in the economy through fiscal policy to increases aggregate demand directly by an increase in government spending is typically called expansionary or loose.

Many researchers in Nigeria like (Adeoye, 2006; Omitogun and Ayinla, 2007) believed that fiscal policy, together with monetary policy, are the most important means of regulating the rate of inflation in an economy and preventing or controlling depression. Omitogun and Ayinla (2007) noted that, when there is economic recession or depression, government plans for budget deficit, which is often referred to as expansionary fiscal policy. Government can also plan for budget surplus (which is also referred to as contractionary fiscal policy) in situation where the government deems it necessary to reduce participation in the domestic economy. The government does this by reducing public expenditure and increasing taxes. According to Gray et al (2007), the Nigerian government can use fiscal policies to reduce the demand for goods and services. It can prevent depressions by encouraging spending, while rate of inflation can be controlled by discouraging spending. Tax rates, which are determined by fiscal policy, influence level of spending by influencing the amount of money people have for spending.

Nigeria discovered oil in (1956) but began to export oil in (1958). Since early (1970s) oil has become the dominant factor in Nigerian economy and its revenue has formed the major source of government income. Over the time, various oil price developments in the world oil market has led to instability in fiscal stance and has been transmitted to the rest of the economy, with negative implications for, in particular, the real exchange rate and growth performance (Okonjo-Iweala and Osafo, 2007). It has, for instance, recently been noted that: "Government deficits have posed significant problems for the country since the oil boom of the '(1970s). Expansionary fiscal policies prompted by the favorable oil proceeds in the international market resulted in large fiscal deficits and the rapid build- up of external and domestic debts. With expenditure rising faster than revenue, deficits grew from an average of (5.0 percent) of GDP in (1983-86) to (10.3%) in (1991-94) before declining to (4.9 percent) in (1999-2002). The deficit problem has remained persistent because of "government's inability to reduce the level of expenditure to sustainable levels" (Alade, 2003; Ezeoha and Chibuike, 2005).

16. Monetary policy:

Since the establishment of monetary policy in (1959) the Central Bank of Nigeria (CBN) has continued to play the traditional role expected of a central bank, which is the regulation of the stock of money in such a way as to promote the social welfare (Ajayi, 1999). This role is anchored on the use of monetary policy that is usually targeted towards the achievement of full-employment equilibrium, rapid economic growth, price stability, and external balance. Monetary policy in Nigeria has been carried out through the portfolio behavior of the CBN in terms of the control of its credit and management of reserves. Credit control is being used to check movement in domestic price level while the exchange rate policy serves as measure for determining the competitiveness and current account performance as well foreign reserves.

17. Monetary Policy objectives:

Since (1960s) the main primary objective of monetary policy in Nigeria is to maintenance of the stability of prices, and to the attaint a sustainable growth of the country economy. While the focus of central banking in an increasing number of economies is the fight against inflation, the CBN is still saddled with developmental functions, with the attendant risk of policy conflicts.

The goals of monetary policy might, however, conflict with other macroeconomic objectives in the short run, although in the long run their complimentarily must be ensured. For example, high and unstable interest and real exchange rates are perceived to be harmful to investor and consumer confidence. This arises mainly from the perceived general increases in the cost of funds faced by market participants. In reality, however, such increases are usually of short term nature, which are basically in the long-term interest of the economy, provided that other macroeconomic variables are allowed to evolve along their equilibrium paths, case in point is the devaluation of the naira in the mid.(1980s and 1990s). As the oil boom of the (1970s) came to an abrupt end, the overall economic environment under which monetary policy was conducted deteriorated in the mid-(1980s). When the spot oil price for Bonny light collapsed from (US$38.82) per barrel in (1980) to (US$30.0) in (1983) and further to (US$14.16) per barrel in (1986), oil export earnings plummeted from (US$25.47) billion in (1980) to (US$11.76) billion in (1983) and further to (US$6.89) billion in (1986). During year (2001), the external sector experienced renewed pressure, resulting in a lower overall balance of payments surplus of (N29.2 billion) or (0.5 per cent) of GDP in contrast to the (6.3%) recorded in (2000). Similarly, the level of external reserves rose by (5.5%) to (US$10.4 billion) compared with an increase of (81.8%) in the preceding year. For example, the fiscal deficit rose to (4.2%) of GDP in (2001) from the (2.9%) of GDP recorded in (2000). Inflationary pressure intensified as the inflation rate accelerated to (18.9%) from (6.9%) in year (2000). The agricultural sector recorded a growth rate of (5.1%), while industrial production fell marginally by (1.0%). However, manufacturing capacity utilization rose to (39.6%) from (36.1%) in the preceding year. Overall, the real GDP growth rate only marginally increased from (3.8%) in (2000) to (3.9%) in (2001). The gross external reserves at end-December (2001) stood at ($10.45 billion), up from ($9.91 billion) in (2000).

