**FISCAL FEDERALISM AND MACROECONOMIC PERFORMANCE IN NIGERIA**

**BY**

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**Being**

**A Thesis Submitted in Partial Fulfillment**

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**Ota, Ogun State**

**Nigeria.**

**August, 2011**

DECLARATION

I, **Olabanji Olukayode EWETAN,** declare that this thesis is my own original work and that no portion of the work referred to in this thesis has been or will be submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

**-------------------------------------------------------- ---------------------------------------**

Signature Date

Olabanji Olukayode EWETAN

CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance by Covenant University a dissertation/thesis entitled: “Fiscal Federalism and Macroeconomic Performance in Nigeria” in partial fulfillment of the requirements for the degree of Doctor of Philosophy (PhD) in Economics of Covenant University, Ota, Nigeria.

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DEDICATION

This thesis is dedicated to my LORD and SAVIOUR, JESUS CHRIST. “Who redeemed my life from destruction; who crowned me with loving-kindness and tender mercies” (Psalm 103: 4).

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TABLE OF CONTENTS

Title page…………………………………………………………………………………….ii

Declaration…………………………………………………………………………………..iii Certification…………………………………………………………………………………iv

Dedication…………………………………………………………………………………...v

Acknowledgements…………………………………………………………………………vi

Table of Contents…………………………………………………………………………..viii

List of Tables………………………………………………………………………………...xii

List of Figures………………………………………………………………………………xiv

List of Abbreviations………………………………………………………………………..xv

List of Appendices………………………………………………………………………….xvi

Abstract…………………………………………………………………………………….xvii

CHAPTER ONE: INTRODUCTION

* 1. Background to the Study……………………………………………………………...1
  2. Statement of the Problem……………………………………………………………...3
  3. Research Questions……………………………………………………………………7
  4. Objectives of the Study………………………………………………………………..7
  5. Statement of Research Hypotheses……………………………………………………7
  6. Scope of the Study…………………………………………………………………….8
  7. Justification of the Study……………………………………………………………...8
  8. Structure of the Study………………………………………………………………...10

