Fiscal Policy and Poverty Reduction: the Nigeria Perspective

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Abstract

Fiscal policy is a financial means used by government to correct familiar economic disturbances and reset the economic to an equilibrium state. Based on this premise, this study investigates fiscal policy and its effect on poverty reduction in Nigeria from the year 1970 to 2015. The model adopted forthe study is the Auto regressive distributed lag model including the idea as regards capturing the dynamic responses of the endogenous variable caused by changes in the observed variable lags and the contemporaneous and lagged values of the other explanatory variables. The test for present of Unit root was carried out using both Augmented Dickey Fuller and Phillip Perron. The ADF result shows that all the variable were stationary at first difference while only the Overseas Development Assistance (ODA) was stationary at levels while the Phillip Perron result shows that only Other Government Revenue (OGR) and Overseas Development Assistance (ODA) was stationary at levels. The Narayan bound test co-integration test was conducted in a graphical form, following the result, there exist a long run relationship in the model. The ARDL test which comprises of the long run estimate and short run reveals that the predicted coefficients of the effective models are smaller in the short run compared to the long run estimate. Secondly, the diagnostic test shows that the fault terms of the short run models are usually allotted and are homoscedastic. Majority of the findings are revealed in the work. Based on these findings, the study recommends that there should be more focus on the use of other government revenue sources (non-tax income) in the finance of their expenditures and implementation of programmes.

Keywords; Fiscal Policy, Poverty Reduction, Government Expenditure

1.0 Introduction

Fiscal policy is the method in which the government influences the economy through its general budgetary decisions (Debrun, Huuner & Kumar, 2009). Although the budgetary process does not function autonomously, it is an integral part of fiscal policy management which essentially requires the internalization of the structural characteristics of the economy and its consideration to external and internal volatilities. It is one of the macroeconomic tools used in normalizing the economy and avoiding large recurring swings in unemployment and increase in price through its upshot on tax rates, interest rates and government spending. It therefore is one key instrument of public action which has impact on deprivation and poverty through its force on growth and distribution. Bleaney et al (2001) sees the policy as an important influence on growth rates and ceteris paribus, a continued higher advancement rate translates into faster poverty declination. On distribution, it depends on the model of expenditure and income raising or dynamic restructuring, through distributional pattern of growth (Killick 2002). Certainly, it plays a central role in creating pro-poor growth model, which can be more effective at reducing poverty.

The challenge of fiscal policy is to take up actions that are appropriate for the circumstance, increasing or diminishing tax levels and public expense to limit inflation, improve growth, enhance employment and sustain a healthy worth for money. Macroeconomic productivity levels have to be directed by the government although, Ekpo(2003),argues that for a developing country like Nigeria, other important economic goals are debt management, equitable distribution of income, elimination of economic dualism, provision of basic needs and environmental protection. The implication of the goals is on the elimination or reduction of absolute poverty through the conceptualization, formulation, and implementation of appropriate programmes and strategies to tackle them, although long and variable lags exist between policy decisions, thus impacting the economy (Ekpo, 2003).

The dogma has been a major tool of macroeconomic management in Nigeria because of the dominant functions of the public sector in the economic actions of Nigeria; the intermittent fall in the international price of crude oil since the late 1970s, the importunate fiscal deficit since the early 1970s (and with the decline in oil revenue), needs a new focus that the public sector engages in major roles in the economy and the underdeveloped nature of money and capital markets in the country. Prior to the 1970s, prompt economic growth (i.e., increase in productivity), and increasing per capita earnings were assumed to spontaneously improve people's welfare but practice proved otherwise. High financial growth did not essentially transform the income arrangement into an impartial distribution of benefits as the country experienced high price rises and unemployment. Interest shifted in the 1980s to the incident of human capital coherent with basic needs of human approach to abolish poverty and subsequently, Nigeria held greater investment in health, infrastructural development, education, nutrition, and other social sector. This approach did not also reduce the poverty incidence level because they were not tied to the real sector and did not impact on income-generating efforts as job creation, and availability could not be realized. The poverty incidence increased to 43 percent in 1980, but later decreased to 34% in 1982. It increased to 61% in 1985, and exceeded 70% in early 1986 when Nigeria was classified as 54th in the Human Poverty Index. The state of affairs called for concerted energy by the government to improve the average living of the people thus a restructuring of the economy through the implementation of Structural Adjustment Program (SAP), was instituted in mid-1986. Yet, social indicators were still not responding encouragingly to the reform measures but rather got worse. Hence, to reduce societal cost of adjustment, several other measures were introduced which called for the implementation of various programmes that could impact positively on the welfare of citizenry. Governments at all levels and at dissimilar times embarked on programmes amongst which included the Directorate of Food, Roads and Rural Infrastructure (DFRRI), Better Life Program (BLP), Family Support Program (FSP), National Directorate of Employment (NDE), People's Bank of Nigeria, Family Economic Advancement Program (FEAP), Federal Urban Mass Transit Program, National Agency for Mass Literacy and National Agricultural Land Development Authority (NALDA), Agricultural Development Programmes (ADP), Nomadic and Adult Education Programme (NAEP) etc. The National Poverty Eradication Program (NAPEP) was initiated since 2001 which consisted of four schemes namely: Youth Empowerment Scheme, Rural Infrastructures and Development Scheme, Social Welfare Services Scheme, Rural Resources Development and Conservation Scheme aimed at eradicating absolute poverty (Adogamhe, 2010).

Since the implementation of SAP, poverty level has tremendously increased (UNDP Nigeria, 1998; World Bank, 1999), and the country classified as an indigent nation since then. The UNDP Human Development Indices (HDI) for 2015 rated Nigeria among the poorest countries with HDI of 0.52.Population of poor Nigerians increased more than four-fold in absolute terms. Accordingly, the percentage of the central poor increased from 62% in 1980 to soothe at 93% in 1996, whereas the moderately poor only rose from 28.9% in 1992 to 36.3% in 1996 (FOS, 1999). The most affected are the rural areas as shown by the depth and sternness of poverty in Nigeria. Some explanations brought forward were that a larger concentration of the masses resides there and the many years of abandonment of the area in the aspect of infrastructural development and want of information on governance. The CBN/World Bank assessment of the poverty situation and reduction in Nigeria in 2009 confirmed the fact that the existing and environmental state of affairs of those living in the rural areas have degraded and urban poverty was also intensifying.

