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Fiscal Policy Tools and Economic Growth in Nigeria

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Abstract: Researchers have come up with varying opinions on the impact of fiscal policy tools on the economic growth of many nations. While some are of the view that fiscal policy tools have positive relationship with economic growth, others posit that it has a negative impact while a third group are of the opinion that its impact could either be positive or negative depending on how it is harnessed with other macro-economic variables and yet a fourth school of thought has emerged. They are of the opinion that fiscal policy tools could have a little but not significant impact on the economic growth of any given nation. Thus this study is set to lend its voice and opinion on this discuss with emphasis on the Nigerian economy using a time series data for the period 1999-2020. The data were analyzed using Ordinary Least Square method and a Vector Auto regression Analysis. In the model, Real GDP (taken as dependent variable) was regressed on tax revenues, capital and recurrent expenditures. Other independent variables include deficit financing, external and domestic debts. Findings of study indicate that in the short run, deficit financing, domestic debt and recurrent expenditures all had significant positive relationship with economic growth in Nigeria; while there exists a significant negative relationship between external debts and real GDP. Capital expenditure and tax revenues did not have a significant relationship with economic growth in Nigeria in the short run. In the long run, the earlier outcomes fizzled out as only the lagged value of RGDP, taken as an explanatory variable was found to be positively significant. From the foregoing analysis, it was established that fiscal policy tools did not sustain a significant relationship with economic growth in Nigeria in the long run, thus pitching our tent with the fourth school of thought. Fiscal policy tools are not enough to pilot the economic ship of Nigeria. The study therefore recommends that government should use fiscal policy instruments to complement its sister strategy - the monetary policy tools to promote stability in the Nigerian economy. A good mix of fiscal and monetary policy tools could help in the formulation and implementation of sound economic policies; the impact of which will be appreciated from the standpoint of how rapidly and effectively it fosters, innovates or facilitates economic growth in Nigeria.

Keywords: Taxation, Tax revenues, Capital Expenditure, Recurrent expenditures, Deficient financing, Domestic debt, External debt and Transfers

1. Introduction

1.1 Back Ground of the Study

Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macro-economic conditions, including aggregate demand for goods and services, employment, inflation, and economic growth. It is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is

enacted by a government as opposed to its sister strategy - the monetary policy, which is enacted by the central banks to influence a nation's money supply.

The basic tools of fiscal policy are taxes, expenditure, public debt and a nation's budget. They consist of changes in government revenues or rates of the tax structure so as to encourage or restrict private expenditures on consumption and investment. Fiscal policy is all about how government receives and spends money.

Nigeria's fiscal policy objectives as distilled from her various national plans, rolling plans and annual federal budgets have always revolved around the following sub-themes:
•Generation of significant additional revenues and the diversification of revenue sources away from crude oil based revenue.
•Reduction in tax burden and maintenance of economic equilibrium.
•Protection of domestic industries, promotion of self-reliant development and elimination of budget deficits.
•Fighting the twin issues of low productivity in agriculture and low capacity utilization in the manufacturing sector.
•Reduction in the growth of both external and internal debts and
•Minimization of existing inequalities in wealth, income and consumption standards which tend to undermine production efficiency.

It is important to note that the simultaneous pursuit of some of the above objectives could result in conflicts or tradeoffs. However, it is in recognition of the fact that fiscal policy affects the economy in many different ways that the above objectives are pursued simultaneously (Anyanwu and Oiakhenan; 1998).

In Nigeria, the major fiscal policy instruments include changes in taxation rates and government expenditure (recurrent and capital).Taxes along with interests and repayments, sale of crude oil, licenses and fees constitute government revenue. On the other hand government expenditures constitute an instrument for direct resource allocation while generating employment opportunities and influencing the general price level as well as determining the extent of fiscal deficit or surplus for each fiscal year. These and many more will constitute the framework of this study.

1.2 Problem Statement

Fiscal policy performance in Nigeria is becoming worrisome in the area of revenue generation and the attendant narrow fiscal space and public debt accumulation. This has affected the shape, direction and implementation of monetary policy decisions in Nigeria (Obadan, 2022). Overtime, the Nigerian nation has witnessed a tremendous increase in her revenue profile especially the accruals from oil exports and non-oil revenue which consists essentially of tax related funds. Paradoxically, it does not appear as if the increase in revenue is at par with government's expenditure profile. As a matter of fact, government's expenditure pattern has overtaken her income profile such that the nation is now engaged in deficit financing.

As the federal government continues in its borrowing spree, the attendant cost of debt servicing constitutes a major threat to Nigeria's economy .It has emerged that the Central Bank of Nigeria spends so much to settle Nigeria's foreign debt obligations. As at 2016, Nigeria spent about 653.6 Billion Naira on transfer payments. This increased astronomically to 1614.9 billion Naira in 2020. The international payment data released by the CBN showed that these amounts were paid to the World Bank, International Monetary Fund (IMF), Exim Bank of China, amongst others. According to the AFDB (2019), debt servicing gulps more than 50 per cent of Nigeria's revenue. That is certainly not a healthy development!

Again, it has been observed that fiscal policy implementation in Nigeria are often swayed by political considerations rather than on core economic matters. This leads to poor decisions that

are not informed by data or economic theory. Thus when monetary policies are inconsistent or not in tandem with fiscal policy tools, the desired effects are hardly achieved.

Another contending issue in fiscal policy implementation in Nigeria is that of crowding out and crowding in effects. This tends to weaken the impact of fiscal policy tools. While an expansionary fiscal policy has less punch; a Contractionary policy puts less of a damper on economic activity. Some economists have argued that these forces are so powerful that changes in Nigeria's fiscal policy implementations have failed to achieve the desired impact on aggregate demand. Under an expansionary fiscal policy regime, the excess in money supply decreases the value of money while pushing up prices (because of the increase in demand for consumer products). Hence, inflation exceeds the reasonable level. For this reason, fine-tuning the economy through fiscal policy alone can be a difficult, if not improbable, means to reach economic goals.

The time lag between the implementation of a new fiscal policy and a realization of its effects is another limiting factor to its efficacy in Nigeria. This is so because it cannot be implemented quickly enough to affect the business cycle. Thus, this study is set to ascertain the impact of fiscal policy tools on economic growth. It will also try to find out if fiscal policy tools could effectively be used on a standalone module or must always go hand in hand with its sister strategy – the monetary policy tools. As it were, Nigeria has had problems implementing a sustainable economic growth agenda via its fiscal policy tools, hence the need to embark on this study.

