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ABSTRACT
The study examines the impact of fiscal policy on economic performance in Nigeria between 1981 and 2016. Fiscal policy is represented by government total expenditure, government total revenue and direct tax. A model was developed in which economic growth (proxy as economic performance) is expressed as a function of government total expenditure, government total revenue, direct tax, capital (represented as gross capital formation) and labour (represented as employment rate). The study covered a 36-year period ranging from 1981 to 2016. The econometric techniques of Augmented Dickey Fuller test, Cointegration test and Error Correction model estimation. Three theories were reviewed namely the classical, neo-classical and the endogenous growth model. The study concludes that fiscal policy was partially effective on economic growth (surrogate of economic performance) in Nigeria between 1981 and 2016. The study suggest that; Government should enhance investment in productive expenditure including expenditure on education, health, manufacturing, mining and agriculture and also ensure that funds meant for development of these sectors are properly utilized; Government should strive to reduce expenditure on recreational, cultural and religious affairs and other functions like political administrative expenses in order to stabilize the economy; Appropriate mix of fiscal and monetary policies that would effectively stabilize the economy should be pursued; Government should consider restructuring its expenditure pattern by allocating more funds towards productive expenditure such as capital projects; Government should consider harnessing its revenue potentials by expanding its revenue base via effective and efficient taxation system and diversification of Nigeria’s revenue base by tapping into solid minerals and agricultural potentials.

Keywords: fiscal policy, economic growth, government total revenue, direct tax

1.0 INTRODUCTION
Fiscal policy is the use of government revenue collection and expenditure to influence the economy. The application of fiscal policy is basically rooted in the budget of the government. The most vital aspect of a public budget is its use as an instrument to manage an economy (Omitogun & Ayinla, 2007). Fiscal policy is a deliberate action of government which entails government revenue, expenditure, and borrowing to influence the form of economic activities, level of output growth, employment, inflation and employment (Ugwanta, 2014). Economic growth is considered is a key macroeconomic objective of a country and that increase in government spending on socio-economic and infrastructural development encourages economic growth (Barro, 1990). Infrastructural development such as road, power, communication, railway, etc, reduces cost of production, raises formal private sector investment and production profitability of firms thus enhancing economic growth. Barro (1990) supported this assertion that increase in government expenditure fosters economic growth. Conversely, another school of thought argued that increasing government expenditure inhibits economic growth. This school of thought maintained that higher levels of government expenditure tend to reduce the aggregate performance of an economy. Furthermore, in an attempt to cater for increasing spending, government tends to increase taxation and/or borrowing which might affect her spending behavior. High taxation de-motivates
individuals or firms from investment sphere, which in turn reduces income and aggregate demand (Maku, 2015). Similarly, high taxation increase cost of production and reduces investment expenditure and profitability of firms especially the infant firms. Government borrowings, especially domestically, in order to finance expenditure; it will crowd out the private sector, thus hampers private investment. The argument on the efficacy of fiscal policy as a instrument for stimulating growth and development remains biased given conflicting results of past studies. Oshinowo (2015) observed dual sides of the review concerning the role of fiscal policy in stimulating growth. The first view is that government’s support for knowledge, research and development, productive investment, maintenance of law and order and provision of public services can stimulate growth in short-run and long-run. Conversely, the second view is that governments, especially in developed economies, are bureaucratic and less efficient and as a result they tend to impede growth if they get involved in the productive sectors of the economy. Fiscal policy is perceived to destabilize economic growth by distorting the effect of tax and inefficient government spending. In addition, propositions exist on the effect of fiscal policy on economic performance outcomes. Khosravi and Karami (2010) stated that supporters of the classical school of thought believed that the effect of government spending is temporary and not effective particularly in the long-run when prices adjust and output is at optimal level. In similar vein, endogenous theorists proposed that government expenditure and taxation have temporary and permanent effect on economic growth. To this end, the study contributed to the argument by examining the effect on fiscal policy on economic performance in Nigeria.

1.2 Statement of Problem
Over the years, Nigeria’s potential for sustainable economic growth and development has remained unattained. This is quite disheartening that despite the enormous mineral and human resources the country owns coupled with increasing trend of public spending year in-year out, the economy has been performing below expectation. Policy analysts, economists and other professionals hinged weakening of the Nigerian economy to corruption, bureaucracy, political instability, lack of accountability and transparency, poor control and lack of vision that will direct the economy to the path of growth. Asaju, Adagba and Kajang (2014) added that the lack of congruence between monetary and fiscal policies and the hitches in the adoptions of non-market tools instituted set back to achieving fiscal objectives in Nigeria. The public has continued inept in terms of service delivery, decay in infrastructure, corruption and lack of accountability and probity in the management of public policies and resources shows the depth of the ineptitude of the public sector in Nigeria that is supposed to lead the economy through fiscal policies. These have resulted to high rate of unemployment, rising inflation, declined in growth, decreasing real incomes and increasing poverty level. It can be unequivocally stated that fiscal policy has not been effectual in the accomplishment of macroeconomic objectives of price stability, full employment, balance of payment equilibrium, efficient resource allocation, uneven redistribution of income and wealth, exchange rate stability and economic growth. Moreover, there has been serious contention in literature as to which policy is more appropriate for the quest of macroeconomic equilibrium in developing economies. Supporters of the monetarist school of thought reported that monetary policy exerts greater influence on economic performance and it should be embraced by developing economies. On the other hand, the Keynesians school of thought posited that fiscal policy has greater influence on economic performance and should be adopted by developing economies. However, both monetary and fiscal policies have not been appropriately used to spur improved performance of the Nigerian economy (Ugwanta, 2014).