A key module of fiscal policy management is allotment of resources coherent with policy priorities. Shaw, Gupta and Sarma, (2003), identified a three-dimensional process namely: the structural aspects dealing with the formulation of goals, objectives and policies in terms of decision packages; analytical aspects or the application of objective criteria with reference to which the proposals are evaluated both for the costs and benefits and priorities formulated; and informational aspects dealing with the monitoring of the progress made in the implementation of policies. These aspects are valid to the entire spectrum of fiscal policy management and are demonstrated in the budgetary procedure of government.

Government, through its macroeconomic policies should therefore be able to set appropriate priorities, mobilize proceeds and exhaust it on infrastructures, facilities and public goods that both augment human capital and the safety of communities (especially the impoverished), as well as stimulate investment, create employment by the private sector and ensure the healthiness of the economy. Fiscal policy is therefore central in economic management as government's power to tax and to spend influence the disposable earnings of citizens and firms, as well as the overall business ambiance. With the integration of world economy, proper understanding of the effects given some of these problems is essential, and the measures to be used in many stages of the business cycle are of essence in the fiscal policy management. While not always vital part of policy management, some elements could be prominent and therefore have to be internalized at each stage. The policy focus should therefore be neither too restraining to discourage private venture and growth, nor too obliging to create high inflation and density in private investment.

The Problem

Nigeria is a paradox (Caufield, 1996), as the poverty level contradicts her immense wealth. Of worry is the over USD400billion earned from petroleum resource alone in the last three decades and instead of a notable progress in national socio-economic development, she has retrogressed to be one of the 20 poorest countries at the inception of the twenty-first century whereas she was among the richest 50 in early 1970s.The economy has transcended billion naira to trillion naira on the spending side of the budget, yet no infrastructures to develop commerce or social features to raise the welfare of average citizen, whereas she should experience additional or balance on the records of payment. This shows that something is definitely wary with how government prepares its budget or that there is outright misappropriation of resources or on how it has been applied.

This translation process is however an essential factor which is how resources are apportioned and employed in the pursuit of poverty reduction purposes. Budgets, and how public funds are raised, allocated and controlled are the main likelihood through which governments transmit resources for executing their role, including poverty reduction. The links between policies, budgets and poverty impacts need to be more concise and directed. Difficulties that occur in rendering strategies and policies into effective poverty reduction interventions, whether through delivery of basic social services or through creation of conducive social and economic environment, has to be bettered. The issue is becoming more pertinent as policy makers find it perplexing to program, and budget through sectors or channels which resources maximize welfare gains in public expenditure management. Reflecting her economic decline (or even stagnation) is that the GDP, which was $43 billion in 2001 was three times less than that for 1981 translating into per capita income decline from about $1150 in 1981 to about $300 in 2001, $120 in 2012 and $80 in 2015. The per capita income is below half of the sub-Saharan African average and the country has the third highest number of poor people in the world. 63% of Nigerians according to the World Bank, 2006 and CBN, 2011 reports lived below the poverty line of N305 a year in 1985 prices. By 2015, according to NBS, more than 70% of Nigerians were poor. Nigeria's substantial resource endowments underscore her enormous potentials. The millennium development goal of reducing poverty by half by end of 2015 could not be attained but rather aggravated. The policy is still the arrow-head of the macroeconomic policy framework in Nigeria. The government must be interested in finding possible ways that the policy can be made to be more effective and efficient.

The objective of this study is therefore to examine whether fiscal policy measures in Nigeria have had any effect in reducing poverty incidence. Thus, the research question is on whether fiscal policy measures have impacted on poverty incidence in Nigeria. The study period is between 1970 – 2017.

2.0 Review of Related Literature

2.1 Review of Theoretical Literature

Three views for the role of government in the economy is tinted in the literature. The Neoclassical, the Keynesian and the Ricardian (Bernheim, 1989).The Neoclassical view believes that government economic activity crowds-out private sector activities (Buiter, 1977), thus, government intervention in the economy should be minimal. The Keynesian view values strong role for the government and supports its active role in economic development because of its multiplier effects (Chirinko et al, 2000), while the Ricardian Equivalence proposition argues for the neutrality of government deficits (Barro, 1989).The task of government is to protect and promote the welfare of citizens although given some circumstances, government role may diverge between developed and developing countries (Bose, Haque, and Osborn, 2007). Government chooses the economic approach to adopt (controlled, free market or a synthesis of both). Whichever it decides, the citizenry hopes to maximize welfare but due to the successes of lively Keynesian government and the Marshall Plan in the 1940s, the government had been regarded as a prime mover in sorting all complications obstructing economic performance. The government made huge market involvement such as controlling and coordinating investment flow, funding investment, and opening new investment opportunities by creating new industries, and this has given them edge to be actively involved. The Great Depression experience was of such essence. It spawned and sustained interest in fiscal policy use as a macroeconomic demand management tool.

The 2008 global economic crisis renewed the Keynesian economics and led a wide variety of economists and most international organizations, like the Organization of Economic Community and Development (OECD), the International Monetary Fund (IMF), and the World Bank to counsel governments to undertake expansionary fiscal policies to lessen effect of the crisis on output and employment and more precisely pave the way for recovery. The IMF explicitly argued for a "timely, large, lasting, diversified, contingent, collective and sustainable" fiscal stimulus package (Jotwani al., 2012), and suggested fiscal package to include the expenditure side, investment spending, and targeted transfer payments, and hence recommended a global stimulus package of 2% of world GDP (Furceri&Karras, 2007). The OECD had a similar view. Both the OECD and the IMF have been clear regarding the composition of the fiscal stimulus packages. On the revenue side, the measures included among others, temporary reductions in tax rates, tax rebates, reduction in unemployment insurance contributions and exemptions. The OECD preferred the spending measures to have the largest short-term impact on aggregate demand. Following these policy

recommendations, most countries in different regions of the world had fiscal stimulus packages in 2009 with the aim of boosting aggregate demand. Whereas before the crisis, active fiscal policy was argued against to destabilize the economy and retard growth, hence could do more harm than good.

