

THE IMPORT OF FISCAL POLICY FOR REAL SECTOR PRODUCTIVITY IN NIGERIA

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ABSTRACT

The real sector otherwise known as the productive sector of every economy, mostly in the developing economy like ours (Nigeria) forms the base for producing goods and services needed for human and industrial consumption within the country and for trading in the foreign market. This critical role of the sector may be hampered if adequate budgetary provisions are not made to the sector. It was in line with this contemporary finance wisdom that the researchers investigated the import of fiscal policy on the productivity of the real sector in terms of total output. The desk research design, annual time series data on the variables from Central Bank of Nigeria (CBN) statistical bulletin, multiple linear regression technique, including pre-estimation analysis using E-views were the employed components of research method. The study based on a disaggregated approach of analysis revealed among other things, a long-run positive and statistically significant nexus between allocations to the construction sub-sector and actual budget and real sector output in consonance with the a priori expectations, an inverse relationship between allocation to agriculture and real sector output and an insignificant relationship between budgetary allocations to both manufacturing, oil and gas sub-sectors and real sector outputs. We therefore recommend amongst other things, additional and enhanced allocations to the agricultural, manufacturing, oil and gas sub-sectors and more local as well as foreign investments in the areas of agriculture and manufacturing given available market potentials.

Keywords: *Fiscal policy, real sector productivity, Budgetary allocation, Federal budget.*

1. INTRODUCTION

The real sector in any economy of the world plays an important role in the growth, stability, development and sustainability of the economy. Firms, households and other economic units involved in the production of products for human and industrial consumptions constitutes the real sector. Hence, it is otherwise known as the productive sector. A very important element in the operation, soundness and performance of the real sector is the availability of the right quantity and quality of infrastructure. These infrastructural facilities include road, electricity, transportation, and telecommunication facilities, water and health care. The infrastructures are needed to stimulate and enhance the production and distribution processes and overall performance of the real sector. It therefore facilitates and accelerates private investments and pace of production of goods and services.

However, such needed infrastructures for example power supply, network of roads, bridges, and railways, among others require a huge amount of funds which individuals and business firms may not be able to provide. Investments in these infrastructures are rather funded by the governments especially the Federal government. Such funding is made by way of yearly budgetary allocations. The budget of the federal government is one of the major instruments for public sector financial management. Apart from presenting government's estimated yearly expenditures and revenues, it also makes budgetary allocations of recurrent and capital expenditures to the economy's different sectors, including the real sector. The focus of this work is on the implications of federal budgetary allocation for real sector output in Nigeria.

The world's real sector as a whole and Nigeria in particular is made up of majorly agriculture, manufacturing, oil and gas and construction sub-sectors. It is a critical sector in the economy of developing countries, such as Nigeria. This is in view of the fact that it forms the base for producing services and goods needed for human and industrial consumption within the country and for trading in foreign markets. Following from the above, it can be safely stated that an economy's real sector provides the pivot for economic development, growth and sustainability. This anchored on its investments and operations leading to goods and service production, employment opportunities creation, foreign exchange earnings accumulation and contribution to the gross domestic product (GDP).

In view of the role and potentials of the real sector as a strategic element in the development and sustainability of the economy of Nigeria, it behooves that with adequate budgetary allocation, the performance and contribution of the real sector could be improved upon. In this work, real sector performance is measured by the total

output produced from 1989 to 2018. The performance of the real sector over the years seem to be poor as witnessed in the low level of investments and outputs which may have led to its poor contribution to the economy and weakening of the naira. It therefore became doubtful whether inadequate budgetary allocation and expenditure to the real sector has any implication for the sector's level of output and productivity. This study therefore investigates the implications of budgetary allocation for real the sector's output and productivity in Nigeria.

2. REVIEW OF RELATED LITERATURE

The focus of this work is on analysis of the implication of fiscal operations and the real sector output in Nigeria. The relevant literatures are reviewed in terms of conceptual, theoretical and empirical perspectives.

