Dynamics of Fiscal Policy and National Development in Nigeria

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Abstract
The study was designed to explore the relationship between fiscal policy and national development. The exploratory research design was adopted in the investigation. Data were generated from both primary and secondary sources, which were found useful for the study. Fiscal policy is crucial in national development because manipulating revenue and expenditure means that government must reduce taxation to increase spending and vice-versa. In the public sector, the primary purpose of fiscal policy is ensuring that an agency operates within its budget limit. This means that public sector managers are charged with the oversight of government’s revenues and expenditures, including budget management, corporate compliance, adherence to financial regulations, and plans. Data for the study were analyzed through the regression method, and the result showed positive association between fiscal policy and national development. Based on this finding, it was recommended among others that proper fiscal budgeting is essential for national development.

Keywords: Fiscal Discipline, Fiscal Adjustment, Budget Management, Accountability, Poverty Reduction.

1. INTRODUCTION
In attempts to drive national development governments all over the world deploy different policies and strategies to reduce spending at rates sufficient to maintain high levels of production and employment without inflation and widening the poverty gaps. Fiscal policy relates to measures designed by governments to regulate the magnitude and allocative efficiency of public revenue and public expenditure in a polity. Fiscal policy regulates public borrowing and transfers with the aim of ensuring equity, growth and stability, which are essential indicators of national development and sustainability. National development is about the people and improving critical infrastructure, it is therefore, largely a process, rather than a destination. For example, Nigeria’s, fiscal policy often focuses on growth and development of the economy, continuous reduction in the rate of inflation, a realistic and appropriate monetary and credit policy stance, curtailment of extra-budgetary spending, and intensive revenue drive. According to Alli-Balogun (1997) fiscal policy in Nigeria also involves co-ordination of fiscal and monetary policy to ensure macroeconomic stability, curtailment of wasteful expenditure, and maintenance of general fiscal discipline, improvement of external value of the Naira, and fiscal transparency and comprehensiveness of the conceptualization of projects. In other words, fiscal policy helps to create stable macroeconomic environment and also checking fiscal austerity which may arise from late release of capital votes, which is often inimical to national development. To this extent, fiscal policy is an instrument for promoting development by sustaining aggregate demand and private sector incomes during economic depression and by...
moderating economic activities in periods of strong economic growth. Fiscal policy in many respects therefore, becomes a measure of co-ordination between monetary and fiscal policies which are fundamental to blending macroeconomic priorities (Lucas, 2003, Romer, and Romer, 2002, Issing, 2002). To enhance the process of national development, fiscal policy encourages investment in productive channels which are considered to be socially, politically, and economically desirable. This means that fiscal policy often promotes investment in basic and capital goods’ industries’ as a measure of enhancing balanced development and accelerating the all-round development of the economy. In the circumstance, both Keynesian and non-Keynesian economists believe that taxation as a fiscal policy instrument is important to mobilize the resources for national development. Thus, progressive taxation on windfall gains, on unearned incomes, on capital gains, on consumption expenditure, and real estate can help in equitable distribution of national wealth in an economy. For national development to be feasible, the various tools of fiscal policy such as taxation, public borrowing, deficit budgeting, and surpluses from public enterprises should be applied in a combined transparent manner so that they do not negatively affect the production, distribution and consumption of wealth in an economy. For example, Kaliski (2001) explains that fiscal policy is manifested in a government’s policy on taxation and expenditures and insists that to obtain funds for national development, government generally collects some form of taxes. The expenditure of these funds not only provides goods and services, but also has a direct positive effect on the economy (Ezu and Okoh, 2016, Isholeki, 2016, Jibao, and Prichard, 2015, Popoola, et al, 2017, Prichard, 2015, Tsindelianis, 2016, Zhang, et al, 2018, Lodge, and Hood, 2012, Rzonca and Cizkowicz, 2005).