CHAPTER TWO: REVIEW OF THE LITERATURE

2.0 Introduction…………………………………………………………………………..11

2.1 The Concept of Federalism…………………………………………………………...11

2.2 The Concept of Fiscal Federalism………………………………………………….....12

2.3 The Rationale for Multilevel Government and Division of Responsibilities…………13

2.4 Conceptual Basis for Tax and Revenue Sharing Arrangement…………………….....18

2.5 Intergovernmental Transfers……………………………………………………….....23

2.6 Review of Theoretical Issues………………………………………………………..25

2.7 Review of Methodological and Empirical Issues…………………………………...29

2.8 Fiscal Federalism in Developed Countries………………………………………….38

2.8.1 Australia…………………………………………………………………….38

2.8.2 Germany…………………………………………………………………….39

2.8.3 The United States of America……………………………………………....40

2.8.4 Canada………………………………………………………………………43

2.9 Fiscal Federalism in LDCs and Transition Economies……………………………...44

2.9.1 India………………………………………………………………………...45

2.9.2 Argentina……………………………………………………………………46

2.9.3 Brazil………………………………………………………………………..47

2.9.4 China………………………………………………………………………..48

2.10 Relevant Issues and Challenges……………………………………………………49

2.10.1 Decentralization and the assignment of Revenue from Natural

Resources………………………………………………………………...49

2.10.2 Decentralization and Corruption………………………………………...55

2.10.3 Decentralization Regional Disparities and National Unity……………...58

CHAPTER THREE: EVOLUTION PRACTICES AND PROFILE OF FISCAL

FEDERALISM IN NIGERIA

3.0 Introduction………………………………………………………………………...63

3.1 Evolution of the Federal Structure and Fiscal Federalism in Nigeria……………...63

3.2 Profile and Challenges of Fiscal Federalism in Nigeria……………………………68

3.3 Assignment of Revenue (Taxing) Powers in Nigeria………………………………73

3.4 Assignment of Expenditure Powers and Responsibilities in Nigeria………………80

3.5 Revenue Structure and Fiscal Dependence………………………………………...84

3.5.1 Revenue Source Dependence……………………………………………...85

3.5.2 Intergovernmental Fiscal Relations Dependence.........................................90

3.6 Implication of Current Fiscal Arrangement………………………………………...93

3.7 Review of Revenue Allocation Experience in Nigeria……………………………..97

3.7.1 The First Phase of Revenue Allocation (1946-1967)……………………...98

3.7.2 The Second Phase of Revenue Allocation (1967-1979)…………………...99

3.7.3 The Third Phase of Revenue Allocation (1979-1999)……………………100

3.8 Patterns and Trends of Government Revenue…………………………………….106

3.9 Patterns and Trends of Government Expenditure………………………………...110

3.10 Result of Government Fiscal Operations and Macroeconomic Implications……..112

3.11 Patterns and Trends of Macroeconomic Variables………………………………..119

CHAPTER FOUR: THEORETICAL FRAMEWORK AND METHODOLOGY

4.0 Introduction……………………………………………………………………….124

4.1 Theoretical Framework……………………………………………………………124

4.2 Model Specification……………………………………………………………….131

4.2.1 The Growth-Decentralization Model (Model 1)…………………………...131

4.2.2 The Inflation-Decentralization Model (Model 2)………………………….132

4.2.3 The Exchange-Decentralization Model (Model 3)………………………...132

4.2.4 The Interest-Decentralization Model (Model 4)…………………………...133

4.3 Model Estimation Technique……………………………………………………...133

4.3.1 Test for Stationarity………………………………………………………..134

4.4 Definition of Variables and Data Sources………………………………………...135

CHAPTER FIVE: DISCUSSION OF EMPIRICAL RESULTS

5.0 Introduction……………………………………………………………………….138

5.1 Unit Root Test Results……………………………………………………………139

5.2 Presentation of Estimated Empirical Results……………………………………..140

5.2.1 Presentation of Estimated Empirical Results in Growth-Decentralization

Model……………………………………………………………………...140

5.2.2 Presentation of Estimated Empirical Results in Inflation-Decentralization

Model……………………………………………………………………...143

5.2.3 Presentation of Estimated Empirical Results in Exchange rate-

Decentralization Model……………………………………………………146

5.2.4 Presentation of Estimated Empirical Results in Interest rate-

Decentralization Model……………………………………………………149

5.3 Response of Macroeconomic Variables to Fiscal Decentralization Shocks……...151

5.3.1 Growth Responses to Fiscal Decentralization Shocks…………………….152

5.3.2 Inflation rate Responses to Fiscal Decentralization Shocks………………154

5.3.3 Exchange rate Responses to Fiscal Decentralization Shocks……………..156

5.3.4 Interest rate Responses to Fiscal Decentralization Shocks………………..158

5.4 Variance Decomposition of Macroeconomic Variables………………………….160

5.4.1 Variance Decomposition of Growth……………………………………...160

5.4.2 Variance Decomposition of Inflation rate………………………………..163

5.4.3 Variance Decomposition of Exchange rate………………………………165

5.4.4 Variance Decomposition of Interest rate………………………………....167

5.5 Summary of the Results of Econometric Investigation………………………….169

5.6 Policy Implications of Findings………………………………………………….171

CHAPTER SIX: SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Summary…………………………………………………………………………174