18. Exchange Rate in Nigeria:

The exchange rate has been defined as the price of one currency in terms of another (Mordi, 2006). The increase or decrease of real exchange rate indicates strength and weakness of currency in relation to foreign currency and it is a standard for illustrating a competitiveness of domestic industries in the world market (Razazadehkarsalari, Haghiri, and Behrooznia, 2011). In Nigeria, the management of the exchange rate is carried out by the Central Bank of Nigeria CBN. Following the adoption of Structural Adjustment Policy (SAP) in (1986), the country has moved from a peg regime to a flexible exchange rate regime. The prevailing system is the managed float whereby monetary authorities intervene periodically in the foreign exchange market in order to attain some strategic objectives (Mordi, 2006). Despite various efforts by the government to maintain a stable exchange rate, the naira has depreciated throughout the (80's) (Benson and Victor, 2012). In order to deepen the foreign exchange market and ensure sustained exchange rate stability, the CBN will establish a framework and guidelines for the introduction of a wholesale Dutch Auction System after the successful completion of the recapitalization and consolidation of the banking industry by end- December, (2005). The table below shows the results of deficit in billion Naira from (1986-1990) and GDP in current prices.

Table 1: GDP prices and deficit expenditure in billion from (1986-1990).

Years	Deficit N.bn	GDP current. P	Expenditure.	Deficit % GDP	Deficit % exp
1986	8.25	73.06	16.22	11.29	50.86
1987	5.89	108.88	22.02	5.41	26.75
1988	12.16	145.23	27.75	8.37	43.82
1989	15.27	196.16	41.03	7.78	37.22
1990	23.36	239.79	64.15	9.74	382.00
Total					

Source: Central Bank of Nigeria Annual Reports (2003)

Economic parastatals were reduced by about (50%) and subsidy on petroleum products, excepting household kerosene, was cut to about (20%). The fiscal measures led to a (25.5%) reduction in the fiscal deficit by the end of (1986). Monetary and credit policies adopted in (1986) were aimed at reducing excess demand and liquidity in the economy. Overall net domestic credit was expected to increase by (5%) and (6%) in (1986) and (1987), respectively. In actual performance, however, the government budget experienced a deficit of about (11.3%) in (1986) which was substantially above the (3%) envisaged for the structural adjustment programs (SAPs) and (5.4%) in (1987). Bank credit to the economy rose by (12.7%) between (1985) and (1986) instead of the (8.7%) allowed by the program. The corresponding figures for (1987- 1988) were (14.3%-36.2%) increases as compared with (6.0%-8.1%) projected for the depreciation experienced in the dollar exchange rate during the first phase could have been caused partly by the inability of the government to maintain fiscal and monetary targets, while the appreciation in the second phase could be assumed to have resulted from the massive reduction in fiscal deficits from (11.3%) of GDP to (5.4%) in (1987), even though there was considerable overshooting of the credit target.