In assessing the effect of fiscal policy on poverty, Tomlinson et al (2002), argued that poverty is complex and multi-dimensional in description, and its distinct aspects may be influenced by different factors. Fiscal policy should cover for numerous types of public outflow and financing behaviors. Even when the interest is focused on a module of the policy (say expenses on primary education) and an aspect of poverty (say primary school enrolment), how one channel affects the other are generally not straight.

The practices of poor communities themselves, as well as theoretical representations of living ethics in terms of capabilities confirm the multidimensional nature of poverty and deprivation. These important dimensions include human development (health, education), nutrition, consumption, income levels, vulnerability and powerlessness. In concluding, the understanding of the policy is quite sophisticated as the size, nature, and direction of spending is vital. The outcome to reality demonstrates that the policy can and indeed be a sufficiently challenging tool in the demand management of the economy as opposed to using it to balance monetary policy to attain better macroeconomic outcomes. It is to be seen as more than stimulus to the economy and to reflect on the questions of intergenerational fairness, and more roughly, how well it has influenced the welfare of individuals, of the entire society as well as of every single spending and revenue decisions of government.

2.2 Review of Empirical Literature

Bruno, Squire and Ravallion (1995), indicated that there are sufficient evidences that policies designed to foster economic growth significantly reduce poverty, but that policies aimed specifically at eliminating poverty are also important. For example, the cause of poverty can be eliminated by programmes that provide credit and build human capital. Such program can have a short-run or long- run perspective. Besley and Coate(1997), took two distinct approaches to program design, which he called the technocratic and the institutional. The technocratic approach focused on targeting, to direct resources to people with greatest need although issues arose in ability to identify groups. The institutional approach is more with social institutions than policy design. In this view, antipoverty policies fail because the poor lack political power or because administrative incompetence or corruption keeps governments from delivering services. Thus, improving the lives of the poor requires developing institutions, improving government performance, and changing political structures, and attitudes towards the poor (Akanji, 2006). The increasing distress with better targeting in poverty reduction program stems from governments' desire to minimize the cost of achieving poverty reduction objectives and it is also a useful first step toward developing a positive theory of transfer to the poor.

Barro (1991) finds a negative and significant effect of the level of public consumption as a percentage of gross domestic products (GDP) on the growth rate of a cross section of countries. To Barro (1991), the result was pertinent because a greater government interference distorts the incentives systems, so that a higher government size would be related with a lower productivity, and hence a lower poverty reducing tendencies. However, Barro (1990), considers public services as a productive (flow) input, and, bearing in mind the financing of services, obtains a non-linear relationship between government size and growth. Ram (1986), finds the positive impacts of government spending on economic performance and growth in the majority of 115 countries.

Similarly, neutral or negative effects of government consumption expenditure and positive effects of government investment expenditure have often been predicted (Aschauer, 1989). The aftereffects depend on assumptions made; as other studies employ a different set of assumptions and generate contrary predictions. Some empirical studies based on the endogenous theory of growth use several groups of variables which either contribute to the growth rate (like productive expenditure, budget balance), or be neutral to growth (like non-distortionary taxation and unproductive expenditure), or harm growth (like distortionary taxation). High and sustained rates of economic growth are essential for poverty reduction as several studies have demonstrated. Al-Zeaud (2014), suggests that volatility in government spending can positively or negatively affect economic growth subject to the inter-temporal elasticity in consumption.

On the revenue earning power of government, Stiglitz (2000), posits that governments seldom require the capacity to obtain additional budgetary resources, if only through domestic borrowing although to the risk of an unsustainable fiscal position, the inability to service a government's debts and the likelihood of default or an inflationary surge is the ultimate constraining factor that prohibits gaining resources through this approach. Heller(2006),describe "fiscal policy' to be "the capacity of a government to provide financial resources for a desired purpose, depending on the constraint that the fiscal position is sustainable, both over the medium and long-term" but drawing on the literature developed by Buiter (1985) and Chalk & Hemming (2000), fiscal measure sustainability is regularly defined to exist when a government's expected future revenue stream is sufficient enough to finance its future expenditure obligations and to pay back its existing stock of public debt.

Endogenous growth theory states that fiscal policy has potentially dynamic effects on the long-run growth rate of the economy, hence the effect of capital spending on the growth rate becomes vital. Barro (1990), simulates this in terms of public services– a flow variable – being in the economy's production function. Futagami et al. (1993), includes public capital– a stock variable – instead, and this gave rise to transitional dynamics. Ghosh et al (2005), in their endogenous growth framework introduced both public capital and public services as inputs in the production of the final good, and demonstrated that optimal fiscal policy in an economy depends not only on the tax rate but also on the apportionment of tax revenues between the accumulation of public capital and the provision of public services.

The relationship between the composition of government expenditure and growth by Olawumiand Oyewole (2010), considered two productive services (i.e., both flow variables) – one more productive than another, and had that a shift in favor of an 'objectively' more productive type of expenditure may notarize the growth rate if its initial share was 'too high'. In determining which aspect of public expenditure was more productive in developing countries, they had that increase in current – rather than capital – expenditure has positive and statistically significant effects.