6.2 Conclusions………………………………………………………………………177

6.3 Recommendations………………………………………………………………..178

6.4 Contribution to Knowledge……………………………………………………...179

6.5 Limitations of the Study…………………………………………………………180

6.6 Suggestions for Future Researches………………………………………………181

References………………………………………………………………………………182

Appendices……………………………………………………………………………...203

LIST OF TABLES

Table Page

2.4.1 Conceptual Basis of Expenditure Assignment……………………………………21

2.4.2 Conceptual Basis of Tax Assignment……………………………………………..22

3.1.1 Evolution of Nigeria’s Federal Structure (1960-1996)……………………………64

3.3.1 Nigeria’s Tax Jurisdiction (1999)…………………………………………………76

3.3.2 Nigeria’s Major Tax Jurisdiction and Right to Revenue (1999)………………….77

3.3.3 Collected Government Revenue by Tiers of Government………………………..80

3.4.1 Assignment of Responsibilities in the 1999 Federal Constitution………………..82

3.4.2 Assignment of Expenditure Responsibilities in the 1999 Federal Constitution…..83

3.5.1 Ratio of Fiscal Relationship between Sectors and Tiers of Government…………87

3.5.2 Government Expenditures and Revenues by Tiers of Government………………93

3.6.1 Vertical Fiscal Imbalance in Nigeria (1990-2007)………………………………..94

3.6.2 Coefficients of Fiscal Balance in Nigeria (1980-2007)…………………………..97

3.7.1 Distribution of Allocation to Tiers of Government from the Federation

Account………………………………………………………………………….104

3.7.2 Summary of State and Local Sources of Revenue in Nigeria…………………...105

3.7.3 Revenue Allocation Formulae in Nigeria (1952-2007)………………………….106

3.8.1 Revenue Accruing to Government (1960-2007)………………………………...107

3.9.1 Total Government Expenditure as Percentage of GDP (1960-2007)…………....111

3.9.2 Subnational Spending Share (Per Cent)…………………………………………113

3.10.1 Correlation Relationship between Indicators of Fiscal Decentralization and

Macroeconomic Performance……………………………………………………118

Table Page

3.11.1 Correlation Matrix of Decentralization Indicators……………………………..122

3.11.2 Correlation Matrix of Macroeconomic Variables………………………………122

4.4.1 Summary of Definition of Variables and Data Sources……………..................135

5.1.1 Summary of Unit Root Test Result-ADF Statistics……………………………139

5.2.1 Estimated Empirical Results in the Growth-Decentralization Model………….141

5.2.2 Estimated Empirical Results in the Inflation-Decentralization Model…………144

5.2.3 Estimated Empirical Results in the Exchange rate-Decentralization Model…...147

5.2.4 Estimated Empirical Results in the Interest rate-Decentralization Model……...150

LIST OF FIGURES

Figure Page

3.8.1 Trends in Federal Government Revenue………………………………………….109

3.8.2 Trends in Subnational (Sum of State and local Government) Revenue…………..110

3.9.1 Trends in Federal Government Expenditure……………………………………...112

3.9.2 Trends in Subnational (Sum of State and Local Government) Expenditure……..112

311.1 Trends in Economic Growth……………………………………………………...120

311.2 Trends in Inflation rate……………………………………………………………121

3.11.3 Trends in Exchange rate………………………………………………………….121

3.11.4 Trends in Interest rate……………………………………………………………122

5.3.1 Growth response to Fiscal Decentralization shocks……………………………...153

5.3.2 Inflation rate response to Fiscal Decentralization shocks………………………..155

5.3.3 Exchange rate response to Fiscal Decentralization shocks………………………157

5.3.4 Interest rate response to Fiscal Decentralization shocks…………………………159

5.4.1 Variance Decomposition of Economic Growth…………………………………..162

5.4.2 Variance Decomposition of Inflation rate………………………………………..164

5.4.3 Variance Decomposition of Exchange rate………………………………………166

5.4.4 Variance Decomposition of Interest rate………………………………………...168

LIST OF ABBREVIATIONS

ADF: Augmented Dickey-Fuller

CBN: Central Bank of Nigeria

EXC: Exchange rate

FDC: Fiscal Decentralization

GDP: Gross Domestic Product

INF: Inflation rate

INT: Interest rate

K: Capital

L: Labour

MS: Money Supply

RGDP: Real Gross Domestic Product

TDS: Total Domestic Savings

VAR: Vector Autoregressive

VAT: Value Added Tax

LIST OF APPENDICES

Appendix Page

1: Unit root Test Economic Growth (RGDP)…………………………………………203

2: Unit root Test Inflation rate (INF)………………………………………………….204

3: Unit root Test Exchange rate (EXC)……………………………………………….205