Corruption is a major challenge of fiscal policy because it frustrates government efforts in achieving desirable outcomes. Mismanagement of government revenues as a result of public corruption makes it difficult, if not impossible, for governments to provide adequate infrastructure and other essential services for the people. In Nigeria today, the number of services which the governments at all levels provide have increased tremendously. Even with 36 states and the Federal Capital Territory (FCT) and 774 local governments, the responsibility of the governments to the people continues to increase. Such increase generally puts pressure on government revenues, which must now be more efficiently managed. This cannot be overemphasized because Nigeria with frequent budget deficits appears to be in dire lack of effective fiscal measures which often results to the volatility of public revenues from huge oil and gas resources. The frequent swings and fluctuations in public expenditures have negative effect on the impact of oil and gas revenue, and also on economic development, poverty reduction and national development. Cultivating fiscal rules characterized by good government budgets and management could mean a major factor in fiscal policy management, without which national development intentions will remain a day-dream in Nigeria (Baungaard, 2003, Ogundele, 2021, Chiejina and Ofkhenua, 2021, Apere, and Durojaiye, 2016, Ugoani, 2019).

The study was conducted to examine the relationship between fiscal policy and national development. The result of this study will help students, scholars, policymakers, and the general public in addressing the gaps between fiscal policy crafting and national development. To achieve the objective of the study, the following hypothesis was formulated and tested at 0.05 level of significance.

Ho: There is no relationship between fiscal policy and national development.

Hi: There is a relationship between fiscal policy and national development.

2. LITERATURE REVIEW

Fiscal policy instruments like budget, taxation, public expenditures, and public debt are crucial in maintaining full employment without the adverse effects of inflationary and deflationary
forces in a country. Taxation and public expenditure are also powerful fiscal policy instruments which can hugely influence changes in disposable income, consumption, investment and levels of poverty. Ezeokonkwo (1998) opines that fiscal policy means the use of government spending and revenue producing activities to achieve specific economic activities. Thus, the objective of the government fiscal policy in many countries has largely been the achievement of full employment and price stability. To this extent, fiscal policy involves the use of government income and expenditure instruments to regulate the economy. Although fiscal instruments are used as weapons of economic control, the field of fiscal policy is not very much differentiated from those of monetary policy and debt management. The principal reason for this assertion is that both monetary and fiscal policy instruments often deal with generally overlapping aspects of the economy. However, fiscal policy is strictly concerned with that part of government policy relating to the raising of revenue through taxation and other means, and deciding the level and pattern of expenditure for the purpose of influencing economic activities. Monetary policy on the other hand, refers to the combination of discretionary measures designed to regulate and control the money supply in an economy by the monetary authorities, with a view to achieving stated macroeconomic goals. According to Klugman (2002) monetary policy is a tool of economic stabilization. According to him, the monetarists emphasize the role of money in explaining short-term changes in national income. This is based on their own believe that monetary policy is a more potent instrument of stabilization than fiscal policy. Issing (2005) emphasizes that fiscal stabilization and sustainability are actually fully compatible objectives. In which case, they are complementary aspects of a fiscal policy strategy aimed at maintaining medium-term budgetary positions close to balance or in surplus. He insists that by maintaining a stable macroeconomic environment, economic policy can contribute to economic growth and welfare. There is almost a chorus of agreement in the fiscal policy literature that fiscal policy is primarily aimed at achieving certain objectives which are useful to the economy. This is pertinent because it is recognized that fiscal policy is a potent tool in regulating the economy and protecting it from the adversity of market manipulations. Consequently, it is recognized that the government has a primary responsibility of helping the economy towards the appropriate level of stabilization. Believing that one important objective of fiscal policies in a developing country is to break the vicious circle of poverty, and to bring about rapid development, Gramlich (1971) recognizes the usefulness of monetary and fiscal policy as discretionary stabilization tools. Fiscal policy framework embraces the responsibilities of government to regulate spending and taxes in such a way that the supply of goods and services could be affected positively to improve national development (Nzotta, 2022). Njoku (2022) emphasizes that fiscal policy plays important role in economic development and crucial to stabilize the economy. He explains further that even though fiscal and monetary policies are two different instruments, but they are often adjusted and coordinated to complement each other in the process of stimulating the economy to stability and growth.