1.3 Objectives of the Study

The purpose of this research is to examine the impact of fiscal policy on the Nigerian economy (1999-2020). In pursuit of this central objective, the specific objectives of this study will include the following:

1. To determine the extent to which tax revenues, recurrent and capital expenditures have affected the growth of Nigeria's economy
2. To assess the extent to which, deficit financing, domestic and external debts affect the growth of Nigeria's economy.

1.4 Research Questions

Having stated the above objectives, the following research questions are therefore considered relevant to the study:

1. To what extent has tax revenues, recurrent and capital expenditures affected the growth of Nigeria's economy?
3. To what extent has deficit financing, domestic and external debts affected the growth of Nigeria's economy

1.5 Research Hypotheses

In line with the above objectives, the following null hypotheses are formulated thus:

Ho1: There is no significant relationship between tax revenues, recurrent / capital expenditures and the growth of Nigeria's economy

Ho2: There is no significant relationship between deficit financing, domestic/ external debts and the growth of Nigeria's economy

1.6 Justification of Study

This study will examine in detail, the relationship between fiscal policies and economic growth in Nigeria. It will attempt to identify the trend and usage of fiscal policy tools in harnessing Nigeria's economic growth. It will ascertain if fiscal policy tools have aided economic growth and development in Nigeria.

The study will also inform policy decisions that could assist policy makers to ascertain if an enabling environment has been created for economic growth to thrive and to appraise the effectiveness or otherwise of fiscal policy tools on economic growth and development in Nigeria.

The study will also invoke interests and debates on the pros and cons of fiscal policy formulation in Nigeria.

1.7 Scope of Study

The period of investigation is delineated, from 1999 - 2020, a period of 22 (twenty two) years. Our choice of scope is to align the period of study from inception of the present democratic dispensation in Nigeria to year 2020(This is in line with the available data).

2. Literature Review

The overall objective of fiscal policy is to maintain the condition of full employment, economic stability and to stabilize the rate of growth. For an under-developed economy like Nigeria, the main purpose of fiscal policy is to accelerate the rate of capital formation and investment.

2.1 Conceptual Framework

The conceptual framework of this study is based on the variables under consideration. This includes the budget, tax revenues and total revenue profile. Others are the total expenditure pattern, deficit financing and a consequent debt profile, transfer payments and economic growth in Nigeria. These concepts are briefly reviewed below:

2.1.1. Federal Government of Nigeria's Budget for the Period (2016- 2020)

A government budget is a document prepared by the government and/or other political entity presenting its anticipated revenues and proposed spending/expenditure for the coming financial year. A budget is used to: make sure that the state has the resources it needs to do its work, create conditions which stimulate economic growth, clearly indicate the priorities of government. A budget has two sides: revenue (income) and expenditure (what will be spent).
A five (5) year cursory review of federal government of Nigeria's budget profile indicates that for 2016, it was 6.06 Trillion Naira. This shot up to 7.29 Trillion Naira and 9.12 Trillion Naira in 2017 and 2018 respectively. It nosedived to 8.92 trillion Naira in 2020. The above information are rightly encapsulated in figure 1 below:

Figure 1

Year	2016	2017	2018	2019	2020
Amount (N 'trillions)	6.06	7.29	9.12	8.92	10.59

Source: CBN statistical Bulletin 2021

2.1.2. Taxation in Nigeria

Tax is a levy or money that people have to pay to the government so that it can pay for public services. People pay taxes according to their income and businesses pay tax according to their profits. Tax is also often paid on goods and services. The primary aim of taxation is usually to generate revenue capable of financing government expenditure at all levels of government. The importance of taxation to any government cannot be over emphasized. A review of the various tax laws presents an insight into the different taxes in Nigeria:

Companies Income Tax (CIT):
This is a tax imposed on profit of a company from all sources. It is one of the main taxes administered and collected by the Federal Inland Revenue Service (FIRS). It is a tax paid on the income of incorporated companies. Company's Income taxes are regulated by the Companies Income Tax Act (CITA), 2004 (as amended).

Personal Income Tax (PIT):
This tax is imposed on income of individuals (employees), corporate sole or body of individuals, communities, families or trustees or executors of any settlement as the case may be. It also

covers taxation of sole traders, partnership assessment, and taxation of estates. PIT is regulated by the Personal Income Tax Act Cap P8 LFN 2004 (as amended).

Value Added Tax (VAT):
This is a tax charged on the sale of specified goods and services at the rate of 5%. It is also referred to as a consumption tax and it is mostly borne by the final consumer. The FIRS is vested with the power of administration and management of VAT in Nigeria. It is regulated by the VAT Act and the VAT (Amended) Act 2007.

Capital Gains Tax (CGT):
This is a tax charged where there is a disposal of assets. Where any capital sum is derived from a sale, lease, transfer, assignment, compulsory acquisition or any disposition of properties classified as chargeable assets. It is regulated by the Capital Gains Tax Act, Laws of the Federation CAP C1 LFN, 2004 (as amended).

Withholding Tax (WHT):
This is an advance tax payment deduction made on any income or disbursement due to a taxable person or a taxable corporation, for onward remittance to the relevant government authority.

Stamp Duties:
The Stamp Duties Act, CAP S8 LFN 2004 (as amended) regulates stamp duties in Nigeria. Stamp duties from individuals are paid to the respective State Government, while corporate bodies pay theirs to the Federal Government.

Custom and Excise Duties:
These are taxes charged at the Nigeria's Port of Entry on certain imported goods. It is usually administered and collected by the Nigerian Customs Service by virtue of the Customs and Excise Management Act.

Education Tax (EDT):
This tax is regulated by the Education Tax Act, CAP E4, Laws of the Federation of Nigeria, 2004 and administered by the FIRS. It is also governed by Tertiary Education Trust Fund (Establishment, Etc.) Act 2011. EDT is imposed on all companies registered in Nigeria. The rate of the tax is 2% of assessable profit. The amount in the Fund is distributed between Universities, Polytechnics and Colleges of Education in the ratio 2:1:1 respectively.

Petroleum Profit Tax (PPT):
This tax is imposed on income of companies in petroleum operations (Upstream). The tax is governed by the Petroleum Profits Tax Act, Cap P13 LFN 2004 (as amended). Companies liable to PPT are not liable to Companies Income Tax (CIT) on the same income. The administration of these laws involves assessment, collection and accounting for revenues accruing to the Government of the Federation.