18. Government Expenditure and Output:

According to (Akpan 2005), public expenditure has been expanding for decades in Nigeria. This observed growth in public spending appears to apply to most countries regardless of their level of economic development. This implies that growth in government spending over time has not enhanced economic growth and development in these countries. (Turnovsky 2004) opined that within theories of economic growth and development, fiscal policy changes can have growth impact that last for transitions of up to several decades aggregating government expenditure (Adam and Bevan 2005), (Lopéz and Miller 2009), and (Hong and Ahmed 2009). They argued that increased productive government expenditure, generally believed to include spending on energy, transport, communication; education and health, have significant positive long-run growth effect. On the basis of individual expenditure components, Albala-Bertrand, (Mamatzakis 2001), (Milbourne et al. 2003), (Haque and Kim 2003), and (Fedderke et al. 2006) examined the link between government expenditure and macroeconomic variables. They found positive growth-effect associated with greater infrastructure spending, while (Milbourne et al. 2003), (Ramirez and Nazmi 2003), and (Bose et al. 2007) found similar results for education spending. In a standard Keynesian closed economy setting, one extra dollar of government expenditure increases national output and hence private consumption, which in turn leads to a further rise in national output.

19. Regulations of tax:

19.1.Personal Income Taxation:

The legal basis for tax is found in the provisions of the Personal Income Tax Decree Act.104 of (1993). Every taxpayer in Nigeria is liable to pay tax on the aggregate amount of his income whether derived from within or outside Nigeria, the salaries, wages, fees, allowances, and other gains or benefits, given or granted to an employee are chargeable to tax. The Employers of labour are deemed to be agents of the tax authority for the purposes of remitting taxes deducted from salaries due to employees. However residency of the Taxpayer determines the extent of a taxpayer's liability in Nigeria. A person's place of residence for this purpose is defined as a place available for his domestic use in Nigeria on a relevant day, excluding hotels and rest houses. A person is deemed resident in Nigeria if he resides in Nigeria for (183 days) in any (12month) period, expatriates holding residence permits are liable to tax in Nigeria even if they reside in the country for less than (183days) in any (12-month) period. Once residence can be established, the relevant tax authority of the territory is the tax Authority in which the taxpayer has his place of residence or principal place of business.

19.2. Capital Gains Tax:

This accrues on an actual year basis and it pertains to all gains accruing to a taxpayer from the sale or lease or other transfer of proprietary rights in a chargeable interest which are subject to a capital gains tax of (10%). chargeable assets may be corporeal or incorporeal and it does not matter that such asset is not situated in Nigeria. Where however the taxpayer is a non-resident company or individual the tax will only be levied on the amount received or brought into Nigeria.

19.3. Value Added Tax (VAT):

This was introduced by the VAT decree No. 2 of (1993), to replace the old sales tax. It is a consumption tax levied at each stage of the consumption chain, and is borne by the final consumer. It requires a taxable person upon registering with the Federal Board of Inland Revenue to charge and collect VAT at a flat rate of (5%) of all invoiced amounts of taxable goods and services.

19.4.Withholding Tax:

Nigerian law subjects certain activities and services to Withholding Tax. This basically means that where during transactions in any of the specified activities or services, a payment is due from one person to another, the person making the payment is expected to deduct tax at the applicable rate and remit it to the relevant tax authority. This should be done not later than (30) days after the deduction. This provision can be found in sections (68 - 72) of the Personal Income Tax Decree No. 104 of (1993); Sections (60-64) of the Company Income Tax Act (as amended). Some of these activities and Services and their current applicable rates include:

Table : Cooperation Services Rates from the Period (1983-2015)

Payment	Corporation %	Individual / partnership %	Total
Rent	10	10	**20**
Construction	5	5	**10**
Dividend	10	10	**20**
Royalties	10	5	**15**

Commission	10	5	**15**
Professional fees	10	5	**15**
Technical fees	10	5	**15**
Consultancy fees	10	5	**15**
Total	**75**	**50**	**125**

Sources: Nigerian Federal Ministry of Finance Reports (2015)

19.5. Double Taxation Agreements/Treaties:

Nigeria has a number of tax treaties referred to as "Double Taxation" Agreements with a number of countries. In the last few years, Nigeria has entered into double taxation agreements with a number of countries. These agreements are entered into with a view to affording relief from double taxation in relation to taxes imposed on profit taxable in Nigeria and any taxes of similar character imposed by the laws of the country concerned.

19.6. Nigerian Petroleum Profit Tax:

According to (Odusola 2006), petroleum profit tax (PPT) is a tax applicable to upstream operations in the oil industry. It is particularly related to rents, royalties, margins and profit sharing elements associated with oil mining, prospecting and exploration leases. It is the most important tax in Nigeria in terms of its share of total revenue contributing (95-70%) of foreign exchange earnings and government revenue, respectively.