2.1 Fiscal Policy and Poverty Reduction

Because poverty is largely a multidimensional phenomenon, fiscal policy includes comprehensive action plan that identifies priority sectoral policies to be pursued in support of poverty reduction, including in the areas of education, health, and rural infrastructure. Klugman (2002) suggests that the first starting point in this direction will be to provide a full costing of the envisaged poverty reduction strategy. This could involve a comprehensive system for budget formulation and management of poverty reduction strategies required for the development of medium-term expenditure frameworks (MTEFs). This classic strategy is very important because it is capable of ensuring that poverty reduction strategy can be pursued and financed in a manner that does not jeopardize the government’s macroeconomic stability,
growth and development goals. He insists on the need for a comprehensive assessment of domestic and external sources of budget finance. This would generally include a review of the existing tax and nontax revenue base, including the likely effect of any changes in the tax system, the scope for financing public spending through domestic borrowing, because of the need to maintain macroeconomic stability and to enhance economic growth, and the scope for external financing, in terms of grants, net external borrowing and sustainable debt relief or management. These steps reveal that fiscal policy can have a direct impact on poverty reduction both through the government’s overall fiscal stance and through the distributional implications of tax policy and public spending. Consequently, structural fiscal reforms, in budget and treasury management, public administration, governance, transparency, and accountability can also be of immense benefit to the poor through more efficient use of public resources (Ugoani, 2017a, 2017b, 2017c).

2.2. Fiscal Policy and Debt Management

Debt management like tax policy is another important instrument of fiscal policy. Debt management consists primarily of the manipulation of three aspects of outstanding debt; the level of interest rate, the pattern of ownership of debt, and the maturity schedule. According to Stiglitz (1996) government plays important role in economic development of any nation. Thus, a government’s debt management policy may have a number of different objectives including the minimization of the interest burden of the debt, stabilization of the private sector, gradual reduction of the debt, and support of general growth policy. According to Iyoha (1997) debt management by government is a crucial approach toward economic growth. This is because the most significant role of debt management policy is in the area of stabilization in which the nature of the maturity of the debt is the most important factor. Therefore, fiscal policy is needed for stabilization since full employment and price stability do not come about automatically in a market economy but requires public policy direction. In this regard, the need for public policy direction cannot be overemphasized. For example, the primary objective of privatizing public enterprises in Nigeria was to shrink government’s dominance and enlarging the size of the private sector. In order to enhance the prospects for better performance of private sector investment, the National Economic Empowerment and Development Strategy (NEEDS)enunciated various measures in its policy document. Under the NEEDS, the dominance of government in running business was reversed, and government would act as a facilitator of economic development by creating and maintaining an environment that enables Nigerians to implement livelihood strategies and achieving personal goals. To this extent, the government is expected to develop infrastructure, stimulate the growth of the private sector, and the nation as a whole (Akpokodje, 1998, Amos, et al, 2016, Onoh, 2013, Umaru and Zubairu, 2012).

3. RESEARCH METHODOLOGY

This study adopted the quantitative technique of the exploratory research design. The exploratory research design does not often require a structured questionnaire or a large sample. The population composed of all the levels of government in Nigeria, and the sample was selected through the judgmental method. The sample size was determined using the sample ratio concept. Data were generated through secondary sources, including websites, journal articles, books, newspapers, government documents, among other sources. Data collected were complemented, supplement and validated through each other. They were summarized, filtered and coded in readiness for analysis. Data were then analyzed using descriptive and regression techniques. The Ordinary Least Square (OLS) technique was used in the regression analysis based on a unique model specification (Cresswell, 2009).
3.1. Model Specification

Model specification is the expression of a relationship into precise mathematical form. According to Koutsoyiannis (1977) economic theory does not indicate the functional form of any relationship. This implies that economic theory does not state whether a relationship will be expressed in linear form, quadratic form or in a cubic form. On the basis of this it was decided to specify the relationship between National Development (ND) and Fiscal Policy (FP) as follows:

\[ ND = F(GE, GR, PB) \]  \( \ldots \)  \( \ldots \)  \( \ldots \) \( \ldots \)  \( \ldots \) \( \ldots \) \( (1) \)