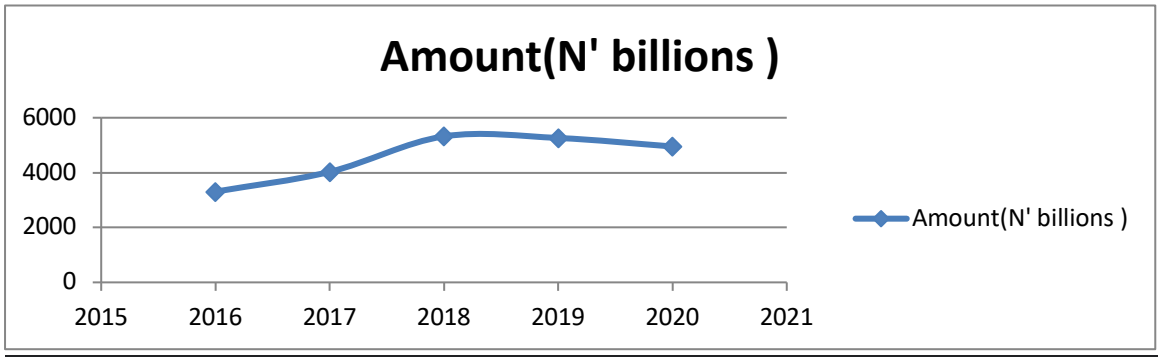
Tax Administration in Nigeria:
In Nigeria tax administration is carried out by the three tiers of government, namely; the Federal Government, the thirty-six States of the Federation and the Federal Capital Territory and the various Local Governments, through the machineries set up by the respective government.

The FIRS is the body statutorily empowered to administer and enforce the various tax laws in Nigeria at the federal level. The States' Governments administer tax through the various State Boards of Internal Revenue, while the Local Government Revenue Committee of each State administers taxes at the local government areas.

Nigeria's Tax Structure:
The tax structure of an economy depends on its tax base, tax rate and the tax rate varies. The tax base is the amount to which a tax rate is applied. The tax rate is the percentage of the tax base that must be paid in taxes.

2.1.3 Federal Government of Nigeria's Total Tax Revenues for the period 2016- 2020

Federal government of Nigeria's total tax revenues has maintained a steady increase over time for the period 2016-2020. The trend is depicted in the graph below:



Source: Planning, Research and Statistics department FIRS

2.1.4 Federal Government of Nigeria's Totally Generated Revenue for the Period (2016- 2020)

Government Revenues in Nigeria averaged 896.80 NGN Billion from 2010 until 2021, reaching an all time high of 1480.87 NGN Billion in the fourth quarter of 2019.
The oil sector provides for 95% of Nigeria's foreign exchange earnings and 80% of its budgetary revenues:

Year	2016	2017	2018	2019	2020
Totally Generated Revenue (N Billion)	5616.4	7445.0	9551.8	10262.3	9303.2
Oil Revenue	2693.9	4109.8	5545.8	5536.7	4732.5
Non-oil Revenue	2922.5	3335.2	4006.8	4725.6	4570.7

Source: CBN statistical Bulletin 2021

2.1.5 Oil Revenue and the Nigerian Economy

Nigeria is one of the world's largest producers of crude oil, the 10th largest producer and the 6th largest exporter among Organization of Petroleum Exporting Countries (OPEC) members. Nigeria, Africa's largest crude exporter has continued to import refined petroleum products after over fifty years of crude oil extraction (Nwanze, 2007).

The Petroleum Industry in Nigeria has brought exceptional changes to the Nigerian economy, particularly in the past five decades when it replaced Agriculture as the base of the Nigeria economy. The Oil Industry has risen to the unassailable loftiness of the Nigerian economy, contributing the lion shares to gross domestic product and accounting for the bulk of federal government revenue and foreign exchange earnings since early 1970.

Having reviewed taxation and crude oil sales as veritable sources of income available to the federal government Nigeria, it is necessary we highlight too, the concept of public expenditure and reasons for government's involvement in public expenditure.

2.1.6 Total Expenditure Profile of Nigeria for the Period (2016-2020)

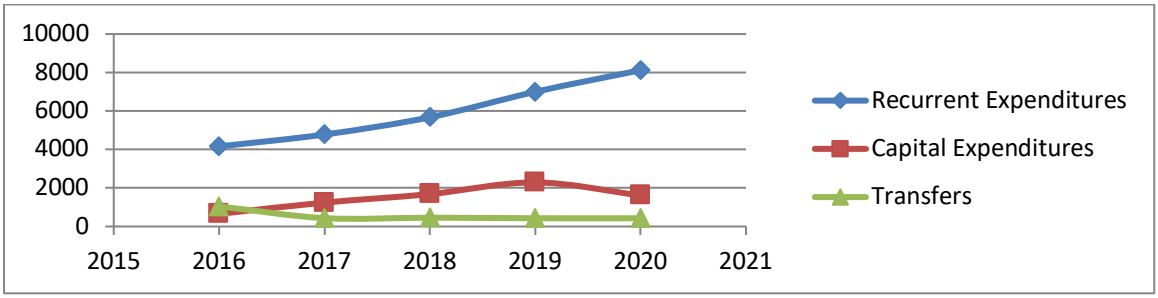
Public expenditure refers to government expenses aimed at providing economic infrastructures such as power, transport, irrigation, etc. Social infrastructure such as education, health and family welfare. Others are, internal law and order and defense. To provide collective wants and

maximize social welfare. It is also geared towards promotion of full – employment and maintain price stability.

Year	2016	2017	2018	2019	2020
Total Expenditure	5858.6	6456.7	7813.7	9714.6	10164.6
Recurrent Expenditures	4160.3	4780	5675.2	6997.2	8121.6
Capital Expenditures	653.6	1242.3	1682.1	2289	1614.9
Transfers	1044.8	434.4	456.5	428.5	428

Source: CBN statistical Bulletin 2021

The components of total expenditure profile of Nigeria for the period 2016 to 2020 are aptly captured in the graph below:



Source: Data were culled from the CBN Statistical bulletin

2.1.7 Canons of Public Expenditure

Public expenditure is premised on certain regulations. This is referred to as the cannons of public expenditure. This includes the canon of Benefit, Economy and Sanction .Others are the cannons of Surplus, Elasticity and Neutrality. Also included are the cannons of Productivity and equitable Distribution. Under normal circumstances, because of its efficiency, the private sector, through market mechanism is the obvious choice for the provision of economic and welfare activities. However, even in the most democratic of all nations, substantial public sector still exists. The reasons for this line of action are both historic and economic.