Many governments of developing countries lack fiscal sustainability especially in investments to fight poverty. A pervasive developing economy does not have the resources to adequately finance many crucial public services. The main losers end up being the poor households and as resources are directed to more pro-poor outflows as part of the response, raising more funds is also precarious—but frequently ignored. Tax systems are rather regressive (place a disproportionate burden on low-income households and let the rich off the hook with a host of loopholes, exemptions and deductions), and tax administration enables the rich to evade or even avoid payment even as the domestic revenue base is small. Standard tax reforms do not provide the answer to boosting revenue. The main alternative for sales/trade taxes, the Value-Added Tax (VAT) on consumption of goods and services, is also often relapsing because the poor have to draw on most of their proceeds for vital consumption. The poor pays proportionately more taxes than the rich yet receive proportionately fewer public benefits. Attention is rather on re-allocating expenditures to the poor but much less done to reform tax systems to make their impact more equitable. For most developing countries, tax revenue as a ratio to GDP is about half the level of industrial countries (Tanzi&Zee, 2001). In countries, such as Bangladesh, Guatemala, Guinea, Madagascar and Nepal, total revenue is only 10-11 per cent of GDP, or less. For many, total revenue as a percentage of GDP has even fallen, weakening the ability of the state to advance development. In Bangladesh, the ratio of total revenue to GDP dropped from about 12 per cent in 1990, an already low level for a poor country, to 10 percent in 2010. That of Indonesia dropped from about 19 per cent to 16 per cent, and Sri Lanka dropped from 21 per cent to 17 per cent. This downsizing of public budgets hinders the state in playing its redistributive role through taxes and expenditures. When the public budget is small, governments are unable to use fiscal policy as a counter-cyclical tool for stabilizing the economy. Tax reforms should both broaden the tax base and make tax incidence more equitable by closing much loopholes while lowering rates on indirect taxes, such as the VAT, which tend to be regressive (Goni, Lopez &Serven, 2008).

3.0 methodologies

3.1 Specification of the Model

Autoregressive distributed lag (ARDL) model is used to estimate the parameters as there is need to capture the dynamic responses of the endogenous variable caused by changes in the observed variable lags and the contemporaneous and lagged values of the other explanatory variables. The general form of the ADL model may be presented thus:

$$y_t = m + \propto_1 y_{t-1} + \beta_0 x_t + \beta_1 x_{t-1} + u_t \quad \text{----------} (1)$$

Where y_t and x_t are stationary variables and u_t is a white noise.

Consequently, following from above, the general ARDL model of order p and q, ARDL (p, q) can be stated as follows:

$$y_t = \alpha_0 + \alpha_1 t + \sum_{i=1}^{p} \emptyset\, y_{t-1} + \beta' X_t + \sum_{i=0}^{q-1} \beta_i^{*\prime} \Delta X_{t-1} + u_t \text{----------} \quad (2)$$

$$\Delta X_t = P_1 X_t + P_2 \Delta X_{t-2} + \ldots + P_s \Delta X_{t-s} + \varepsilon_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Where Xis the k-dimensional I(1) variables that are not cointegrated among themselves, $u_t$and$\varepsilon_t$are serially unc orrelated disturbances with zero means and constant variance-covariances. Also, $P_i$arekXk coefficient matrices such that the vector autoregressive process in ΔX_t is stable. Itis also assumed that the roots of$1 - \sum_{i=1}^{p} \emptyset\, Z^i = 0$ fell outside the unit circle and there exist a long-run relationship between y_t and x_t.

However, in a situation where $u_t$and $\varepsilon_t$are serially correlated, the ARDL specification would have to be augme nted with an adequate number of lagged changes in the regressors before estimation and inferences are carrie d out. But it is important to note that the degree of augmentation required would depend on whether q > s+1 or not. So denoting the contemporaneous correlation between $u_t$andε_t by the k X 1 vector **d**, the augmented v ersion of (2) would be:

$$y_t = \alpha_0 + \alpha_1 t + \sum_{i=1}^{p} \emptyset\, y_{t-1} + \boldsymbol{\beta'} \boldsymbol{x_t} + \sum_{i=0}^{m-1} \boldsymbol{\pi_i'} \Delta \boldsymbol{x}_{t-1} + \eta_t \text{----------} (4)$$

Where m = max(q, s+1), $\pi_i = \beta_i^* - P_I^{/} d$, i =0, 1, 2, . . . *m-1*, $P_0 = I_k$ where Ik is a k x k identity matrix, $\beta_i^* = 0$ for $i \geq q$, and $P_I = 0$ for $i \geq s$. In this specification, η_t and ε_t are uncorrelated and the results stated above be directly applicable to the OLS estimators of the short run and long run parameters of equation (4)

It is important to note that the use of ARDL estimation procedure is directly comparable to the semi-parametr ic, fully-modified OLS procedure of Philip Hansen (1990) for estimation of co-integrating relations. The static formulation of the co-integrating regression is presented thus:

$y_t = \mu + \delta t + \boldsymbol{\theta}^{/} \boldsymbol{x_t} + \vartheta_t$ . . . . . (5)

Where $\Delta x_t = e_t$,and$\varepsilon_t = (\vartheta_t, e_t^{/})$ follows a general linear stationary process.

3.2 Source of Data and Definition of Variables

All the data series on fiscal and non-fiscal variables were obtained from the publications of the Central Bank of Nigeria (CBN), Federal Ministry of Finance and Bureau of Statistics. In this study, government expenditure is divided into recurrent (tre) and capital (ttca) expenditures. On the revenue side, the major components would be direct and indirect taxes, and non-tax revenues. The non-fiscal variables used in the study are private investment (pi), school enrolment (se) used in the literature to proxy for human capital development and foreign aid in form of grants (oda). Private investment is seen in many countries including Nigeria, as the engine of growth. The measure is derived by deducting government and consumption expenditure and net exports from the gross domestic product. Increasein enrolment rate may not be enough, rather, the school completion rate is more appropriate data, although the quality of education, and the type of skills taught at school matter more. Pritchett (2003), suggested that focus be more on quality of learning, nature, and the dynamism of demand and supply of school graduates. Foreign aid has become an integral part of development planning in most developing countries. If well utilized, contributes positively to a country's gross saving and investment, and ultimately to reduce poverty. A priori for the variables are b_0, b_3, $b_4 > 0$, b_1, b_5, b_6, b_7, $b_8 < 0$, $b_2 \geq 0$.