2.1 Fiscal policy and budgeting in Nigeria

Contemporary and theoretical discussions on government expenditure anchored on an economy's fiscal operation is concerned primarily with the use of tax and budgets by governments in planning and controlling the economy in order to achieve predetermined goals and objectives. These objectives include increased output of services and goods, price stability, distributing income equitably, full employment of labour as well as equilibrium balance of payments viability, among others(Ubom,2011). Budget as a financial policy tool of the governments shows a proposed revenue and expenditure of the government as well as allocations to different economic sectors for a fiscal year. When a budget is passed, it gives the government the authority to raise the planned revenue and the spending of same. While a country's fiscal policy (as a complement of other economic policies, especially monetary policy) may be implemented without recourse to the expected outcomes, ideally, no government can spend her resources within a given fiscal year without proper estimates and allocations which must be based on expected revenue or income and apportionment to the different sectors of the economy. In the case of Nigeria and in some other parts of the world, fiscal policy and budgeting appears to be considered important especially with respect to an economy's wellbeing in its entirety.

CBN(2013a), in the context of Nigeria's economy, fiscal policy refers to the use of expenditure and revenue of government (mostly from sales of crude oil and taxes) to influence economic activities in the country. The importance of fiscal policy and its operation in economic management arises from the role of government in promoting some macroeconomic objectives stated above and to stimulate real sector output, provide social goods and services, ensure sound and efficient financial system as well as providing relevant infrastructures necessary to accelerate growth and development of the nation's economy. Traditionally, fiscal policy is seen as a tool for managing

demand. This is because changes in expenditure and taxation can serve as counter-cyclical measures for reducing business cycle effects in the economy (CBN, 2013a).

2.2 Keynesian theory of public expenditure

The Keynesian economics is an economic theory of total spending in the economy and its implications for economic performance in terms of output, inflation, employment and consumption among others. Keynes (1936), advocated for increased government expenditures and lower taxes to stimulate demand and pull the global economy out of depression. Keynes (1936), believed that expansionary and restrictive fiscal policies can be used to influence macroeconomic performance. This theory assumes that employment is a function of effective demand which results in output, investment and income. The linkages and or flow from income to investment, investment to output and output to employment can be triggered by increase in government expenditure through expansionary fiscal policy and deficit budget.

In the light of the role government fiscal policy played during the depression of the 1930s, there has been a considerable shift in thinking on what the role of government ought to be in the budgetary and fiscal process and the economy at large. This theory supports government spending as a determinant of economic performance and not just for its purposes like bridge building and road construction among others. Hence, the basic tenet of this theory is that government expenditures determine economic performance.

The theoretical models in this study built heavily on Keynesian theory which made explicit explanation of how government spending leads to increase in economic activities like private sector investments which promote long term economic growth and development. Hence from this, we adopted theoretical model on real sector output and government expenditure as follows: real sector output is a function of government spending to the sub-sectors of the real sector.

The Keynesian theory is therefore relevant and forms the foundation upon which this work on the implications of fiscal operation for real sector output was built.

2.3 Empirical review

Many researches have been done to examine and investigate the relationship between government budgetary allocation or expenditure on real sector outputs and economic. Barro (1990) examined the impact of government expenditure on domestic output in Nigeria. The objective was to examine the relationship between public expenditure and output in Nigeria. The data were collected through secondary information sources, and it was analyzed using ordinary least square OLS analysis. The findings revealed

occasional linear relationship between public expenditure and output in Nigeria's economic growth.

Melissa and Dean (2013) investigated the impact of government expenditure on economic output in the United State's manufacturing industry. The study employed Cobb-Douglas production function model. The results showed that there exist a strong statistically significant and positive link between public capital and productivity of labour in the selected cities over the period covered. Onakoya and Somoye (2013) ascertained the impact of public capital spending on Nigeria's economic output. Data were collected from secondary sources mostly from central bank statistical bulletin. The data collected were analyzed using co-integration test, ordinary least square analysis and error correction methodology (ECM). The findings revealed that capital expenditure had positive effect on economic growth in Nigeria.

Muritala and Taiwo (2011) assessed both trends and effects of public sector expenditure on Nigeria's real GDP growth rate (1970-2008). The objective of the study was to examine the impact of capital expenditure on GDP in Nigeria. The research design adopted was ex post facto. Data were collected from secondary information sources using CBN Bulletin and the ordinary least square method was employed for the analysis. The finding showed that capital and recurrent expenditure have positive effect on real GDP in Nigeria.