2.1.8 Deficit Financing in Nigeria for the Period (2016-2020)

This is a practice whereby government spends more money than it receives as revenue, the difference being made up by borrowing (either internally or externally) or the minting of new notes.

Year	2016	2017	2018	2019	2020
Amount(N'Billions)	(975.4)	(1932.7)	(1489.5)	(2103.2)	(4128.9)

Source: CBN Statistical Bulletin

Deficit financing in Nigeria stood at 975.4 Billion naira in 2016. This maintained a steady increase overtime. As at 2020, it has quadrupled to about 4128.9 billion naira compared to what it was in 2016. The Nigerian government appears to be involved in financial profligacy and recklessness. They are spending more money than is actually received as revenue.

2.1.9 Outstanding Stock of Total Public Debt (2016-2020)

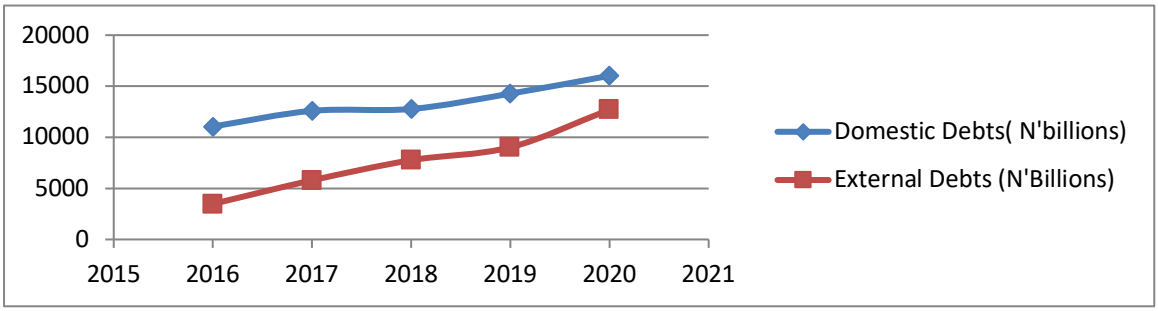
Nigeria's total outstanding stock of total public debt stood at 14,308.51 billion naira in 2020. A review of this amount indicates that (the naira equivalent) of Nigeria's external debts accounted for about 12,705.62 billion Naira, while the domestic debts stood at 1602.89 billion naira in 2020. The above information is contained in figure 2 below:

Year	2016	2017	2018	2019	2020
Total Public Debt (N'Billions)					

Domestic Debts (N'Billions)	11058.20	12589.44	12374.40	14272.64	1602.89
External Debts (N' Billions)	3478.91	5787.51	7759.2	9022.42	12705.62

Source: CBN Statistical bulletin

It is pertinent; we mention here that Nigeria's external debts profile is spread across the multilateral, bilateral, Euro bond, Diaspora bonds and others. The above data are captured in the graph below:



Source: CBN Statistical Bulletin (2020)

2.1.10 Nigeria's Transfer Payments (2016-2020)

Year	**2016**	**2017**	**2018**	**2019**	**2020**
Amount(N'Billions)	**653.6**	**1242.3**	**1682.1**	**2289**	**1614.9**

Source: CBN Statistical Bulletin (2020)

As the federal government continues its borrowing spree and debt servicing constituting a major threat to Nigeria's economy, it has emerged that the Central Bank of Nigeria spends so much to settle Nigeria's foreign debt obligations. As at 2016, Nigeria spent about 653.6 billion naira on transfer's payment. This increase astronomically to 1614.9 billion Naira in 2020. The international payment data released by the CBN showed that the amount paid to the World Bank, International Monetary Fund (IMF), Exim Bank of China, among others for debt service and payments have continued to increase overtime.

Fiscal Federalism in Nigeria

This refers to an inter-governmental fiscal relation as enshrined in the constitution providing the functional responsibilities for financial resource that can be raised or shared for provision of collective goods and services. Nigeria has a total of 36 states and the federal capital territory. Funds are allocated to the states on a monthly basis. This is based on the agreed revenue sharing formula between the federal and state governments.

Certain ground rules are necessary for there to be good relationship among the various levels and units of government making up a federation. Such principles as out lined by Musgrave and Blinsky (1970) include the Principles of Diversity, Equivalence and Centralized Redistribution. Others are the principles of Locational Neutrality, Centralized Stabilization and the Correction of Spillovers: Also included are the principles of minimum provision for essential public services and Equalization of Fiscal Position:

Having reviewed the underlying concepts as it relates to fiscal policy tools, it behooves of us now to briefly take a look at the concept of economic growth.

Economic Growth

The free encyclopedia defined economic growth as increase in the amount of the goods and services produced by an economy over time.

Measurement of Economic Growth

In discussing economic growth, three strands of the measure of growth can be deciphered. These measures include:

i) Measurement of Growth from the nominal perspective
ii) Growth defined from real magnitudes and
iii) Growth measured in terms of per capita values.

These strands of measure are briefly discussed below.

Nominal Measurement of Growth

Under this measure, economic growth is seen as the increase in current value prices of aggregate product.

Real Output Growth Rate as Measure of Economic Growth

Determining whether or not the increased aggregate expenditure is matched by an increase in real output overtime entails deflating the nominal value of output by an appropriate price index to obtain the corresponding magnitude. The deflated value of the nominal output enables us to determine whether or not an economy has grown in real terms overtime. (Enu: 2009).

Growth Measured in per Capita Values

In the third approach, an economy is said to have witnessed economic growth if there has been an increase in per capita output at constant prices overtime, the per capita concept connoting that the real increase in output is divided by the number of people among whom it is shared
Next is a theoretical review on fiscal policy tools and economic growth.

2.2 Theoretical Framework

Studies on fiscal policy tools are hinged on the earlier works of John Maynard Keynes (1883-1946). His theories were developed in response to the Great Depression, which defied classical economics' assumptions that economic swings were self-correcting. Keynes' ideas were highly influential and led to the New Deal in the U.S., which involved massive spending on public works projects and social welfare programs.

In Keynesian economics, aggregate demand or spending is what drives the performance and growth of the economy Aggregate demand is made up of consumer spending, business investment spending, net government spending, and net exports. According to Keynesian economists, the private-sector components of aggregate demand are too variable and too dependent on psychological and emotional factors to maintain sustained growth in the economy. Other than the Keynesian approach, there is still the need to review other growth related theories.