Petroleum operation as defined in the PPTA essentially involves petroleum exploration, development, production and sale of crude oil. The Petroleum Profit Tax is regulated by the Petroleum Profit Tax Act of (1959) as amended by the Petroleum Profit Tax Act of (2007). Petroleum profit tax involves the charging of tax on the incomes accruing from petroleum operations (Nwezeaku 2005). He noted that the importance of petroleum to the Nigerian economy gave rise to the enactment of a different law regulating the taxation of incomes from petroleum operations.

20. Model estimation and analytical framework:

Times series data on Gross Domestic Product, Y (dependent variable), and explanatory variables i.e. Government Expenditure (GE), Government Revenue (GR), and Tax (T) would be adopted for the study. The data were analyzed with Econometric views (E-views) using various econometric techniques)Augmented Dickey Fuller Test, Co-integration test, graphical analysis and multiple regression analysis).

20.1. Model Specification:

The model is explained by the following equation:

$$\mathrm{GDP} = \beta_0 + \beta_1\mathrm{GE} + \beta_2\mathrm{PE} + \beta_3\mathrm{T} + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where: (GDP): Gross Domestic Product, (GE): represents government expenditure, (GR): represents government revenue, (T): represents taxes, and ($\beta 0$): is the intercept of equation. β1, β2 and β3 are the rates of changes in government expenditure and public expenditure, taxes respectively, (μ): is the error term.

From the Augmented Dickey Fuller Test, It is evident that all variables are not stationary at (1%, 5%) and (10%) level of significance, (table 1 see appendix).

20.2. Johansen Co-integration Test:

Table (2) in appendix, shows the long run relationship existing among the variables of study. The table shows also, the variables converge in the long run thereby depicting the existence of long run relationship among them. The long run relationship exists at (5%) level of significance according to the Trace test statistics and the Eigen value. This implies there exists one co-integrating relationship among the variables. So therefore there is a long run relationship among the variables. The result estimated equation comes as the following:

Y = 1663303 + 0.846GE + 1.337GR + 4.391T - 0.629ECM (-1)… (3)
(2.53) (3.31) (0.88) (3.49) (4.46)
F = 760.5 **R^2 = 0.99** **DW = 2.15**

20.3. Interpretation of the Error Correction Model:

The error correction model analysis which showed a coefficient value (-0.628829), t-test value (-4.457788) and a very low probability value of (0.0002). With this finding, an inference can be drawn that the economy needs (62.9%) mechanical adjustment for it to be at equilibrium. R-squared is (99.5%) implies that, the regression line has a good fit of measure and that government expenditure, government revenue, and tax account for about (99.5%) systematic variation in economic growth. Whereas the remaining (0.5%) are other factors which affects economic growth but were not captured within the context of the model. (F) test confirms the joint statistical significance of the (760.4582). We can therefore conclude that the model is statistically significant. Durbin Watson statistics (2.15) indicates that, there is no evidence to show that there is presence of autocorrelation in the model.

20.4. Economic Implication and Interpretation of Results:

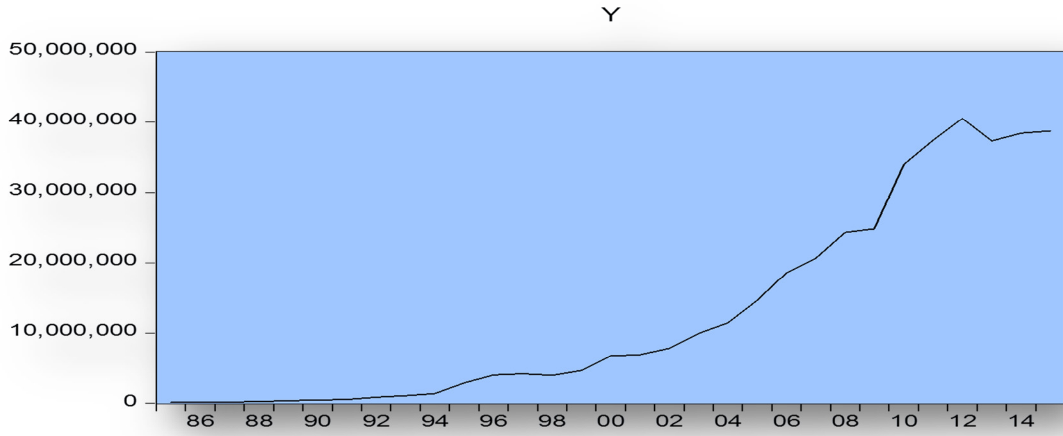
From the result above the coefficients values (0.846, 1.337, and 4.391) are the estimates for government expenditure, government revenue, and tax. It was revealed that, government expenditure has a positive relationship with GDP. The magnitude of the parameter explained at a (1%) percent increase in government expenditure would result on average about (0.85%) increase in GDP in Nigeria. This is statistically insignificant at (5%) level of significance using t-test and standard error for decision making. The t-test is (3.315) while the t-tabulated is (2.08) at (5%) level of significance; the standard error is (0.255) while half of the parameter estimates (½ * 0.846 equals 0.423).