4.0Data Presentation, Analysis and Interpretation

4.1 Results of Unit Root Tests

The results of unit root tests are hereby presented. Tables 4.1 and 4.2 present the results of the Augmented Dickey Fuller (ADF) and Phillip Peron (PP) Unit root tests for the order of integration of the variables under investigation.

Table 4.1 Results of Unit Root Tests based on Augmented Dickey Fuller (ADF) (Constant, time and trend included).

Variables	ADF Statistics	1% critical level	5% critical level	10% critical level	Order of Integration
Ttca	-8.3980	-3.5885	-2.9297	-2.6030	I (1)***
Trec	-4.2218	-3.6329	-2.9484	-2.6128	I (1)***
Tit	-6.5033	-3.6329	-2.9484	-2.6128	I (1)***
Tdt	-3.5310	-3.6394	-2.9511	-2.6143	I (1)**
Ogr	-5.6083	-3.6394	-2.9511	-2.6143	I (1)***
Oda	-3.4865	-3.5847	-2.9281	-2.6022	I (0)**
Se	-6.2631	-3.5885	-2.9297	-2.6030	I (1)***
Pi	-5.3678	-3.6793	-2.9677	-2.6229	I (1)***
Pov	-7.6602	-3.5885	-2.9297	-2.6030	I (1)***

Source: Author's computation (E-views 9), 2017

*** - significant at 1%, 5% and 10%, ** - significant at 5% and 10%

Table 4.2 Results of Unit Root Tests based on Phillip Perron (PP) (Constant, time and trend included).

Variables	PP Statistics	1% critical level	5% critical level	10% critical level	Order of Integration
Ttca	-8.3306	-3.5885	-2.9297	-2.6030	I (1)***
Trec	-5.2396	-3.5885	-2.9297	-2.6030	I (1)***
Tit	-4.3048	-3.5885	-2.9297	-2.6030	I (1)***
Tdt	-16.6350	-3.5885	-2.9297	-2.6030	I (1)***
Ogr	-4.7879	-3.5847	-2.9281	-2.6022	I (0)***
Oda	-3.3906	-3.5847	-2.9281	-2.6022	I (0)**
Se	-6.7889	-3.5885	-2.9297	-2.6030	I (1)***
Pi	-3.5086	-3.6155	-2.9411	-2.6090	I (1)**
Pov	-7.6199	-3.5885	-2.9297	-2.6030	I (1)***

Source: Author's Computation (E-view 9), 2017
*** - significant at 1%, 5% andb10%, ** - significant at 5% and 10%

4.2 Co-integration Test Results

The test of co-integration is done using Narayan (2005), bound test before proceeding to implement the ARDL estimation and graphical illustration among the fiscal variables. The graphical illustration is presented in figure 4.1. From the graph, it could be seen that ttca and trec has long run relationship and it applies to tdt, tit and ogr as depicted in figures 4.2.

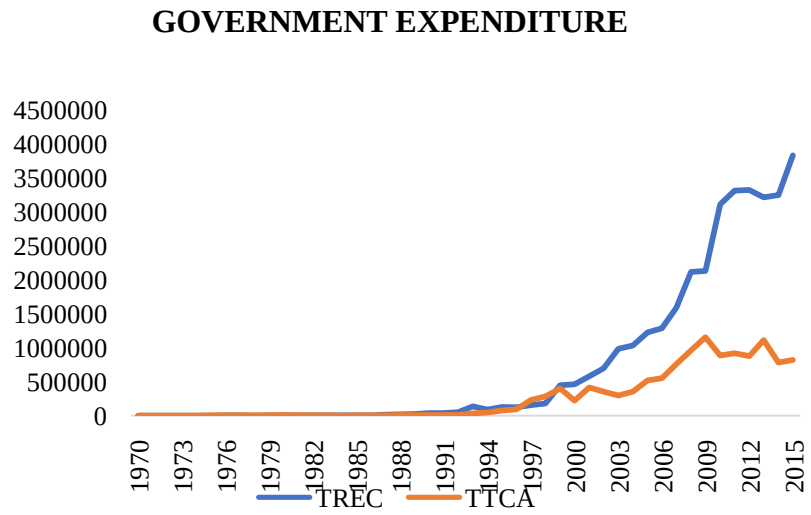

Figure 4.1
Graphical Illustration of Co-intergration (Federal Government Recurrent and Capital Expenditures) and Poverty Incidence

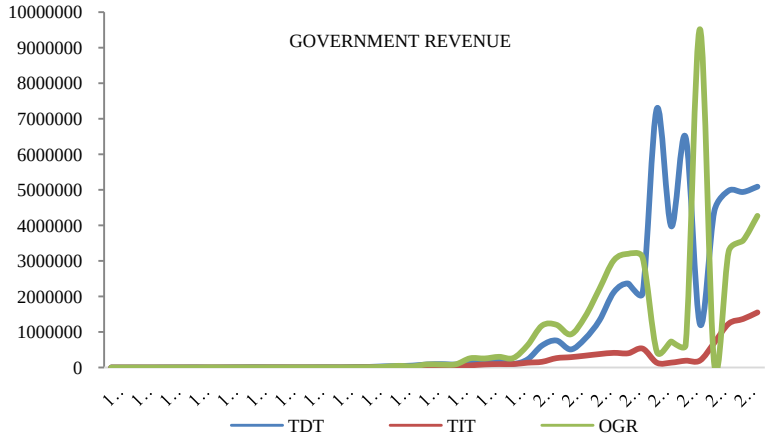

Figure 4.2
Graphical Illustration of co-integration (Total Direct Tax, Total Indirect Tax and Non-Tax Revenues) and Poverty Incidence

The null hypothesis of no co-integration in the variables was rejected at 1% level of significance. This confirms the presence of co-integration in the variables. Following these results, it can be concluded that there is a long run relationship between the variables over the study period.