Public Revenue, Expenditures and Growth related theories:

1. Wagner's Law of Increasing State Activities:

According to Wagner there are inherent tendencies for the activities of different layers of a government to increase both intensively and extensively. It is a fact that economic growth of a country has always been accompanied by increasing state activities and hence increasing public expenditure. Evidences abound of continuous upward trend in government activities

2. Peacock and Wiseman Hypothesis:

The major postulation of this theory is that public expenditure does not increase in a smooth and continuous manner, but in jumps and jerks or step like fashion. .

3. Critical Limit Hypothesis:

This theory posits that as inflation emerges when the share of the government sector, as mea¬sured in terms of taxes and other receipts, exceeds 25 per cent of the aggregated economic activity in the country.

4. The Leviathan Hypothesis:

This theory as propounded by Brennan and Buchanan (1980), enthused that government is seen to be caught in the web of interplay with constitutional limitations and striving to maximize government revenue. While the government tries to impose taxes of varying degree and forms, there is however, a constitutional constraint such as the limitations arising from constitutional provision regarding decentralization of both spending and taxing powers between regions that make up the government.

5. Musgrave Theory of Public Expenditure Growth:

This theory posits that at low levels of per capita income, demand for public services tends to be very low, this is so because according to him such income is devoted to satisfying primary needs and that when per capital income starts to rise above these levels of low income, the demand for services supplied by the public sector such as health, education and transport starts to rise, thereby forcing government to increase expenditure on them.

Theories on Economic Growth

The issue of economic growth did not assume a dimension of prominence until the mid thirties. Interest in growth issues has subsequently led to the development of various theories of growth each purporting to explain the mechanics of growth. (Anyanwu and Oaikhenan: 1995). Some of the theories include:

(i) Classical Growth Models,
(ii) Marxian theory of growth
(iii) Rowstow's stages of growth theory
(iv) Keynesian Growth Model (Harold- Domar growth model),
(v) Neoclassical Growth Model and
(vi) Endogenous Growth Model.

The above theories are briefly highlighted below:

Classical Theory of Growth

The classical theory of growth assigns to the rate of investment the responsibility for fostering growth, itself a function of the share of profits in the national income. (Anyanwu: 1997).

Marxian theory of economic growth. The Marxian theory of growth is a historical theory of economic growth. It is an admixture of reasoning proceeding from economics and sociological perspectives. The theory proceeds by viewing growth as a process of continuous transformation of a society's social cultural and political life.

Rostrow's Stage of growth Theory

Rostow stages growth theory posits that all countries of necessity pass through five stages in the process of growth. These stages are:

(1) The traditional society characterized by economic decision making on the basis of customs, tradition and obligations

2) The precondition for takeoff stage, characterized by advances in Agriculture and jettisoning of uneconomic culture as well as the emergence of an entrepreneurial class.

3) The take off stage, characterized by increased rate of saving emergence of leading sectors which helps to pull along other sectors contributing thereby to the realization of sustained growth.

4) The stage of drive to maturity characterized by the consolidation of industrial revolution. Moreover, within this stage the other sectors catch up with the leading sectors and the economy, having attained the '' critical minimum speed to be airborne in the growth process in stage three actually becomes airborne in this stage of growth

5) Stage of high mass consumption. In this stage of growth, an economy is deemed to have matured, making it possible for the citizens to enjoy appreciable levels of living standards. The more developed economies such as the US, the UK, the Netherlands, Germany, France, Sweden, Norway most likely fall under this stage of Rostow's five stage classification.

For the emerging nascent economies, the second stage is probably more relevant to their growth (and development) since it is in this stage that resistance to change in traditional values and in the social cultural and economic institutions is finally overcome and modern industries begin to emerge.

Harrod Domar Growth Model

The Harrod-Domar growth model shows through a mathematical equation, the existence of a direct relationship between savings and the rate of economic growth. The model, which attempts to integrate Keynesian analysis with the element of economic growth, assumes that economic growth is a direct result of capital accumulation in the form of savings. (Enu: 2009).

Neo-Classical Growth Model

The neoclassical growth model predicts that the economy will grow and at a rate that is determined by the pace of technological change. The Neoclassical model predicts that national levels of real GDP and national growth rates will converge. (Enu: 2009).
Ramsey Model: A refinement of solow –Swan model. One of the key features in Ramsey's model is the assumption that households optimize their utility over time. This assumption importantly makes the model dynamic. (Enu: 2009).

Endogenous Growth Model

The Endogenous growth model focused mainly on conception and possibilities of measuring capital, which is defined to include physical as well as human capital. The factors of economic growth are positive externalities from human capital and knowledge transfer between producers who decelerate the decreasing returns from accumulated capital. (Enu: 2009).

2.3 Empirical Review

Researchers have come up with varying opinions on the impact of fiscal policy tools on the economic growth of any nation. It behooves of us at this stage to briefly review the findings of previous researchers on subject matter:

Fiscal policy is not an effective tool in redeeming a nation's economy.
Adefeso and Mobalaji (2010) wrote on the fiscal-monetary policy and economic growth in Nigeria. Their major objective was to re-estimate and re-examine the relative effectiveness of fiscal and monetary policies on economic growth in Nigeria using annual data from 1970 to 2007. The error correction mechanism and co-integration technique were used to analyze the data and draw policy inferences. Their result showed that the effect of monetary policy is much stronger than fiscal policy. They suggested that there should be more emphasis and reliance on monetary policy for the purpose of economic stabilization in Nigeria.

In the same vein, Olawunmi and Ayinla (2007) examined the contribution of fiscal policy in the achievement of sustainable economic growth in Nigeria using slow growth model estimated with the use of ordinary least square (OLS) method. It was found that fiscal policy has not been effective in the area of promoting sustainable economic growth in Nigeria. They, however, stated that factors such as wasteful spending, poor policy implementation, and lack of feedback mechanism for implemented policy evident in Nigeria, which are indeed capable of hampering the effectiveness of fiscal policy have made it impossible to come up with such a conclusion.

Omitogun and Ayinla (2007) examined empirically the contribution of fiscal policy in the achievement of sustainable economic growth in Nigeria. They opined that Nigerian government should put a stop to the incessant unproductive foreign borrowing, wasteful spending and uncontrolled money supply, and embark on specific policies aimed at achieving increased and sustainable productivity in all sectors of the economy.

Mixed results – It's neither here nor there!