From this functional relationship, the econometric model is specified below:

\[ ND_1 = b_0 + b_1GE + b_2GR_3 + b_3GR_3 + b_4BM_1 + u \]  \( \ldots \)  \( \ldots \) \( \ldots \) \( \ldots \) \( \ldots \) \( (2) \)

Where: ND = National Development
GE = Government Expenditure
GR = Government Revenue
PB = Public Borrowing
BM = Budget Management
\( b_0 \) = Constant term
\( b_1, b_2, b_3, b_4 \) = Coefficient attached to explanatory variable.
\( t \) = time period
\( u \) = Stochastic error term

3.2. Unit Root Test

The variables of interest were subjected to necessary unit root test before conducting the OLS analysis. This preliminary analysis was done to test for the presence of a unit root in the series.

3.3. Conceptual Framework

A conceptual framework describes the relationship between the major variables of a study and the research problem. It is usually reflected in a diagrammatic model. A model is useful in clarifying important points that would otherwise be buried in an excess of words and helps in promoting experiential learning. The model for this work is shown in figure 1

![Figure 1: Fiscal Policy and National Development Model](image-url)
As shown in this model, public revenues and expenditures have effect on national development, and it can be argued that government can reasonably manipulates its spending and revenue so as to produce the desired results, in terms of improving infrastructure, employment, and overall productivity through sound budget management. Basically, manipulating its spending and taxation simply means that using fiscal policy in deficit financing, government must reduce taxation and increase its spending. Also, in using fiscal policy to prevent inflation means that government must increase taxation and reduce its spending. Both imperatives in fiscal policy manipulation involve taxation, and to be successful, there must be sound fiscal management. Based on the classical economic view of fiscal policy and taxation, it is believed that increased government spending increases total national income, thereby generating a rise in consumption and investment. On the contrary, increased taxation lowers total national income, and forcing a decline in consumption and investment. Another task of fiscal policy manipulation in attempting to either prevent recession or inflation is to consider whether the public or the private sector of the economy should be stimulated. This is crucial because if the provision of social infrastructure is considered a priority, deficit could be achieved through an increase in government expenditures. But on the other hand, if private entrepreneurship and goods for personal consumption are taken as more important, decreased taxation should be used to achieve deficit. In other words, the language of macroeconomics is to fully understand the aggregates of the economy in terms of government affairs, entrepreneurship and business in total, as well as the overall patterns of individual consumption, to guarantee national development. For a developing country like Nigeria, fiscal policy would aim at poverty alleviation and for managing the external debt burden, which havedirect relationship between the balance of payment and foreign reserves (Cheeseman and Owen, 2017, Chigbu, and Njoku, 2015, NGF, 2017).

4. PRESENTATION OF RESULT

Table 1. Regression Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.754978</td>
<td>0.156320</td>
<td>-5.215709</td>
<td>0.0001</td>
</tr>
<tr>
<td>GE</td>
<td>0.006204</td>
<td>0.012809</td>
<td>0.370261</td>
<td>0.6117</td>
</tr>
<tr>
<td>GR</td>
<td>0.058308</td>
<td>0.021384</td>
<td>5.208217</td>
<td>0.0012</td>
</tr>
<tr>
<td>PB</td>
<td>-0.046207</td>
<td>0.012046</td>
<td>-2.304081</td>
<td>0.0214</td>
</tr>
<tr>
<td>BM</td>
<td>-0.024109</td>
<td>0.017276</td>
<td>-0.617068</td>
<td>0.4431</td>
</tr>
<tr>
<td>R.squared</td>
<td>0.749704</td>
<td>mean dependent variable</td>
<td>-0.704302</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.718402</td>
<td>S.D. dependent variable</td>
<td>0.038608</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.016305</td>
<td>Akaike info criterion</td>
<td>-3.184002</td>
<td></td>
</tr>
<tr>
<td>Sum squared resid.</td>
<td>0.006705</td>
<td>Schwazz criterion</td>
<td>-4.931703</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>34.30742</td>
<td>Hannau-Quinu criterion</td>
<td>-5.007908</td>
<td></td>
</tr>
<tr>
<td>F-Statistic</td>
<td>11.05720</td>
<td>Durbin-Watson Statistic</td>
<td>1.920405</td>
<td></td>
</tr>
<tr>
<td>Prob (F-Statistic)</td>
<td>0.000000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.1. Discussion