4.3 Regression Results

4.3.1 ARDL Long Run and Short Run Analysis

The long-run and short-run ARDL results are presented in table 5.10. The long-run results for the nine-variables models 1 – 9 show mixed outcomes. Positive and significant effect run from total recurrent expenditure, total capital expenditure and overseas development assistance to incidence of poverty, and from poverty incidence to school enrolment, private investment and overseas development assistance, but a negative effect flows from total direct tax, total indirect tax, school enrolment, private investment and other government revenue to poverty incidence, and from poverty incidence to total capital expenditure, and other government revenue.

From table 5.10 model 1 above, the long run results show that current year total capital expenditure and total recurrent expenditure have positive and significant relationship with poverty incidence at 1% level of significance although their coefficients are minimal. Overseas development assistance had a neutral effect with a coefficient of 0.000000 at 1% significant level. Total direct tax, total indirect tax, private investment and other government revenue had negative coefficients meaning that policies towards these variables can be used to eliminate poverty as they had negative relationship with poverty incidence. Thus, increment in them would essentially cause a reduction in the poverty incidence. Although school enrolment had a negative relationship, it showed a neutral effect with the coefficient of -0.000000.

Total capital expenditure should ordinarily show a negative relationship with poverty incidence. This means that it should have poverty eliminating tendencies as the expenditure is targeted at developing infrastructures and providing capital items, and projects that would help in boosting production and affecting living standards positively since they will encourage investment and human capital development. The literature is flooded with theory and findings having similar conclusion {Barro, (1990), Bahmani-Oskooee, (1999), Gemmel et al., (2007), Lopez-Murphy & Villafuerte, (2010), Ang et al, (2009). Other scholars; Gong and Zou (2002), and Koray and Mcmillin(1987), have however argued otherwise. It could be argued that the positive result is because of the nature and type of projects being implemented, long completion period and sometimes not completed and high level of systemic corruption in the country. There are quite a number of white elephant projects the country has embarked on over decades and are yet to be completed and most, even when they were completed are not functioning and some are at very low capacity. The steel mills have not been completed over four decades now even after the cost of the project has more than tripled when considering same project in other countries and the refineries are not functional. Theprojects that are operating are at very low capacity. Infrastructural projects (electricity, roads, health, education, etc.) are dilapidated and often dysfunctional. Thus, government investment does not havepoverty eliminating tendency and increasing the profile would rather aggravate the incidence of poverty instead of reducing it.

For total recurrent expenditure, it shows a minimal coefficient of 0.0029% positive relationship with poverty incidence though, insignificant. Having positive coefficient implies that it would aggravate poverty incidence and an increase in it aggravates poverty. It was however insignificant and hence has no economic meaning. The year one lag also showed positive coefficient thus the previous year's activities aggravate poverty in the current year. This can be viewed on how public spending is financed. If it is through increased taxation, it raises the issue of who bears the burden; and with deficit financing, the issue of who bears its consequences (increased inflation or interest rates, and increased debt burden). The poverty impact is the combination of the two effects which may operate in opposite directions. This effect depends on the nature of the spending. Increases in spending on capital items are widely viewed as having beneficial impact on human development and are seen to be self-sustainable, though needs to be considered in each specific case; and if so, this may be complemented by other long-term or externality benefits. However, increased spending on public transfers or in-kind transfers (such as food subsidies) would have beneficial impacts on income, nutrition etc. among the poor if they effectively reach them and since expenditure on recurrent items are for consumption, it could be poverty inducing than reducing.

Table 4.3

Models	1	2	3	4	5	6	7	8	9
Long – Run Analysis									
	Pov	Trec	Ttca	Tdt	Tit	Ogr	Se	Pi	Oda
Constant	16.290313* (1.139007)	7157.7038 (8319.0000)	2219.2750 (12930.95)	508.0105 (19653.49)	935.5718 (2606.223)	117111.896* (9324315)	-874762.8 (89033312)	7931.468 (15921.42)	-100704030*** (53495381)
Pov	…..	1076.0630 (624.5516)	-1418.72*** (768.9311)	928.7608 (1035.701)	105.6432 (203.2307)	-7809.09719* (1299.474)	132448.638* (2025727)	1612.12*** (872.6441)	12537346* (2685258)
Trec	0.000092* (0.000025)	…..	0.282595 (0.256606)	4.801472* (0.0678097)	0.716056* (0.096874)	1.766261* (0.550007)	-31.361078 (21.91681)	0.067932 (0.147241)	-627.586*** (356.70818)
Ttca	0.000050* (0.000010)	0.216139 (0.218518)	…..	1.775326* (0.191575)	0.244174* (0.217701)	0.358657 (0.239019)	3.819102 (7.902652)	0.675585* (0.143112)	643.7080 (690.89853)
Tdt	-0.000132* (0.0000.22)	1.272169* (0.405307)	-2.125964* (0.334801)	…..	-0.185649 (0.155213)	-2.027234* (0.258290)	77.125054** (33.41527)	2.331134* (0.069496)	7502.9638* (1334.400)
Tit	-0.000129*	0.275981	0.342471	-9.578634*	…..	3.164974*	-51.8688***	-1.330973*	-6657.791*