Morakinyo, David and Alao (2018) examined the impact of fiscal policy instrument on economic growth in Nigeria using time series annual data for the period 1981-2014. The study found that recurrent expenditure and public domestic debt exert negative relationship while the capital expenditure and external debt exert positive relationship in the long run on the economic growth (GDP) and in the short-run the entire variables are having positive influence except REC (recurrent expenditure) on the economic growth (GDP). The study recommends that the government should put in place effective debt management strategies and fight the problem of corruption because without a reduction of the level of corruption in the country, fiscal policy components will not achieve the required level of economic growth in Nigeria.

Omodero et al (2016) examined the impact of fiscal policy on the economy of Nigeria between 1994 and 2014. Multiple regressions were used to analyze data in this study. The study found a significant negative relationship existing between external debts and the real GDP. This supports the Keynesian view of government active intervention in the economy using appropriate various policy instruments. The study therefore recommends that: Government should use fiscal policy to complement the adoption of effective monetary policy and maintain the rule of law to promote stability in the Nigerian economy.

Nworji et.al (2010) examined the effect of public expenditure on economic in Nigeria for the period 1970 – 2009. The tool of analysis was the OLS multiple regression models specified on perceived causal relationship between government expenditure and economic growth.. Results of the study s showed that capital and recurrent expenditure on economic services had insignificant negative effect on economic growth during the study period. Also, capital expenditure on transfers had insignificant positive effect on growth. But capital and recurrent expenditures on social and community services and recurrent expenditure on transfers had significant positive effect on economic growth. Consequently, the study recommended more allocation of expenditures to the services with significant positive effect.

Fiscal policy tools have a positive impact on economic growth

Agu et al (2015) sought to ascertain the impact of various components of fiscal policy tools on the Nigerian economy. They used descriptive statistics to show contribution of government fiscal policy to economic growth,. Findings revealed that total government expenditures have tended to increase with government revenue, with expenditures peaking faster than revenue. Investment expenditures were much lower than recurrent expenditures evidencing the poor growth in the country's economy. Hence, there is some evidence of positive correlation between government expenditure on economic services and economic growth. Therefore, in public spending, it is important to note that the effectiveness of the private sector depends on the stability and predictability of the public incentive framework, which promotes or crowds out private investment

Fiscal policy tools have a negative impact on economic growth

Adeoye (2006) analyzed the impact of fiscal policy on economic growth in Nigeria for the period 1970 to 2002. The finding shows that public investment negatively affects output growth implying that public expenditure has a crowding out effect on private investment.

Fiscal policy tools have little or no significant relationship with economic growth

Otiwu, Chukwu and Okere (2016) examined the impact of public expenditure on economic growth of Nigeria; for the period 1980-2013). The results obtained from their study revealed that little or no significant relationship exists between Nigeria's real public expenditure and level of economic growth for the period 1980-2013. It was concluded that in the long-run, all the problems of inconsistency in the government spending will be corrected since there is a long-run relationship among the parameters estimates. The study recommended that government should ensure that capital and recurrent expenditure are properly managed so as to raise the

nation's productive capacity. Also recommended in the study is proper monitoring of government expenditure in order to avoid misappropriation and diversion of funds

2.4 Research Gap

The Last is yet to be heard on the impact of fiscal policy tools on economic growth. The difference in outcome of studies may not be unconnected to the research design and methodology adopted in the various studies. Thus, this study is set to give a true, unbiased and empirical relationship between fiscal policy tools and economic growth in Nigeria.

3. Research Method

3.1 Research Design

An ex post facto research design was adopted in this study. To ascertain the impact of fiscal policies on the economic growth of Nigeria.

Decision Rule:

Reject H_0 if $F_{cal} > F_{0.01, 0.05(v1, v2)}$, otherwise do not reject. Meaning that if computed F-ratio is greater than the table value we accept H_1 and reject H_0 then conclude that the model is significant. This means that the model is adequate and is reliable for any analysis drawn from it.

The Student T-test

In our model, t-test is used to test the individual impact of fiscal policy tools on economic growth in Nigeria

Decision Rule

If $t_{cal} < t_{tab}$ at α/2 level of significance and n – k – 1 degree of freedom; accept H_0 and do not accept H_1. If $t_{cal} > t_{tab}$ at α/2 level of significance and n – k – 1 degree of freedom; reject H_0 and accept H_1 and conclude that the variable is significant.

3.2 Specification of Models

Real Gross domestic product figures for the period 1999-2018, herein represented by the symbol **$RGDP_t$**, are regressed on fiscal policy tools for the corresponding period**.** Fiscal policy tools are hereby represented as follows:

$Capex_t$ = Capital Expenditures in a country in year, t.
$Rcex_t$ = Recurrent Expenditures in a country in year, t.
Tax_t=Tax revenue in a country in year, t.
$Extd_t$= External Debt in a country in year, t.
$Dodt_t$ =Domestic Debt, in a country in year, t.
$Defct_t$ =Deficit financing in a country in year, t

3.3 Antecedents to Model Build Up

This work drew some inspiration from the earlier works of Omodero et.al (2016) where they sought to ascertain the impact of fiscal policy on the economy of Nigeria between 1994 and 2014.

3.4 Justification of the Chosen variables

Real Gross Domestic Product ($RGDP_t$)

There are many ways of measuring economic growth in a country. These include real output per capita and growth in real gross domestic product. This study used Real GDP to measure economic growth. This is so because real gross domestic product determines whether or not the increased aggregate expenditure is matched by an increase in real output overtime .This entails deflating the nominal value of output by an appropriate price index to obtain the corresponding magnitude.

Capital Expenditure ($Capex_t$)

Capital expenditure or capital expense (capex or CAPEX) is the money an organization or corporate entity spends to buy, maintains, or improves its fixed assets, such as buildings, vehicles, equipment, or land. It is considered a capital expenditure when the asset is newly purchased or when money is used towards extending the useful life of an existing asset, such as repairing the roof.

Recurrent Expenditure ($Rcex_t$)
Recurrent expenditure refers to payments made by governments or organizations for all purposes except capital costs. Recurrent expenditure includes payments made on goods and services as well as interest and subsidies.

Recurrent expenditures are typically made more than once, and may even be made on a scheduled basis. Some expenses, such as wages and salaries made to employees by companies, are made periodically on a weekly or bi-weekly basis.

Tax Revenue (Tax_t)
Tax revenue are the revenues collected from taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, and other taxes. Tax Revenue forms part of the Receipt Budget, which in turn is part of the federally generated revenue.