Government revenue was observed to have a positive relationship with gross domestic product in Nigeria. The parameter estimate states that one percentage increase in government revenue would result on average to about (1.34%) increase in gross domestic product in Nigeria. This is statistically insignificant at (5%) level of significance using t-test and standard error for decision making. The t-test is (0.880) while the t-tabulated is (2.08 at 5%) level of significance; the standard error is (1.519) while half of the parameter estimates (½ * 1.337 equals 0.6685).

A positive relation was found between tax and GDP in Nigeria. The magnitude of the parameter estimate is explained that (1%) percent increase in tax revenue would result on average to about (4.391%) increase in gross domestic product. Meaning that there is a complementary increase in economic growth as a result of increase in tax revenues incurred by the country. This is statistically significant at (5%) level of significance using t-test and standard error for decision making. The t-test is (3.484) while the t-tabulated is (2.08 at 5%) level of significance; the standard error is (1.260) while half of the parameter estimates (½ * 4.391 = 2.1955). All alternative hypothesis should be accepted which states that there is statistical significance between (government expenditure, tax, and government revenue) and GDP in Nigeria.

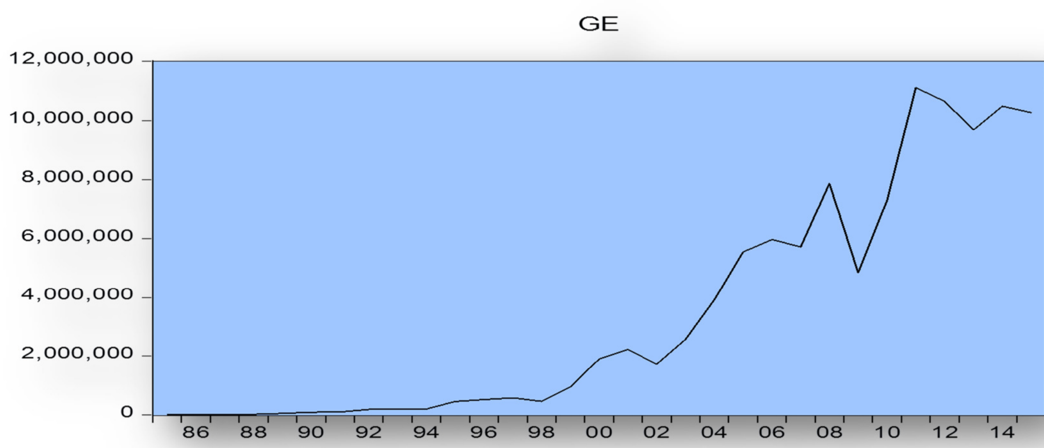
20.5.Graphical Analysis:

Chart (i-4): Graphical Trend of Gross Domestic Product in Nigeria (Y) (1985 – 2015)



It is observed from the graphical analysis above, that gross domestic product was abysmally low from the year 1985 till the year 1991. Which implies that economic activities were not encouraging in the country during the period. However, gross domestic product in Nigeria increased significantly from the year 1992 till the year 2012. This significant increase denotes that the country showed high levels of economic growth during the period. It is further observed that Nigeria experienced slight decline in economic activities from the year (2012 – 2015).