The main objectives of this study therefore are to:

- Investigate the impact fiscal expenditure on economic growth in Nigeria;
- Identify the fiscal policy variables/instruments which had significant impact on economy growth in Nigeria;
- Determine the nature and direction of causality between fiscal policy variables/instruments and economic growth in Nigeria;
- On the basis of the findings, recommends ways to improve the effectiveness of fiscal policy instruments to significantly impact positively on economic growth in Nigeria.
To achieve these objectives, this paper has been organized into five sections with the introduction as section one. Section two is a survey of literature. Section three examines the methodology. Section four looks at the presentation and discussion of results. While section five deals with the summary, conclusions and the policy recommendations.

1.3 Scope of the Study
The study examines the impact of fiscal policy on economic performance in Nigeria between 1981 and 2016. The fiscal policy instruments considered are government total expenditure, government total revenue and direct taxes. Similarly, economic performance is streamlined to economic growth (proxy as real gross domestic product).

2.0 REVIEW OF RELATED LITERATURE

2.1 Theoretical Review
Literature on economic growth have identified three frontline growth theories namely the endogenous growth theory, neo-classical growth theory and classical growth theory. The theories are reviewed as follows:

2.1.1 Classical Growth Theory
The classical growth theory is the oldest theory that is developed in growth literature. The classical growth theory is primarily associated with Thomas Malthus. The classical growth theory, which was developed in the late 1700s, has no practical relevance in today’s modern economy (Abata, Kehinde & Bolarinwa, 2012). In short, the major points of the classical growth theory as espoused by Jhingan (2007) may be described as follows:

1. Due to technological development, the amount of capital increases and the marginal product of labour rise.
2. GDP per capital rises as the economy grow, so also living standard and population.
3. As population increases, the labour productivity falls (more individuals but the same amount of capital).
4. GDP per capita will fall again. When GDP per capita has fallen to a level just high enough to keep the population from starving, population will cease to grow.
5. Destruction of capital, for example, through war, works in the opposite way. The marginal product of labour declines and population falls. This will again lead to an increase in the marginal product of labour and GDP per capita returns to the survival rate.

The main point of the model is that population growth will always eliminate the positive effects of technological development and GDP per capita will always return to the survival level. The postulations of the model are not correct. During the rest of the 1800s, Europe experienced a growth in GDP per capita. Although the population growth was high, it was not nearly sufficient to eliminate the positive effects of technological progress.

2.2.2 The Neo-Classical Growth Model
The main purpose of another growth model, the neo-classical growth model, is to explain how it is possible to have a permanent growth in GDP per capita (Fashola, 2001). The model was developed by Robert Solow in the 1960s and it is sometimes called the Solow growth model or exogenous growth model. The main difference between the classical and neo-classical growth model is that population is endogenous in the former and exogenous in the latter. In the classical model, population will increase or decrease depending on whether GDP per capita is higher or lower than the survival level. In the neo-classical model, population growth is not affected by GDP per capita; however, population growth will affect the growth in GDP per capita (Jhingan, 2007). The neo-classical model posits that it is only technological progress that affects the GDP per capita in the long-run. There will be permanent increase in GDP per capita when there is a technological development that increases productivity of labour. Permanent growth in GDP requires continuous technological progress (Odubunmi, 2013). It is not
possible for the government, except temporarily, to affect the growth rate in the neo-classical model. The government might be able to affect GDP per capita, but the growth rate is always returned to the level determined by technological progress.

2.1.2 **Endogenous Growth Theory**

The endogenous growth model or new growth theory was developed in the 19080s by Paul Romer and others. In the neo-classical model, technological progress is an exogenous variable. The neo-classical growth model makes no attempt to explain how, when and why technological progress takes place. The main objective of the endogenous growth theory is to make the technological progress an endogenous variable to be explained within the model, hence the name, endogenous growth theory. There are many explanations for technological progress. Most of them, however, have identical characteristics, which are:

1. They are based on constant returns to scale for capital. Thus, the marginal product of capital is not a decreasing function of capital.
2. They consider technological progress as a public good.
3. They focus more on human capital.
4. It is possible for the government to affect the growth rate. Higher savings also leads to higher growth, not just higher GDP per capita.
5. They predict convergence of GDP per capita between countries in the long-run. This is a consequence of the public good characteristic of technological developments.