	(0.000023)	(0.511146)	(0.360398)	(1.002204)		(0.620237)	(29.475922)	(0.354820)	(1087.5815)
Ogr	-0.000034* (0.000004)	-0.236638*** (0.110541)	0.837639* (0.083902)	0.330609 (0.339357)	-0.005215 (0.052437)	…..	0.779556 (10.52672)	-0.740640* (0.133049)	-912.1920 (706.2142)
Se	0.000007* (0.000000)	-0.010191*** (0.005168)	0.019563* (0.005688)	-0.006123 (0.006430)	-0.000818 (0.001833)	0.048561* (0.011297)	…..	-0.021432* (0.005680)	-107.844140* (20.836580)
Pi	0.000088* (0,000012)	-0.377778*** (0.179479)	0.847122* (0.125297)	-0.490179* (0.071617)	-0.112503 (0.068423)	0.607018* (0.049066)	-29.978857** (12.57403)	…..	-3041.343* (541.76865)
Oda	0.000000* (0.000000)	-0.000060*** (0.000030)	0.000094** (0.000041)	-0.000010 (0.000056)	-0.000003 (0.000011)	0.000362* (0.000072)	-0.006599* (0.002466)	-0.000166* (0.000041)	…..
SHORT RUN ANALYSIS									
Pov	------	1282.234706 (799.426180)	-932.3153 (839.2529)	-682.1283 (984.9220)	-16.743135 (61.238892)	-2930.1501 (1813.469)	4577.1781 (13924.103)	69.469228 (1473.821)	10428839.8* (6900070.06)
Trec	0.000029 (0.000017)	------	0.610680* (0.135557)	-0.376077** (0.138023)	-0.077260* (0.012053)	0.662219* (0.245571)	-3.70590*** (2.172886)	-0.633850* (0.183119)	1843.759*** (1037.0261)
Ttca	0.000056* (0.000017)	1.167039* (0.201673)	…..	1.525541* (0.206968)	0.144151* (0.019956)	-0.303239 (0.213814)	1.292371 (1.739305)	1.458252* (0.215895)	4459.3758* (894.77959)
Tdt	-0.000045* (0.000012)	0.034377 (0.184033)	-0.068895 (0.105883)	------	-0.043121* (0.007111)	-0.092470 (0.170731)	-1.204846*** (0.709802)	-0.131725 (0.156599)	969.804858 (710200.771)
Tit	0.000151* (0.000042)	-4.607397* (1.419823)	2.615438* (0.695301)	-12.301709* (1.685572)	------	4.153622* (1.033642)	-15.5736*** (8.195712)	-6.617733* (1.058768)	-29425.483* (6185.8835)
Ogr	-0,000027* (0.000006)	0.979343* (0.093300)	-0.403069* (0.092705)	0.835535* (0.111545)	0.073617* (0.008349)	------	4.604304* (1.366237)	0.755207* (0.126811)	3724.2505* (704.384784)
Se	-0.000000* (0.000002)	-0.023049 (0.013403)	0.005342 (0.010680)	-0.037662** (0.017427)	-0.002768* (0.000716)	0.054521** (0.025816)	------	-0.037234*** (0.019242)	-148.038741 (103.865218)
Pi	0.000099* (0.000021)	-0.656582* (0.117329)	0.676576* (0.087411)	0.026293 (0.025397)	-0.038124* (0.010935)	0.315407* (0.034844)	-3.529049* (0.953885)	------	3760.15722* (649.237491)
Oda	0.000000* (0.000000)	-0.000085* (0.000023)	0.000031 (0.000004)	-0.000017** (0.000048)	-0.000016* (0.000001)	0.000160* (0.000042)	-0.000478* (0.000135)	-0.000124* (0.000035)	------
CointEq(-1)	-1.124683* (0.194967)	-3.707948** (1.617303)	-1.811670* (0.286068)	-1.544574* (0.129751)	-0.747526* (0.072826)	-1.312371* (0.098631)	-0.300250** (0.130740)	-2.412899* (0.44053)	-2.937858* (0.092370)
Pov (-1)		1198.8470 (713.3799)	852.1636 (676.6780)	-1102.4719 (713.6900)	-65.0059 (44.49130)	3972.35** (1741.603)	-32942.0** (612906.9)	2734.405** (1295.205)	14206728.92* (6600405.67)
Trec (-1)		3.204710** (1.534024)	-0.394842 (0.307317)	-2.831944* (0.668771)	-0.170344* (0.026763)	-1.312608** (0.531904)	8.120308 (4.938485)		
Ttca (-1)		-2.144338* (0.331683)	2.247249* (0.397784)	-2.021749* (0.255470)	-0.323508* (0.021786)	0.379647 (0.363177)	-7.546114* (1.876216)	-2.072043* (0.434524)	-3447.9166 (2751.6956)
Tdt (-1)	0.000091* (0.000020)	-4.070985* (0.655889)	3.469799* (0.496051)		-0.167058** (0.063179)	2.413599* (0.138972)	-22.512294* (5.652364)	-5.151372* (0.125224)	-19576.67* (3436.0192)
Tit (-1)	0.000242* (0.000057)	1.699997 (1.171936)	-2.570344* (0.695301)	0.029241 (1.667804)	0.532866* (0.094153)			5.354316* (0.975599)	12011.901** (5406.4223)
Ogr (-1)		-1.459358* (0.326837)	-1.716665* (0.205556)	0.174225 (0.147976)	0.105407* (0.026969)		6.522009** (2.802296)	2.611296* (0.159330)	7943.8565* (2255.556)
Se (-1)	-0.000011* (0.000003)	0.045904* (0.015457)	-0.030582*** (0.010680)	-0.013684* (0.018389)	0.004084** (0.001377)	-0.131096* (0.024346)	0.444721 (0.294146)	0.056531** (0.02499)	369.8958* (120.9974)
Pi (-1)		0.196609** (0.085932)	-0.425427* (0.058961)	0.229568* (0.061663)	0.003248 (0.011965)	-0.161857* (0.045061)	2.751164* (0.791652)	0.686651* (0.032740)	2680.1864* (433.8919)
Oda (-1)	-0.000000* (0.000000)	0.000091 (0.000053)	-0.000155I* (0.000047)	-0.000113** (0.000041)	-0.000011** (0.000004)	-0.000177 (0.000112)		0.000250* (0.000080)	1.972172* (0.213178)