External Debt ($Extd_t$)
External debt is the portion of a country's debt that was borrowed from foreign lenders, including commercial banks, governments, or international financial institutions. These loans, including interest, must usually be paid in the currency in which the loan was made.

Domestic Debt ($Dodt_t$)
Domestic or internal debt is the part of the total government debt in a country that is owed to lenders within the country. Internal debt's complement is external debt. Commercial banks, other financial institutions etc. constitute the sources of funds for the internal debts.

Deficit financing ($Defct_t$)
Deficit financing refers to a practice in which a government spends more money than it receives as revenue, the difference being made up by borrowing or minting new funds.

3.5 Expected Results or Apriori Expectations
in line with the above justification of chosen variables, it is expected that the coefficient of Tax Revenues, Capital and Recurrent Expenditures are expected to be positive i.e. β_1, β_2 and $\beta_3 > 0$; while the coefficient of Deficit Financing, Domestic and External debts are expected to be negative i.e. β_6, β_5 and $\beta_4 < 0$

3.6 Model formation
Hypothesis 1: There is no significant long run relationship between fiscal policy tools and economic growth in Nigeria. These hypotheses are achieved through a Multiple Regression Analysis cast in the linear model format thus:
HO: β1 = β2 = β3 = β4 = β5 = β6 = 0..... Eq 3.4
$RGDP_t = F(Capex_t, Rcex_t, Tax_t, Extd_t, Dodt_t\ Defct_t) + \varepsilon$ …… equation 3.5
That is to say that Gross domestic product in a given year is a function of the above stated variables in that particular year.

3.6.1 Model Formulation in the Long Run
in the long run, our impact assessment model will read thus:
. **$RGDP_t = a_0 + b_1 Capex_{t+} + b_2 Rcex_{t+} + b_3\ Tax_{t+} + b_4\ Extd_{t+} + b_5 Dodt_{t+} + b_6 Defct_t) + b_7 RGDP_{(t-1)} + b_8 RGDP_{(t-2)} + \varepsilon$** …… Eq. 3.8

3.6.2 Data Estimation

Variable	Level	1st Difference	Second Difference	Level of Integration	Prob.	Test Statistics @1%	Test Statistics @5%	Test Statistics @10%
CAPEX	-	-	2nd difference	-7.96	0.000	-3.89	-3.05	-2.67
DEFCT	-	-	2nd difference	-4.37	0.004	-3.89	-3.05	-2.67
EXTD	-	-	2nd difference	-4.20	0.005	-3.89	-3.05	-2.67
RECEX	-		2nd difference	-7.60	0.000	-3.89	-3.05	-2.67
TAXR		-	2nd difference	-8.20	0.000	-3.89	-3.05	-2.67
DOMD	-	-	2nd difference	-3.71	0.02	-3.95	-3.08	-2.68
(RGDP	-	-	2nd difference	-4.76	0.0002	-3.89	-3.05	-2.67

Source: E-Views version 10 statistical package

From tables 4.2 above, we observed that all the variables turned stationary at the ''second difference''.

3.6.3 The Influence of Fiscal Policy on Economic Growth in Nigeria: Test of Hypothesis 1

Ho_1: There is no significant relationship between fiscal policy tools and the growth of Nigeria's economy as represented by real GDP (1999-2020).

Test Statistics	Model 1(OLS)	Model2 (VAR)
R-Square	0.983095	0.997063
Adjusted R-Square	0.975292	0.994452
S.E of Regression	2643.655	1140.660
Sum Sqrd Residual	90855887	11709944
Log Likelihood	-181.6693	-146.0111
Durbin Watson Stat	1.761386	2.177397
Mean Dep. Variance	48051.26	50827.09
SD Dep. Variance	16818.55	15313.79
Akaike.Inf Criterion	18.86693	17.22345
Schwarz Criterion	19.21544	17.66864
F-Statistics	125.9985	381.8868
Prob-(F-Statistics)	0.000000	0.000000

Source: E-view statistical package version 7.0

Ordinary Least Square Model (In the short run)

In the short run, our model posted an R-Square of 98.31%, Adjusted R-Square 97.534 %, Standard Error 2643.66, Log Likelihood-181.67, Akaike information criterion 18.87 and Schwarz criterion of 19.22

3.6.4 Test of Model Significance.

In order to confirm the specification status of our model, we employ the analysis of variance or ANOVA, for short.

3.6.5 Decision rule in the short run.

Employing the E-views software, since F-ratio calculated (125.9) is greater than F-ratio critical at both 1% and 5% levels of significance .We conclude thus, that fiscal policy tools have a positive significant relationship with economic growth in Nigeria in the short run.

VAR Model (In the Long run)

Our model in the long run posted an R-Square of 99.7%, Adjusted R-Square of 99.4%, Log Likelihood-146.01, Akaike information criterion 17.22 and Schwarz criterion of 17.67.

3.6.6 Decision Rule in the Long Run

Employing the E-views software, since F-ratio calculated 381.87 is greater than F-ratio critical at both 1% and 5% levels of significance respectively. Thus, we reject **H_{01}** and conclude that, there is a significant relationship between fiscal policy tools and the growth of Nigeria's economy as represented by real GDP for the period (1999-2018).

3.6.7 Test of hypotheses 2 - 7

Having tested the significance of the model, we go a step further to test the significance of fiscal policy tools in contributing to the total variation in the level of economic growth in Nigeria. This is achieved through the student t-test. We refer to the regression result in Table 4.5 below:

Fiscal policy tools and economic growth in Nigeria.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	24165.98	2576.938	9.377789	0.0000
CAPEX	1.114364	3.952856	0.281914	0.7824
DEFCT	9.631975	3.316497	2.904262	0.0123
DOMD	3.156861	1.028749	3.068642	0.0090
EXTD	-1.116389	0.488359	-2.285999	0.0397

RECEX	10.36254	2.737247	3.785753	0.0023
TAXR	-1.679053	1.493642	-1.124134	0.2813

Source: E-views statistical package version 7.0

In table 4.5 above, deficit financing (DEFCT), domestic debt (DOMD), and recurrent expenditures, all had a significant positive relationship with economic growth in Nigeria at 5% Alpha level in the short run, while domestic debt (EXTD) had a negative relationship with economic growth in Nigeria. The other variables i.e. CAPEX (capital expenditure) and TAXR (Tax revenues) proved not to have a significant relationship with the level of economic growth in Nigeria.