2.2 **Empirical Review**

Several studies have been carried out to examine the effect of fiscal policy on economic growth in Nigeria and Diaspora. Agu, Idike and Okwor (2014) examined the impact of various components of fiscal policy on the Nigerian economy between 1961 and 2010. The study disaggregated fiscal policy into government spending on administration, social and community services and economic services. The results showed that total government expenditures have tended to increase with government revenue, with expenditure peaking faster than revenue. Investment expenditure was found to be much lower than recurrent expenditures evidencing poor growth in the country’s economy. In addition, the results showed that government expenditure on economic services is positively related to economic growth. An increase in budgetary allocation to economic services will lead to enhancement in economic stability. Audu (2012) evaluated the causal relationship between money supply, fiscal deficits and exports as means of analyzing the impact of fiscal policy on the growth of the Nigerian economy between 1970 and 2010. The study employed the Error Correction Model and two band recursive least square to test for the stability of variables on economic growth. The findings showed a significant causal relationship between GDP, fiscal deficit, money supply and export. The study maintained that fiscal policies have significant influence on output growth of the Nigerian economy.

Babalola and Aminu (2014) examined the impact of fiscal policy in Nigeria between 1977 and 2009. Fiscal policy was captured by government productive expenditure, unproductive expenditure, distortionary and non-distortionary taxation. The study employed the Augmented-Dickey Fuller test, Cointegration test and Error Correction Model. The findings revealed that productive government expenditure has long-run positive impact on economic growth. Unexpectedly, distortionary taxation positively impacted economic growth. The study maintained that government should increase its spending on health, education and economic services, as components of productive expenditure to boost economic growth. Olasunkanmi and Babatunde (2012) investigated the fiscal policy variables that contributed to growth in Nigeria between 1981 and 2010 in a view to hypothesize the fiscal policy variables-growth effect. The variables utilized are productive expenditure, unproductive expenditure, distortionary taxes, non-distortionary taxes, fiscal deficit and real growth rate of GDP. The results of fiscal-growth effect model found that productive expenditure, distortionary taxes and fiscal deficit contribute to growth in Nigeria. Furthermore, non-distortionary tax was found to exert significant impact on economic growth in Nigeria.
Onwe (2014) examined the impacts of fiscal policy components on economic growth in Nigeria between 1980 and 2012. Expenditure on administration, economic services, social and community services, transfers and ratio of federal government expenditure to GDP are regressed on GDP growth rate. The result of the regression analysis revealed that expenditure on administration, social and community services and ratio of federal government expenditure to GDP have positive impact on economic growth while expenditure on transfers and economic services has negative impact on economic growth in Nigeria. The study maintained that fiscal policy components have no robust impact on economic growth in Nigeria within the estimated period. Falade and Folorunsho (2015) examined the relative effectiveness of fiscal and monetary policy instruments on economic growth in Nigeria in order to determine the appropriate mix of both policies. The study employed the error correction mechanism between 1970 and 2013. Real GDP was expressed as a function of money supply, exchange rate, interest rate (monetary policy instruments), government revenue, government expenditure (fiscal policy instruments) gross capital formation and inflation rate (control variables). The results showed that all the fiscal and monetary policy variables attained stationary. The results also showed a long-run relationship among fiscal and monetary variables and economic growth. The study maintained that the current level of exchange rate and its previous level, interest rate and current level of government expenditure and money supply are the suitable appropriate policy mix in promoting economic growth in Nigeria in short-run and long-run. Abdulrauf (2015) examined the short and long run impact of fiscal policy on economic development in Nigeria between 1981 and 2013. The study used government recurrent expenditure, government capital expenditure, government investment and tax revenue to indicate fiscal policy. Economic development was proxied by real per capita income. The study employed the vector error correction model. The results revealed that government recurrent expenditure and government investment have significant positive impact on economic development in both the short and long run. Capital expenditure appeared to have a short run positive impact but not in the long run. Tax revenue has negative significant impact in both short and long run. The speed of adjustment to long run equilibrium stood at 115%. Maku (2015) examined the impact of fiscal policy on economic growth in Nigeria between 1970 and 2011. The study employed the Engle-Granger cointegration for long-run relationship, ordinary least square for long run estimate and diagnostic test for consistency of instruments. Economic growth was proxied by real gross domestic product while fiscal balance was used to denote fiscal policy. Macroeconomic indices such as gross capital formation, broad money supply and exchange rate were captured in the study. The results revealed fiscal policy exerted significant positive effect on economic growth, which indicates that appropriate fiscal measures stimulate economic growth in Nigeria. The study maintained that government spending has greater impact on the growth rate of the Nigerian economy. Osuala and Jones (2014) employed the autoregressive distributed lag model to empirically analyze the impact of fiscal policy on economic growth in Nigeria between 1986 and 2010. The fiscal policy variables considered in the study include government recurrent and capital expenditure, non-oil taxes and government debt. The findings revealed an evidence of long run equilibrium relationship between fiscal policy and economic growth within the period estimated. Government recurrent and capital expenditure were found to have significant and positive impact on economic growth while non-oil taxes and government debts have no significant impact on real GDP. Only capital expenditure had short-run equilibrium relationship with economic growth. Oshinowo (2015) broadly examined the effect of fiscal policy on sectorial output growth in Nigeria between 1970 and 2013. The study employed autoregressive distributed lag model and error correction model. The study investigated the effect of total fiscal expenditure on growth on agriculture, manufacturing, building and construction, mining and services sectors. The results showed that total fiscal expenditure have positively contributed to all the sectors’ output except the agriculture. The finding also shows that manufacturing is positively correlated with all determinant variables while inflation rate is negatively correlated with output growth of all the sectors except agriculture. The study maintained dichotomy between sectorial responses to fiscal policy variables. Ugwanta (2014) determined the effect of fiscal policy variables on economic growth of selected Sub-Saharan African countries. Government productive and unproductive expenditure and distortionary and non-distortionary taxes are used to measure fiscal policy. The results of the panel least squares showed
that government productive and unproductive expenditure as well as distortionary. The results showed that budget balances of some selected nation have positive correlation with economic growth. Tchokote and Ibe (2016) studied the consequence of monetary and fiscal policies on economic growth in Nigeria. The study adopted correlation analysis, unit-root, ordinary least square and granger causality test on selected fiscal and monetary policies variables – money supply, interest rate, and government revenue and expenditure. The results showed that money supply exerts greater impact on growth than government expenditure.