Nurudeen and Usman (2010) investigated the impact of public sector spending on Nigeria's economic output (1971-2008) using a time series data. The objective was to evaluate the effect of government expenditure on domestic output in Nigeria. Data were analyzed using ordinary least square technique. Findings revealed a long run equilibrium relationship using the cointegration approach. The results showed that the sum total of government capital expenditure negatively affected domestic output in Nigeria.

Adelegan (2011) conducted a study to establish the influence of deficiency in infrastructure on investment in Nigeria's manufacturing firms. In the study, the gap in government capital expenditure was used as a variable which was measured against domestic investment. The findings revealed a uni-directional and significant relationship between capital expenditure by government and domestic private investment.

Gado and Nmadu (2011) investigated the relationship between infrastructural resource and textile firms' performance in Nigeria's North West Zone. The findings indicated that infrastructure exerted significant influence on the textile firms in Nigeria. It was therefore confirmed that shortage of infrastructure arising from poor

capital budgetary allocation hindered the performance of textile industry in the country.

Ighodaro and Okiakhi (2010) investigated Nigeria's public sector expenditure as it was disaggregated into social and community services and general administration. The study made use of time series data which covered a period of 46 years which ended in 2007. The research applied Granger causality test. Findings indicated that government spending negatively impacted domestic output measured by Gross Domestic Product.

Onakoya (2012) examined the impact of government expenditure on different economic sectors. The focus of the study was on disaggregated impact of government expenditure on the sub-sectors of the real sector. It was believed that this will give more information regarding intrinsic shifts in budgetary spending and implementation. The findings showed a significant association between public sector capital spending and manufacturing sector outputs in Nigeria.

Samson (2013) investigated Nigeria's public sector spending and the nation's economic growth, using error correction model and granger causality model. The findings showed that government spending and industrial sector performance of the economy were significantly negative. The findings suggest that effective channeling of government resources should be made to the country's productive sectors.

Eze and Ogiji (2013) used macro-econometric model of simultaneous equations and three-stage least square in investigating effect of fiscal policy on Nigeria's manufacturing sector output. Findings of the study showed that government spending significantly impacted on manufacturing output. The result also established long-run relationship between fiscal policy and manufacturing sector output in the country.

3. METHODOLOGY

3.1 Research design

The main focus of this work is to examine the implications of the fiscal operations for the real sector output in Nigeria. This study adopts the ex post facto research design, used annual time series secondary data and ordinary least square(OLS) (multiple regression) techniques of data analysis.

3.2 Empirical specification of model

The functional and hypothesized models presented below as well situate on Keynesian theory which posits that spending by government seeks to support private sector

funding for long term investments which invariably leads to increase in the output of goods and services. The models are presented as follows:

Model 1:

$$RSP = f (AGEa, AGEm, AGEc, AGEog, FBa)$$

$$RSP_t = \alpha_0 + \beta_1 AGEa_t + \beta_2 AGEm_t + \beta_3 AGEc_t + \beta_4 AGEog_t + \beta_5 FBa_t + \mu_1 \dots 2$$

Where RSP= Real sector productivity

AGEa= Aggregate government expenditure to agricultural sub-sector

AGEm= Aggregate government expenditure to manufacturing sub-sector

AGEc= Aggregate government expenditure to construction sub-sector

AGEog= Aggregate government expenditure to oil and gas sub-sector

FBa = Actual government budget

The a priori relationships for the models are given as follows: $\beta_1 - \beta_5 > 0$

4. RESULTS AND DISCUSSIONS

4.1 Unit Root Test and Co-integration Analysis

The summary of the results of the ADF unit root analysis were given in Table 1 below.