The psychometric model in figure 1 was used to demonstrate that fiscal policy and its other components have positive relationship with national development. This descriptive outcome was complemented with quantitative analysis using the OLS technique; as in table 1. The R² value of 0.75 in this table showed that about 75 percent variability in the dependent variable is explained by the independent variable(s) and confirm that there is strong relationship between fiscal policy and national development. The goodness-of-fit test of the model is also good at the adjusted R² value of 0.72. The value of Durbin-Watson is 1.92 that lies within the range between
1.5 and 2.5 and it can be assumed that there is no autocorrelation among the independent variables. The F-test and t-statistic are significant at 0.05 level. This is the objective of the study. This result supports the finding of Njoku (2022) that fiscal policy is an instrument for resource allocation, employment creation, utilization and national development. Fiscal policy serves a major purpose of economic stability through the application of effective fiscal management. To this extent, policymakers often make effort to reduce inflation, using strong, sustained fiscal adjustment and other measures. This should be of concern to policymakers because a weak fiscal policy approach can put unnecessary upward pressure on the economy through the channels of aggregate demand, supply, and financing. Usually, a weak fiscal policy increases the demand for domestic goods, and this in the absence of corresponding increase in supply, puts upward pressure on prices. This can also increase demand for imports, thereby bringing downward pressure on the prices of imported goods or services. To enhance policy transparency and credibility, there is always need for sustained fiscal adjustment. Fiscal adjustment means the ability, to enhance transparency, accountability, credibility and efficiency in macroeconomic management. Fiscal reforms and management often use subsidies as fiscal equity instrument to cater for the needs of the majority in a country. To this extent, many developing countries, including Nigeria, devolve considerable national resources to subsidizing the capital and operating costs of products such as petroleum. However, research evidence suggests that the benefits of those subsidies go primarily to unscrupulous government officials and big time oil merchants and never to the consumers. The economic rationale for subsidies to offset market inefficiencies where prices fail to reflect significant external benefits supports their use, but mismanagement and corruption are the main obstacles. It is emphasized that crafting and implementing credible and comprehensive fiscal policy are essential ingredients for national development. This is centrally imperative to mitigate the adverse effects of corruption, poverty, frustration, aggression, and all forms of criminal activities largely associated with massive unemployment and underemployment in Nigeria.

4.2. Scope for Further Study

Nigeria frequently experiences budget deficits. To seek ways to address this situation, further study could examine the relationship between fiscal policy and fiscal discipline in Nigeria. This is also necessary to bridge the widening poverty levels.

4.3. Recommendations

i. The tax structure in Nigeria should be refashioned in such a way that it will encourage voluntary compliance in terms of tax payment to improve public revenue base.

ii. Proper fiscal budgeting is essential in PFM to ensure that government revenue is strictly applied towards government expenditure and national development.

iii. Anti-corruption war should be extended to revenue boards or authorities and government ministries to minimize the magnitude of government revenue ending up in private pockets of public officers.

iv. Subsidy as a fiscal policy instrument is grossly abused in Nigeria by people in the corridors of political power. Therefore, its efficacy as a fiscal management tool should be reviewed.

5. CONCLUSION

Fiscal policy as a tool of national development recognizes the need for proper fiscal budgeting, fiscal adjustment and fiscal discipline as success factors in the drive for national development. This is important because weak fiscal policy results to weak accountability and transparency
mechanisms which ultimately frustrate national aspirations. The exploratory research design was adopted in this study, and the result showed positive relationship between fiscal policy and national development. Fiscal policy represents policy thrusts under which the government deploys its expenditure and revenue programmes to produce desirable effects on the national income, production, and employment. Modern fiscal policy is now a technique for attaining and maintaining aggregate economic performance by manipulating public expenditure and revenue, and to regulate spending and taxes to control the supply of goods and services. The main goal of effective fiscal policy is to ensure that all necessary ingredients like; expenditure, tax revenue, debt management and others including subsidy are put under proper control for national development.

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REFERENCES