Abubakar (2016) investigated the impact of fiscal policy shocks on growth and unemployment in Nigeria between 1981 and 2015. The study employed the structural vector autoregressive methodology coupled with unit root and cointegration tests. The results showed that shock in public expenditure have positive long-lasting effect on output while revenue shock was found to exert a positive effect (lower than that of public expenditure shock) on output. However, the effect of revenue shock on unemployment was found to be negative but short-lived. Odetayo and Adeyemi (2017) examined fiscal policy sustainability and economic growth in Nigeria between 1980 and 2015. The study adopted the error correction model and autoregressive distributed lag model to analyze the effect on government spending and revenue on output growth in Nigeria. It shows that government revenue, government spending and fiscal deficit grew massively within the period considered. The results equally revealed that fiscal policy is weakly sustainable in Nigeria.

3.0 METHODOLOGY

3.1 Identification of Variables

The variables of focus in this research work are government total expenditure, government total revenue, direct taxes, real gross domestic product, capital and labour. The variables covered a 36-year period spanning between 1981 and 2016.

3.2 Model Specification

The study empirically examines the impact of fiscal policy on economic performance of Nigeria. The model is specified as:

\[ \text{PERF} = f(\text{FP}) \]  \hspace{1cm} (3.1)

Where: \( \text{PERF} \) = Economic performance and \( \text{FP} \) = fiscal policy. Economic performance can be assessed in terms of full employment, economic growth, price stability and balance of payment equilibrium. However, economic performance is streamlined to economic growth, proxied as real gross domestic product. On the other hand, the fiscal policy variables relevant to the study are government spending and government total revenue. Based on this, the functional notation of the model is expressed as:

\[ \text{RGDP} = f(\text{GTEXP}, \text{GTREV}, \text{DTAX}) \] \hspace{1cm} (3.2)

It is very imperative to factor-in vital macroeconomic indices that affect the growth of output in any economy. In any production function or growth model, capital and labour are the two most important factors of production that are used in the process of production. So therefore, capital and labour are utilized as control variables. The variables now become

\[ \text{RGDP} = f(\text{GTEXP}, \text{GTREV}, \text{DTAX}, \text{CAP}, \text{LAB}) \] \hspace{1cm} (3.3)

Where:

\( \text{RGDP} \) = Real gross domestic product (proxy as economic performance).
\( \text{GTEXP} \) = Government total expenditure.
\( \text{GTREV} \) = Government total revenue.
\( \text{DTAX} \) = Direct taxes.
\( \text{CAP} \) = Capital (proxy by gross capital formation)
\( \text{LAB} \) = Labour (proxy by employment rate).

The standardized econometric form of the model with the inclusion of constant term and regression coefficients is specified as:

\[ \text{RGDP} = \beta_0 + \beta_1 \text{GTEXP} + \beta_2 \text{GTREV} + \beta_3 \text{DTAX} + \beta_4 \text{CAP} + \beta_5 \text{LAB} + \mu \] \hspace{1cm} (3.4)

Where:

\( \beta_0 \) = Constant term of the regression model.
\( \beta_{1:5} \) = Regression coefficients of explanatory variables.
$\mu =$ Error term.