Table 1: Summary Results of Unit Root test for RSP, AGEA, AGECE, AGEM, AGEOG, FBA

Variable	ADF Test Statistic	Critical Value of t-statistic @ 5%	Prob.(ADF-Test Statistic)	Order of Integration	Decision	
RSP	-8.491158	-2.971853	0.0000	I(1)	Stationarity Difference	at 1 st
AGEA	-5.985252	-2.971853	0.0000	I(1)	Stationarity Difference	at 1 st
AGEC	-3.484231	-3.012363	0.0191	I(1)	Stationarity Difference	at 1 st
AGEM	-5.983758	-2.971853	0.0000	I(1)	Stationarity Difference	at 1 st
AGEOG	-5.703983	-2.976263	0.0001	I(1)	Stationarity Difference	at 1 st
FBa	-4.980301	-2.971853	0.0004	I(1)	Stationarity Difference	at 1 st

Source: Researcher's Compilation from EViews Output (2021)

The results shown in table 1 above are the summary of the ADF unit root test conducted at different orders of integration. The results show that all the variables in the model are stationary at first difference. Specifically, absolute values of the ADF-test statistic for each of the variables are greater than their respective critical values at 5% level of significance, just as their respective probability values are less than 0.05. This necessitated the rejection of the null hypothesis (existence of a unit root) which posited that the series have unit root. Therefore, all the variable results are stationary indicating the absence of unit root after first difference. This implied that all the variables utilized for the model in this work did not possess unit root and hence could be applied in the estimation of co-integration using Johansen co-integration method and the model using multiple regression analysis in the work. However, it should be pointed out that since all the variables are stationary at first difference, the multiple regression analysis are conducted at first difference

Table 2 Johansen Co-integration Test result for the Model

Included observations: 28 after adjustments

Trend assumption: Linear deterministic trend

Series: LOG(RSP) LOG(AGEA) AGECE AGEM AGEOG

LOG(FBA)

Lags interval (in first differences): 1 to 1

Unrestricted Co-integration Rank Test (Trace)

Hypothesize d		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.777963	100.4416	95.75366	0.0229
At most 1	0.519182	58.30419	69.81889	0.2911
At most 2	0.450043	37.80073	47.85613	0.3108
At most 3	0.313815	21.05911	29.79707	0.3540
At most 4	0.194437	10.51407	15.49471	0.2432
At most 5 *	0.147250	4.460100	3.841466	0.0347

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Since the focus of this study is to examine the implications of fiscal operations for real sector output in Nigeria, the results reveals that government capital and recurrent budgetary allocations to the agriculture, construction, manufacturing and oil and gas sub-sectors, and real sector performance in terms of outputs exhibited a long-run relationship. It therefore follows that fiscal operations and real sector output possibly relate in the long-run.

4.2 Test of Hypothesis

H₀₁: There is no significant relationship between fiscal expenditure and real sector productivity in Nigeria from 1989 to 2018. The multiple linear regression equation and the model was restated below:

$$RSP_t = \alpha_0 + \beta_1 AGEa_t + \beta_2 AGE_m_t + \beta_3 AGEc_t + \beta_4 AGEog_t + \beta_5 FBA_t + \mu_1 \dots (2)$$

Table 3 Results of Multiple Linear Regression for Hypothesis One

Dependent Variable: LOG(RSP); Method: Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.952057	0.143253	62.49123	0.0000
LOG(AGEA)	-0.057043	0.051150	-1.115210	0.2758
AGEC	0.000209	5.73E-05	3.642384	0.0013
AGEM	0.002380	0.001668	1.426900	0.1665
AGEOG	0.000154	0.000309	0.498439	0.6227
LOG(FBa)	0.114567	0.032429	3.532903	0.0017
R-squared	0.930454	Mean dependent var	9.846462	
Adjusted R-squared	0.915965	S.D. dependent var	0.393932	
S.E. of regression	0.114196	Akaike info criterion	1.324945	
Sum squared resid	0.312977	Schwarz criterion	1.044706	
Log likelihood	25.87418	Hannan-Quinn criter.	1.235294	
F-statistic	64.21923	Durbin-Watson stat	1.556589	
Prob(F-statistic)	0.000000	Observations	30	

Source: Researcher's Computation using EViews (2021)

From the results in Table 3, the multiple linear regression model with the associated residual statistics are re-presented as follows:

RSP = 8.952 -

0.057AGEA + 0.0002AGEC + 0.0024AGEM + 0.0002AGEOG + 0.115FBa... (3)