The resulting estimated model in the short run is given as:
RGDP = 24166 +1.11 CAPEX +9.63DEFCT + 3.16 DOMD -1.12EXTD +10.36RECEX – 1.68 TAXR.....Equation 4.1
From equation 4.1 above, the Beta coefficient of CAPEX, DEFCT, DOMD, EXTD, RECEX AND TAXR 1.11, 9.63, 3.6, -1.12, 10.36 and -1.68 respectively. This implies that while CAPEX, DEFCT, DOMD and RECEX have positive relationship with RGDP, EXTD and TAXR have negative relationship with RGDP in the short run. The implication of this result is that a 1.11% increase in CAPEX will lead to a 1% increase in RGDP in Nigeria; …….etc, etc; all things being equal.
Next, is to ascertain the impact of fiscal policy tools on economic growth of Nigeria in the long run.

Fiscal policy tools and economic growth of Nigeria in the long run.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1939.270	4916.590	0.394434	0.7024
CAPEX	2.016474	2.294991	0.878642	0.4024
DEFCT	1.569010	1.825187	0.859643	0.4123
DOMD	-0.034963	1.085851	-0.032199	0.9750
EXTD	0.082447	0.345386	0.238710	0.8167
RECEX	0.989651	1.913658	0.517151	0.6175
TAXR	-0.145711	0.677070	-0.215209	0.8344
RGDP(-1)	1.167281	0.448527	2.602473	0.0286
RGDP(-2)	-0.209756	0.523782	-0.400465	0.6982

Source: E-views statistical package version 7.0

From the above table, only the lagged value of RGDP, taken as a variable in year one was found to be positively significant in the long run. The resulting estimated model in the long run is thus:
RGDP = 1939.27+2.01CAPEX -0.03DOMD + 0.08EXTD + 0.99RECEX – 0.15TAXR + 1.17 RGDP (-1) + RGDP (-2) Eq.4.2

From equation 4.2 above, the Beta coefficient of CAPEX, DEFCT, DOMD, EXTD, RECEX, TAXR , RGDP(-1) and RGDP(-2) are 2.02, 1.57, -0.03, 0.08, 0.98, -0.15, 1.16 and -0.21 respectively. This implies that, while there is a positive relationship between CAPEX, DEFCT, EXTD, RECEX and RGDP (-1) and RGDP, there exists a negative relationship between DOMD, TAXR RGDP (-2) and RGDP in the long run. The implication of this result is that a 2.01% increase IN CAPEX will lead to 1%l increase in economic growth of Nigeria in the long run; …….etc, etc; all things being equal.

4. Result and Discussion

Our present work shared some resemblance with the earlier works of Omodero et al (2016), where they opined that a significant negative relationship exist between external debts and the real GDP. Our present study also shows that there exists a significant negative relationship existing between external debts and the real GDP. This is a pointer to the fact that the external loans procured by Nigeria may not have been put to good use.

It was also ascertained that deficit financing (DEFCT), domestic debt (DOMD), and recurrent expenditures, all had a significant positive relationship with economic growth in Nigeria at 5% Alpha level in the short run. The other variables i.e. CAPEX (capital expenditure) and TAXR (Tax revenues) proved not to have a significant relationship with the level of economic growth in Nigeria.

From the foregoing, our study exhibits the fact that fiscal policies tools exert both the positive and negative impact on economic growth in Nigeria. This also in tandem with earlier works of Morakinyo, David and Alao (2018) and Omodero et al (2016), who believe that fiscal policy tools exert a mixed impact on economic growth in Nigeria. While some tools react positively, others exert a negative influence. They are neither here nor there.

Based on the ensuing scenario, we therefore recommend that: Government should use fiscal policy to complement the adoption of effective monetary policy and maintain the rule of law to promote stability in the Nigerian economy. Government should ensure that capital expenditure and recurrent expenditure are properly managed in a manner that it will raise the nation's production capacity and accelerate economic growth even as it reduces external borrowing

4.1 Application of Research Findings and Contribution to Knowledge

This study produced the following prediction models, both in the short and long runs respectively on the relationship between fiscal policy and economic growth in Nigeria.

4.2 Prediction Models

The relationship between fiscal policy tools and economic growth in Nigeria is highlighted below. The resulting estimated model in the short run is given as:

RGDP = 24166 +1.11 CAPEX +9.63DEFCT + 3.16 DOMD -1.12EXTD +10.36RECEX – 1.68 TAXR……Eq.4.1

In the long run, only the lagged value of RGDP, taken as a variable in year one was found to be positively significant in the long run. The resulting estimated model in the long run is thus:

RGDP = 1939.27+2.01CAPEX -0.03DOMD + 0.08EXTD + 0.99RECEX – 0.15TAXR + 1.17 RGDP (-1) + RGDP (-2) … Eq.4.2

Thus, one of the major contributions of this study, is that it is possible from these set of models to predict the level of economic growth in Nigeria both in the short and long runs), given that the quantum of financial policy tools and the other variables known. It is expected that; results obtained in this study will provide better and more robust estimates of the relationship between fiscal policy tools and economic growth in Nigeria.

5. Conclusion and Suggestion

The main findings of study are summarized below:

1. Deficit financing, domestic debt and recurrent expenditures, all had significant positive relationship with economic growth in Nigeria in the short run.
2. There exists a significant negative relationship between external debts and the real GDP in the short run.
3. Capital expenditure and tax revenues did not to have a significant relationship with economic growth in Nigeria in the short run.

5.1 Conclusion

From the foregoing, it could be adduced that fiscal policy tools are not enough to pilot the economic ship of the Nigerian nation. There is need to support the use of fiscal policy tools to that of monetary policy tools to bring about the desired economic growth of Nigeria.

5.2 Recommendations

Fiscal policy tools should refocus and redirect government expenditure towards production of goods and services so as to enhance GDP growth. This can be achieved by setting specific goals/targets for each state and for the Federal Government. Attention should focus on the real sector in Nigeria in other to attain the standard level of economic growth.

Fiscal policy should give priority attention to capital and public investments by making them of higher proportion in gross government expenditure, thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development. Emphasis should be on the development of basic infrastructures like transportation, energy and communication. Human capital development should be a priority.

It is therefore recommended that government should use fiscal policy tools to complement the adoption of effective monetary policy and maintain the rule of law to promote stability in the Nigerian economy.

A good mix of fiscal and monetary policy tools could help in the formulation and implementation of economic policies. The impact of such policies will be appreciated from the standpoint of how rapidly and effectively it fosters, innovates or facilitates economic growth in Nigeria.

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