3.5 **Sources of Data**
Secondary annual-time series data are used in the study. The data are sourced from the Central Bank of Nigeria Statistical Bulletin for various issues spanning between 1981 and 2017.

3.6 **Estimation Techniques**
Econometric Views (E-VIEWS) was adopted for estimation. The Augmented Dickey Fuller (ADF) test was adopted to test the time-series properties of data and determine the order of integration to stationarity. The Cointegration is applied to determine the existence of long-run relationship between fiscal policy variables and economic performance. The Error Correction Model is employed to determine the speed of adjustment of the variables to long-run equilibrium.

4.2 **Trend in Dependent and Independent Variables**

The figures above presented the trend in the variables of interest within the periods of investigation. Real gross domestic product is captured by the aggregate of sectoral output (agriculture, industry, services, construction and trade) in Nigeria. Real GDP has been on the upward trend over the years. Real GDP rose from N15,258.00 billion in 1981 to N31,709.45 billion in 2003, N42,922.41 billion in 2007, N69,023.92 billion in 2015 and slightly fell to N67,931.24 billion in 2016.

**Figure 4.2: Trend in Government Total Expenditure in Nigeria**

Figure 4.2 presented the trend in government total expenditure in Nigeria. Government total expenditure is captured as the aggregate of Federal government capital and recurrent expenditure. Government total expenditure has been on the upward trend over the years. From N14.82 billion in 1981, government total spending increased N191.23 billion in 1993, N1,426.20 billion in 2004, N2,450.90 in 2007, N5,185.32 billion in 2013 and decreased to N4,813.38 billion in 2016.
Figure 4.3: Trend in Government Total Revenue in Nigeria

Figure 4.3 presented the trend in government total revenue in Nigeria. Government total revenue is captured as the aggregate of oil and non-oil revenue. Government total revenue rose from N13.29 billion in 1981 to N5,727.50 and reached its peak at N11,116.85 billion in 2011. However, the rise in total revenue is attributed to the increase in crude oil price internationally. After 2011, total revenue declined to N10,654.75 billion in 2012, N6,952.00 billion in 2015 and N5,679.03 billion in 2016.

Figure 4.4: Trend in Direct Tax in Nigeria

Figure 4.4 presented the trend in direct tax in Nigeria. Direct tax is captured by the sum of personal income tax and corporate tax. Direct tax increased from N0.14 billion in 1981 to N10.93 billion in 1994, N125.23 billion in 2006, and N757.90 billion in 2010 and decreased to N738.02 billion in 2016.

Figure 4.5: Trend in Capital in Nigeria

Source: Central Bank of Nigeria Statistical Bulletin
Figure 4.5 is the representation of gross capital formation to GDP in Nigeria. Gross capital formation has been fluctuating over the years. The ratio of gross capital formation to GDP in Nigeria was 34.02% in 1981, declined to 7.3% in 1996, 12.09% in 2009, 16.21% in 2011 and 15.09% in 2016.

![Labor Trend in Nigeria](image)

**Source:** Central Bank of Nigeria Statistical Bulletin

**Figure 4.6: Trend in Labour in Nigeria**

Figure 4.6 presented the labour in Nigeria. Labour is surrogated as employment rate. Employment rate is the ratio of employed active population to the total labour force. Employment rate in Nigeria between 1981 and 2016 falls between the interval of 51% and 55%.

**Unit-Root Test**

In order to avoid having spurious results, the Augmented-Dickey Fuller test was carried out to remove any trend that might be present in the series. Most importantly, the ADF unit root test is carried out to ensure that robust results are generated as most macroeconomic data have unit root problem. Variables that are stationary produce robust results than non-stationary ones. The table below shows the Augmented-Dickey Fuller test (ADF) of the variables. The 5% probability value is used in the analysis.

**Table 4.1: Unit Root Test**

<table>
<thead>
<tr>
<th>Series</th>
<th>ADF test statistic</th>
<th>Critical value</th>
<th>ADF test statistic at difference</th>
<th>Critical value at difference</th>
<th>Order of Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>LnrGDP</td>
<td>0.09</td>
<td>-2.95</td>
<td>-3.22</td>
<td>-2.95</td>
<td>I(1)</td>
</tr>
<tr>
<td>LnGEXP</td>
<td>-1.46</td>
<td>-2.95</td>
<td>-3.44</td>
<td>-2.96</td>
<td>I(1)</td>
</tr>
<tr>
<td>LnGREV</td>
<td>-1.31</td>
<td>-2.94</td>
<td>-5.84</td>
<td>-2.95</td>
<td>I(1)</td>
</tr>
<tr>
<td>Lntax</td>
<td>-1.27</td>
<td>-2.94</td>
<td>-5.45</td>
<td>-2.95</td>
<td>I(1)</td>
</tr>
<tr>
<td>Lncap</td>
<td>-2.87</td>
<td>-2.94</td>
<td>-3.61</td>
<td>-2.95</td>
<td>I(1)</td>
</tr>
<tr>
<td>Lnlab</td>
<td>-1.37</td>
<td>-2.95</td>
<td>-3.87</td>
<td>-2.95</td>
<td>I(1)</td>
</tr>
</tbody>
</table>