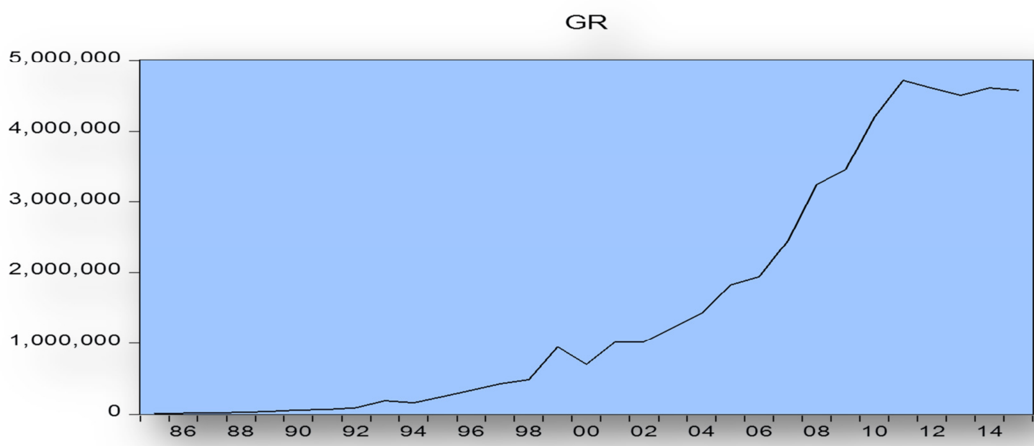
Chat (4-ii): Graphical Trend of Government Expenditure in Nigeria (GE) (1985 – 2015)



It is also observed from the graphical analysis above, the government expenditure in Nigeria was significantly low from the year 1985 till the year

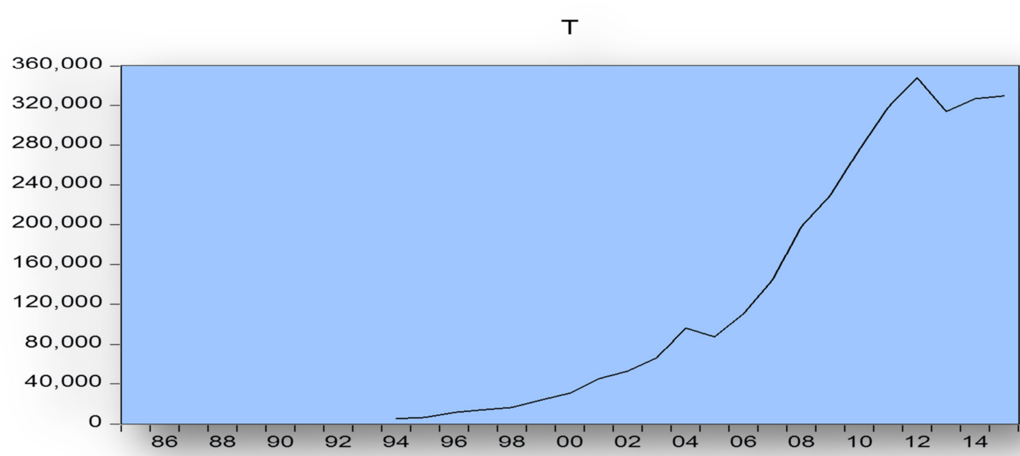
(1991). Which implies that, governments' financial intervention in various sectors of the economy was not encouraging during the period. However, government expenditure in Nigeria increased significantly from the year (1992) till the year (2008) where a slight decline was experienced. From the year (2009) however, government expenditure increased till the year (2014) indicating increase in governments' investment levels in various sectors of the economy of the country.

Chat (4-iii): Graphical Trend of Government Revenue in Nigeria (GR) (1985 – 2015)



The graphical analysis above reveals that government revenue in Nigeria showed low levels from the year (1985) till the year (1991). However, from the year (1991) till the year (2015), government revenue showed skyrocketing increase which could be attributed to increased productivity of various sectors of the economy in the country.