4: Unit root Test Interest rate (INT)…………………………………………………..206

5: VAR Estimation of Growth Equation 26…………………………………………..207

6: VAR Estimation of Growth Equation 27…………………………………………..209

7: VAR Estimation of Growth Equation 28…………………………………………..211

8: VAR Estimation of Growth Equation 29…………………………………………..213

9: VAR Estimation of Inflation rate Equation 30…………………………………….215

10: VAR Estimation of Inflation rate Equation 31…………………………………….217

11: VAR Estimation of Inflation rate Equation 32…………………………………….219

12: VAR Estimation of Inflation rate Equation 33…………………………………….221

13: VAR Estimation of Exchange rate Equation 34…………………………………...223

14: VAR Estimation of Exchange rate Equation 35…………………………………...225

15: VAR Estimation of Exchange rate Equation 36……………………………………227

16: VAR Estimation of Exchange rate Equation 37……………………………………229

17: VAR Estimation of Interest rate Equation 38……………………………………...231

18: VAR Estimation of Interest rate Equation 39……………………………………..233

19: VAR Estimation of Interest rate Equation 40……………………………………..235

20: VAR Estimation of Interest rate Equation 41……………………………………..237

21: VAR Estimation of Interest rate Equation 42……………………………………..239

ABSTRACT

Fiscal decentralization, which mirrors the amount of fiscal autonomy and responsibility accorded to subnational government, has been an important subject in the policy equation of many developing, transition, and developed countries. This thesis investigates the impact of fiscal decentralization on macroeconomic performance in Nigeria. Specifically, it seeks to analyze the effects of fiscal decentralization on economic growth, inflation rate, exchange rate, and interest rate in Nigeria, examine the evolution, structure, and practices of fiscal federalism in Nigeria, investigate the underlying factors promoting or inhibiting the true practice of fiscal federalism in Nigeria, and determine the extent of fiscal decentralization in Nigeria. Within the framework of a simple endogenous growth model, the Vector Autoregressive (VAR) estimation technique was employed in this thesis on a set of four dynamic time series data models with latent variables. Three indicators of fiscal decentralization, subnational fiscal autonomy, subnational spending share, and subnational dependency were used to measure the degree of fiscal decentralization in Nigeria. Data for the study were sourced from secondary sources. The findings are many and offer strong evidence that there is a connection between fiscal decentralization and macroeconomic performance in Nigeria. Fiscal decentralization has a significant positive impact on growth suggesting that fiscal decentralization promotes economic growth in Nigeria. However on the contrary fiscal decentralization has an insignificant negative impact on the other three indicators of macroeconomic performance in Nigeria: inflation rate, exchange rate, and interest rate. Nigeria has not operated as a true federation since it adopted a federal constitution in 1946 till date. Fiscal responsibility and taxing powers still remain considerably centralized, while subnational levels experience fiscal mismatch between spending and taxing powers. The true practice of fiscal federalism in Nigeria has been inhibited by several factors which include, the dominance of the federal government in the sharing of national financial resources from the Federation Account, the imposition of the command structure of the military on fiscal federalism, the pattern of assignment of responsibilities by the constitution among federating units, and over-reliance on the revenue from the Federation Account. No doubts, fiscal federalism is unarguably a potent economic strategy that can be used to maximize provision of public services as well promote macroeconomic stability. Central to the success of fiscal decentralization, is clarity in revenue and expenditure authority and responsibilities. The urgent reform that is required is the need for government to redress the prevailing fiscal mismatch at subnational government levels through appropriate policies to increase tax revenues to subnational governments as well as reforms of expenditure responsibilities to enhance their efficiency in the provision of public services.