**Source:** Author’s Computation from E-views Output

Table 4.1 presented the ADF unit root test for the variables. None of variables was stationary at level as their ADF test statistic less than 5%. However, the variables became stationary at first-order difference and thus integrated at order one. Since at least one of the variables is stationary, the Cointegration needs to be carried out.
Cointegration Test
To determine the long-run equilibrium relationship between economic performance and fiscal policy variables cointegration test was conducted and decomposed into the Trace Statistic and Maximum Eigen value statistic. Cointegration is said to be existent between two or more variables if the Trace Statistic and Maximum Eigen value statistic indicates at least one cointegrating equation. The asterisked indicates the rejection of no cointegration at 5%.

Table 4.2: Johansen Cointegration Test

<table>
<thead>
<tr>
<th>Hypothesized No. of CE(s)</th>
<th>Trace statistic</th>
<th>0.05 Critical value</th>
<th>Probability value</th>
</tr>
</thead>
<tbody>
<tr>
<td>None*</td>
<td>102.68</td>
<td>95.73</td>
<td>0.01</td>
</tr>
<tr>
<td>≤ 1</td>
<td>66.63</td>
<td>69.81</td>
<td>0.08</td>
</tr>
<tr>
<td>≤ 2</td>
<td>42.09</td>
<td>47.86</td>
<td>0.15</td>
</tr>
<tr>
<td>≤ 3</td>
<td>21.13</td>
<td>29.79</td>
<td>0.35</td>
</tr>
<tr>
<td>≤ 4</td>
<td>4.82</td>
<td>15.49</td>
<td>0.82</td>
</tr>
<tr>
<td>≤ 5</td>
<td>0.72</td>
<td>3.84</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Max-Eigen Statistic

<table>
<thead>
<tr>
<th>Hypothesized No. of CE(s)</th>
<th>Max-Eigen statistics</th>
<th>0.05 Critical value</th>
<th>Probability value</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>36.04</td>
<td>40.07</td>
<td>0.13</td>
</tr>
<tr>
<td>≤ 1</td>
<td>24.55</td>
<td>33.87</td>
<td>0.41</td>
</tr>
<tr>
<td>≤ 2</td>
<td>20.95</td>
<td>27.58</td>
<td>0.27</td>
</tr>
<tr>
<td>≤ 3</td>
<td>16.30</td>
<td>21.13</td>
<td>0.20</td>
</tr>
<tr>
<td>≤ 4</td>
<td>4.09</td>
<td>14.26</td>
<td>0.84</td>
</tr>
<tr>
<td>≤ 5</td>
<td>0.72</td>
<td>3.84</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Source: Author’s Computation from E-views Output

The Trace statistic indicates one cointegrating equation between economic growth and the independent variables while the Maximum Eigen Statistic indicates no cointegrating equation. However, Green (2007) posited that whenever there is conflict in the number of cointegrating equations between Trace Statistic and Maximum Eigen Statistic, the result of the Trace Statistic should be reported because the Trace Statistic is superior to the Maximum Eigen Statistic because the former engulfs smaller components of the latter. Thus, going by the Trace Statistic, there is a long run equilibrium relationship between real GDP, government expenditure, government revenue, direct tax, capital and labour in Nigeria.

It is possible for shocks to arise in the short-run to prevent the variables from reaching a state of equilibrium in the long run. In other words, the variables possess the characteristics that would cause them to converge in the long-run.

Error Correction Mechanism
Given the fact that the variables are cointegrated, the next step is to estimate the short-run dynamics in the error correction model in order to capture the speed of adjustment to equilibrium in case of any shock that might arise in the independent variables. The error correction model estimation is carried out to integrate short-run dynamics with long-run relationship.
Table 4.3: Error Correction Model Estimation of the Impact of Fiscal Policy on Economic Performance in Nigeria

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.015634</td>
<td>0.003630</td>
<td>4.306999</td>
<td>0.0002</td>
</tr>
<tr>
<td>D(LNGTEXP)</td>
<td>0.004754</td>
<td>0.033353</td>
<td>0.142534</td>
<td>0.8877</td>
</tr>
<tr>
<td>D(LNGTREV)</td>
<td>0.015506</td>
<td>0.021480</td>
<td>0.721878</td>
<td>0.4764</td>
</tr>
<tr>
<td>D(LNTAX)</td>
<td>0.022843</td>
<td>0.012293</td>
<td>1.858147</td>
<td>0.0737</td>
</tr>
<tr>
<td>D(LNLAB)</td>
<td>0.089800</td>
<td>0.021480</td>
<td>2.926791</td>
<td>0.0067</td>
</tr>
<tr>
<td>ECM(-1)</td>
<td>-0.867251</td>
<td>0.171335</td>
<td>-5.015034</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