From the results above, real sector outputs (RSP) increased by an average of ₦8.952 billion if all the independent variables are held constant. This implies that real sector output grew to the monetary value of ₦8.952 billion with zero budgetary allocations to the real sector by the government (i.e. AGEA = AGEC = AGEM = AGEOG = FBa = 0). Furthermore, a ₦1 billion increase in the budgetary allocations to agriculture (AGEA) tends to cause the real sector outputs to decline by 0.057 billion. A ₦1 billion increase in government budgetary allocations to construction (AGEC) led to increase in the real sector outputs (RSP) by ₦0.0002 billion and a ₦1 billion increase in budgetary allocations to manufacturing (AGEM) is capable to increase the real sector outputs (RSP) by ₦0.0024 billion. Similarly, a ₦1 billion increase in budgetary allocations to oil and gas (AGEOG) cause an increment of ₦0.00015 billion in real sector outputs (RSP) while ₦1 billion increase in federal budget (actual) (FBa) tends to increase real sector output (RSP) by ₦0.115 billion.

The coefficient of determination (R^2) and adjusted coefficient of determination (adjusted R^2) values of 0.9304 and 0.9159 respectively indicates the predictive power of the independent variables to explain the changes in the dependent variable, real sector outputs (RSP). The coefficient of determination (R^2) value of 0.9304 indicates that 93.04% of the variations in real sector outputs is explained by the independent variables which includes government budgetary allocations to agriculture (AGEA), construction (AGEC), manufacturing (AGEM), oil and gas (AGEOG) sub-sectors and federal government budget (actual) (FBa). The remaining 6.96% of the variations could be attributed to variables outside the model and scope of this study. Also, the adjusted coefficient of determination (R^2) value of 0.9159 indicates a high predictive power of the independent variables to explain 91.59% of the variations in real sector outputs. The remaining 8.41% of the variations in the dependent variable was due to factors alien to the model of this study. The Durbin-Watson (DW) statistic value of 1.557 indicates the absence of autocorrelation since this value was closer to 2.

4.3 Discussion of Findings

The analysis of the hypothesis reveals the existence of a positive and significant relationship between government budgetary allocations to construction and real sector outputs. Also, the results show that there is a positive and significant relationship between federal budget (actual revenue) and real sector outputs. This indicates that increase in capital and recurrent expenditures to the construction sub-sector will lead to increase in real sector outputs in Nigeria. This finding is in consonance with the findings in Mellissa and Dean (2013), Onakoya and Somoye (2013) and Eze and Ogiji (2013) all in agreement that a direct and significant relationship exists between government expenditure and outputs in an economy. This implies that increased budgetary allocation to construction from the federal budget will act as a catalyst to the expansion of the real sector and consequently lead to economic development and growth in Nigeria. This work therefore aligned with the *a priori* theoretical expectation, assumptions of Wagner's theory of increasing state activities and Musgrave's theory of public expenditure.

Another key finding from this study was the inverse relationship between real sector budgetary allocations to agriculture and real sector outputs which was at variance with the stated *a priori*. This suggests that the budgetary allocations by the government in the agriculture sub-sector aimed at re-positioning the sub-sector for improved performance is either still unattainable or allocation is inadequate. This might also be an evidence of inadequate actual expenditure on agriculture. Aside from poor budgetary allocation to the sub-sector, some factors such as insecurity, incessant flooding, negative attitude of people towards farming and other natural disaster could contribute to the negative evidence recorded.

5. CONCLUSION AND RECOMMENDATIONS

Following from the findings above, it became imperative to observe that Federal budget has a long-run positive and significant relationship with real sector outputs, in Nigeria. The implication being that increased government capital and recurrent expenditure to construction sub-sector in Nigeria and increase in federal budget will lead to growth in real sector outputs in Nigeria. Based on this, it is concluded that the most significant real sector budgetary allocation (capital and recurrent expenditures) went to the construction sub-sector which significantly affected real sector outputs in the long-run.

In line with the findings from this work, it is strongly recommended that adequate budgetary allocation and expenditure should be voted and spend in the agriculture, manufacturing and oil and gas sub-sectors of the real sector in Nigeria. More investment in the agriculture and manufacturing is suggested for local and foreign investors due to the vast available potentials therein. This, if and when done will not only enhance outputs of the agriculture and manufacturing sub-sectors but also encourage indigenous participation in the oil and gas sub-sector that is dominated by foreigners.

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Competing Interest: The authors hereby declare that there is no competing interest in this manuscript