Chat (4-iv): Graphical Trend of Tax in Nigeria (T) (1985 – 2015)



The graphical analysis above shows that tax in Nigeria showed no records from the year (1985) till the year (1994). However, it is observed that from the year (1995), tax in Nigeria increased significantly till the year 2010 where a slight decline was experienced till the year (2015).

21. Conclusion:

It can be concluded based on the results of the analysis that there is a positive relationship between government expenditure, government revenue and taxes. This implies that an increase in any of these variables will bring about a direct increase in the economic real sector Performance. The study concludes that government needs to start thinking out of coming up with fiscal deficit on yearly basis and focus on either running a balanced budget or surplus budget. It should however be noted that the mopping of excess liquidity from the banking system by the central bank of Nigeria fiscal deficit are all meant to reduce excess demand pressure in the foreign exchange market in order to ensure stability in the short term. The study also concludes that government revenue could increase if the real sector are well developed which include the agricultural sector, industrial sector, building and construction. The study concludes that improvement in this sector will increase the revenue of the government from this sector through taxation and other royalties from the real sector of the economy.

21. Recommendations:

There need for Nigerian government to make efforts so as to reduce unnecessary spending especially from the salaries of senators, house of representative and other top politicians. The rise in public spending is generally associated with a crowd-in effect on the private sector. The expansionary fiscal policy in the context of external funds scarcity and a tight monetary policy lead to increase in fiscal deficit and tax burden. Therefore a recommendation is made to reduce the rate of fiscal deficits. Another policy recommendation is for government, to enhance tax revenue in Nigeria (taking into account the international and regional competition tax rates) by widen owing the tax base and increasing taxation of factors, the percentage change of which is less than the percentage change in price. Attention should focus on the real sector. Government should utilize their funds for the achievement of set economic goals within specified time periods. Factors to be considered in setting these goals/ targets should include the level of human and economic resources available, allocations from the federation account, and other factors considered relevant. Government economic policies should focus on diversification of the economy to enhance the performance of the non-oil sector so as to get different revenue streams. Fiscal policy should give priority attention to capital and public investments by making them of higher proportion in gross government expenditure. Emphasis should be on the development of basic infrastructure (example. transportation, energy and communication). Human capital development should be a priority. To ensure that all the main objectives of fiscal policy and their targets are achieved, there is need to redirect pubic expenditures towards making Nigeria a producer nation.

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23. Appendix:

Table (1)
UNIT ROOT TEST
- (Augmented Dickey Fuller Test)

Variable	Levels	Critical Values		First differences	Critical Values		Order of Integration	
Y	-1.535951	1%	-4.296729	-4.956090	1%	-4.339330	I(1)	Stationary at 1st difference
		5%	-3.568379		5%	-3.587527		
		10%	-3.218382		10%	-3.229230		
GE	-2.340454	1%	-4.296729	-4.395836	1%	-4.374307	I(1)	Stationary at 1st difference
		5%	-3.568379		5%	-3.603202		
		10%	-3.218382		10%	-3.238054		
GR	-1.639358	1%	-4.296729	-4.907566	1%	-4.374307	I(1)	Stationary at 1st difference
		5%	-3.568379		5%	-3.603202		
		10%	-3.218382		10%	-3.238054		
T	-1.854185	1%	-4.467895	-5.932637	1%	-4.498307	I(1)	Stationary at 1st difference
		5%	-3.644963		5%	-3.658446		
		10%	-3.261452		10%	-3.268973		

Table (2)

Dependent Variable: Y
Method: Least Squares
Date: 10/11/16 Time: 11:29
Sample (adjusted): 1995 2015
Included observations: 21 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	
C	1663303.	657665.9	2.529100	
GE	0.845916	0.255207	3.314629	
GR	1.336834	1.518723	0.880235	
T	4.391566	1.260331	3.484455	
ECM(-1)	-0.628829	0.255852	4.457788	

R-squared	0.994768	Mean dependent var	18
Adjusted R-squared	0.993459	S.D. dependent var	13
S.E. of regression	1130500.	Akaike info criterion	30
Sum squared resid	2.04E+13	Schwarz criterion	31
Log likelihood	-319.6440	Hannan-Quinn criter.	30
F-statistic	760.4582	Durbin-Watson stat	2.
Prob(F-statistic)	0.000000		