The result showed that the coefficient of error correction mechanism is negative (-0.867) and significant as its probability value is less than 0.05. This indicates that about 86.7% disequilibria in Nigeria’s real GDP in the previous year are corrected in the current year. The speed of adjustment from short-run equilibrium to long-run equilibrium is approximately 86.7% per annum. The overall goodness of fit of the model as indicated by the coefficient of determination is 0.69. This indicates that the independent variables – government total expenditure, government total revenue, direct tax, capital and labour, explained about 69% variation in economic growth in Nigeria. The adjusted R-squared stood at 62.3% after allowing for degree of freedom. The value of the F-statistic is 2.63, with a probability value of 0.04, which is considered significant. This implies that the combined effect of the independent variable is statistically significant on economic growth (real GDP) within the estimated periods. The Durbin-Watson statistic of 1.92 indicates the absence of autocorrelation in the model.

The estimated coefficient of government expenditure is 0.0047. This connotes that government expenditure has positive impact on real GDP in Nigeria. A percent increase in government expenditure would generate a 0.005% increase in real GDP while keeping other independent variables constant. However, government expenditure has no significant impact on real GDP as its probability value is greater than 0.05.
The estimated coefficient of government revenue is 0.0155, thus aligning with the a-priori expectation. An increase in government revenue produces an increase in real GDP. A percent increase in government revenue would result in about 0.02% increase in real GDP while keeping other independent variables. However, government revenue has negligible impact on real GDP as its probability value is greater than 0.05.

Direct tax has a positive relationship with real GDP and it conforms to the apriori expectation. A percent increase in direct tax would metamorphose into 0.02% increase in real GDP while keeping other variables constant. However, direct tax has no robust impact on real GDP as its probability value is greater than 0.05.

For the control variables, capital and labour have estimated coefficients of 0.089 and 0.493 respectively. This implies that capital and labour have positive impact on real GDP. A percent increase in capital and labour (in isolation) would increase real GDP approximately by 0.09% and 0.49% respectively. However, while capital exerts significant impact on real GDP as its probability value is less than 0.05, labour has no strong impact on real GDP as its probability value is greater than 0.05.

4.3 DISCUSSION OF FINDINGS

The results of the analysis indicated that there is long run equilibrium relationship between economic performance and fiscal policy. Furthermore, it was found that fiscal policy represented by government total expenditure, government total revenue and direct tax, have positive impact on economic performance, but the magnitude of their impact is weak. Fiscal policy is not fully effective on Nigeria’s economic performance. The non-significance or partial effectiveness of fiscal policy on economic performance of Nigeria within the estimated periods could be attributed to a number of reasons.

Firstly, there is lack of cohesion between monetary and fiscal policies in Nigeria. As done in other countries, monetary policy and fiscal policy are expected to complement each other to enhance economic performance, but in Nigeria, it has been observed that policies formulated by the monetary authorities (Central Bank) and the Federal government. The federal government and monetary authorities had different views on how to stimulate the economic performance of the country. However, the contradiction between these policies has limited the effectiveness of fiscal policy on the economy of Nigeria. Secondly, the partial effectiveness of fiscal policy on Nigeria’s economic performance could be attributed to budget deficit or fiscal deficit. Fiscal deficit arises when government expenditure exceeds revenue and has been Nigeria’s experience over the years. Most times, Federal government has implemented expansionary fiscal policy (reducing taxes and increasing expenditure). However, decrease in private investment would result in decrease in national income. Thirdly, poor information has limited the effectiveness of fiscal policy on Nigeria’s economic performance. Fiscal policy will suffer if the government has poor information. For example, if the government projected a recession, they will want to increase aggregate demand. However, if this projection is wrong and growth of real GDP increases, government action would generate inflationary pressure. According to Obamanyi (2014), the factors responsible for public policy failure in Nigeria include lack of defined policy framework with no proper guidelines, ineffective targeting to real beneficiaries, deficiencies in the structure and content of budget, lack of full implementation of budget, corruption, lack of continuity as different regimes, both military and civilians, enunciated different pattern of fiscal policy, poor governance, misappropriation of public funds and macroeconomic dislocation. Other problems include ineffective use of resources, waste and misplaced priorities in government expenditure, high fiscal deficits at all frontiers of government, weak institutional structure among others (Abdulrauf, 2015). These problems have led to heavy debt burden, huge recurrent expenditure, and inefficient public service delivery, huge cost of debt servicing and interest repayment. It is no gain saying to assert that fiscal policy has enormous consequences and implications for the country. As the consequences affect individual citizens, so it affects the economy in entirety. The consequence of fiscal policy failure on economic growth is that the aggregate production of people in a specific period in a particular geographical location constitutes the gross domestic product. But where majority of the citizens cannot pull resources together that can contribute to the collective growth of the country is a setback for the nation. Part of the reason for this is the failure of fiscal policy that would have encouraged and motivated the people for higher performance economically and socially.
5.0 SUMMARY, CONCLUSION AND POLICY RECOMMENDATIONS
5.1 Summary of the Study
The study examined the impact of fiscal policy on economic performance of Nigeria. It was established that fiscal policy is the deliberate action taken by the government of a country to stabilize the economy by manipulating public expenditure and taxation. Fiscal policy can be expansionary or contractionary. Expansionary fiscal policy is targeted to increase aggregate demand by raising government expenditure and reducing taxation. On the other hand, contractionary fiscal policy aims to reduce aggregate demand by reducing government expenditure and increasing taxation. It was also established that the objectives of fiscal policy amongst others include price stability, full employment, economic growth, equitable distribution of income and wealth, resource allocation, enhance savings and investment and reduce regional disparities. Economic performance is multidimensional in contextually, but the study streamlined economic performance to economic growth. Economic growth was defined as the percentage change (increase or decrease) in the real gross domestic product at a specified time period. It was also established in the review of literature that fiscal policy has not fully achieved its stated objectives due to certain problems such as ineffective use of resources, weak institutional framework, and diversion of government spending on unproductive projects, corruption and high fiscal deficit. Three theories were reviewed namely the classical, neo-classical and the endogenous growth model. The theories provided different suggestions on how national output can be enhanced in an economy. In the review of empirical studies, it can be deduced that fiscal policies affected economic growth of Nigeria positively. Fiscal policy is represented by government total expenditure, government total revenue and direct tax. A model was developed in which economic growth (proxy as economic performance) is expressed as a function of government total expenditure, government total revenue, direct tax, capital (represented as gross capital formation) and labour (represented as employment rate). The scope of the study covered a 36-year period ranging from 1981 to 2016. The econometric techniques of Augmented Dickey Fuller test, Cointegration test and Error Correction model estimation, with the findings of the study revealed that:

1. The dependent variable – real GDP and the independent variables - government total expenditure, government total revenue, direct tax, capital and labour became stationary at first-order difference.
2. There is long-run equilibrium relationship between fiscal policy and economic growth in Nigeria.
3. The speed of adjustment from short-run to long-run equilibrium is 5.9% per annum.
4. Fiscal policy variables – government total expenditure, government total revenue and direct tax had positive but little impact on Nigeria’s economic growth.
5. For the control variables – capital had positive and significant impact on economic growth in Nigeria while labour had positive but little impact on economic growth in Nigeria.

5.2 Conclusion
It was concluded that fiscal policy was partially effective on economic growth (surrogate of economic performance) in Nigeria between 1981 and 2016. The partial effectiveness of fiscal policy on the Nigeria’s economy could be attributed to lack of coherence between monetary and fiscal policies, huge fiscal deficit, lack of proper economic planning and projection, misappropriation of public funds, deficiencies in the structure and content of budget, lack of full implementation of budget, corruption and weak institutional framework.

5.3 Policy Recommendations
In an attempt to accelerate the rate of growth of the Nigerian economy through fiscal policy, the following recommendations are proposed for implementation.
1. Government should enhance investment in productive expenditure including expenditure on education, health, manufacturing, mining and agriculture and also ensure that funds meant for development of these sectors are properly utilized.

2. Government should strive to reduce expenditure on recreational, cultural and religious affairs and other functions like political administrative expenses in order to stabilize the economy.

3. Anti-corruption agencies like the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices Commission (ICPC) and the judicial system should be strengthened to tackle the high incidence of corruption in public sector. This will go a long way to ensure that public funds are expended on productive purposes.

4. Government should ensure a strict fiscal policy discipline. Also government needs to demonstrate high level of commitment to policy consistency and implementation. In addition, consistency in macroeconomic policies implementation in the non-oil sectors of economy should be pursued.

5. The planning-Programming-Budgeting system (PPBS) should be adopted by the government for project implementations. This apart from enhancing effective implementation and monitoring of budgeted funds, corruption will also be reduced. It will thus result in greater transparency and accountability in the utilization of public funds. This will however ensure that fiscal policy would not only promote economic growth but will also improve the living standard of the Nigerian populace.

6. Government should formulate and implement viable fiscal policy options that will stabilize the economy. This could be achieved through the practice of true fiscal federalism and decentralization of levels of government in Nigeria.

7. Appropriate mix of fiscal and monetary policies that would effectively stabilize the economy should be pursued.

8. Government should consider restructuring its expenditure pattern by allocating more funds towards productive expenditure such as capital projects. This will consequently stimulate the output growth in Nigeria.

9. Lastly, government should consider harnessing its revenue potentials by expanding its revenue base via effective and efficient taxation system and diversification of Nigeria’s revenue base by tapping into solid minerals and agricultural potentials.

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