Pov (-2)				-2171.6457** (855.3292)	-87.9534** (36.104577)				
Trec (-2)				-3.995877* (0.753120)	-0.322162* (0.029480)				
Ttca (-2)					0.124879* (0.029892)				
Tdt (-2)					0.248229* (0.069148)				
Tit (-2)				5.675371* (1.225791)					
Ogr (-2)				0.407947 (0.342830)	-0.061120 (0.035724)				
Se (-2)					-0.002177 (0.001140)				
Pi (-2)					0.038124 (0.021551)				
Oda (-2)				-0.000068 (0.000053)	-0.000017* (0.000004)				
R^2	0.984041	0.999708	0.998752	0.999933	0.999525	0.999808	0.992730	0.999903	0.998454
Adj. R^2	0.970361	0.999018	0.997742	0.999810	0.998911	0.999365	0.984177	0.999737	0.995804
F-Statistic	71.935530	1449.323	988.7403	8123.302	1627.363	2205.119	116.0661	6023.220	376.7739
D-W Stat.	2.484846	2.056972	2.777023	3.068336	2.193470	2.479355	2.001256	1.626424	2.384708
B-G LM	1.9680 (0.3738)	1.3567 (0.5327)	1.1986 (0.5520)	2.0448 (0.3597)	1.9657 (0.3742)	2.5329 (0.2805)	1.7653 (0.3876)	1.9785 (0.4218)	2.0548 (0.3247)
Ramsey RESET Test	5.1573 (0.2383)	0.6878 (0.4999)	0.9645 (0.3465)	3.3456 (0.1175)	.4.5326 (0.2124)	3.5782 (0.1748)	4.2156 (0.3385)	0.9658 (0.4320)	3.2537 (0.3125)
B-P-G (F-Stat.)	1.4130 (0.2516)	1.0567 (0.4582)	1.5707 (0.1836)	0.5306 (0.8915)	0.7652 (0.7013)	1.3026 (0.6302)	1.5150 (0.3214)	1.4302 (0.6076)	0.9125 (0.4526)
ARCH (F-Stat)	0.1506 (0.7008)	6.9876 (0.1147)	0.0575 (0.8120)	1.5820 (0.2108)	1.4675 (0.2368)	0.1596 (0.2318)	0.2150 (0.1186)	0.3672 (0.2359)	1.3604 (0.1980)
Normality Test	7.2698 (0.2263)	3.1802 (0.2039)	4.7604 (0.0924)	2.7226 (0.2532)	2.1980 (0.3344)	3.3126 (0.2312)	2.7127 (0.2452)	2.2982 (0.2307)	2.6531 (0.2948)

. Note: *, ** and *** represent 1%, 5% and 10% level of significance respectively, computed using E-views version 9. Standard errors are in parenthesis, except for F-statistic, B-G test statistic, RESET test statistic, B-P-G test, ARCH test and Normality test which have their probabilities in parenthesis.

Total direct tax is negative and significantly related to poverty incidence in the current year. Direct tax reduces disposable income thus makes purchasing power of consumers restricted with little income remaining for consumption and savings – a condition which increases poverty incidence. Our result contradicts this perception. Instead of increasing poverty incidence, it is found to have a decreasing effect. Direct tax may not aggravate poverty incidence depending on the thrust and direction of tax policy and the rate adopted.

When used as discretionary measures, it may not promote poverty incidence but act as a check against instability. This may even promote savings capacity which is used in driving investment. Whereas, the first year lag agrees with economic theory, meaning that the effect of direct tax may only be felt in the preceding year of tax as savings and investment would have dropped as a consequence of the tax. The case of Gramm-Radman-Hollings Act in America in 1985, drawn from Fisher & Turnovsky (1998), and Blanchard & Giavazzi(2003) study had that a credible reduction in expected future budget deficits could in fact increase aggregate demand though they did not claim it to be expansionary, tax was not used as a stabilization policy but for deficit reduction in annual budget. Taxes were not recommended for short-run stabilization policy purposes and in 2001 the idea was seen to be more traditionally Keynesian: the economy needed stimulus. It portrays it as a better way of financing government

investment and hence poverty reduction than alternatives such as borrowing. Also, it internalizes the externalities of private agents, thereby inducing efficiency in resource allocation.

Total indirect tax was expected to be neutral because of the non-distortionary effect in consumption according to economic theory but the result proves otherwise showing that it could be poverty reducing. It is adduced that if the rate is low, it will not cause the cost of items to be high making the poor to afford products from the market. Total indirect tax shows a negative 1% significant relationship with poverty incidence but at a minimal effect of 0.0129% on the welfare of citizens.

Other government revenue is negative but significantly related with poverty incidence. It includes revenue yielding forms as grants, royalties, return on government investments, licensing fees etc. It has the effect of reducing poverty incidence if effectively and judiciously invested in the economy depending on the source and cost of acquiring it. Based on efficiency criterion, this finding is as expected and shows to be a better way of funding government investment and internalizing private agents externalities, thereby inducing efficiency in resource allocation.

School enrolment has poverty reducing tendency but shows sign of neutrality on poverty incidence at 1% significance level with 0.000007 coefficient. It shows that with proper and quality training, it has the tendency to reduce poverty. Schools curricula need to be more practical oriented for the quality of education to impact more appropriately in the life of the citizens.

Private investment has negative and significant relationship with poverty incidence indicating that it couldturn around fortunes of people if properly harnessed with the essential infrastructural support. Informal businesses and small-scale enterprises that seem more prevalent would thrive. Massive investment is essential if poverty is to be reduced.

Overseas development assistance (ODA) has become an integral part of development planning in most developing countries and it can be used to reduce poverty depending on their terms and usage. If the assistance is tied to certain conditions, it may not help in reducing poverty. The sign shows that it had a neutral effect and may have either contributed to reduction in poverty incidence or not.

In general, R^2 and adjusted R^2 are robust at 89% and 87% respectively reflecting a very strong explanatory power of the model. The F-statistic of 71.93 buttresses the influence of the explanatory variables in the model. With Durbin – Watson (DW) statistic of 2.4848, there is no evidence of serial correlation in the model. Other diagnostic tests show a well-behaved model. Jarque – Bera (JB) test statistic for normality indicates that the residuals of the error term are normally distributed, thus the null hypothesis of normality in the distribution of the residuals is accepted. Also, the Breusch – Godfrey (B-G) test statistic shows that the residuals pass the test of autocorrelation and as a result are serially uncorrelated. Finally, the ARCH test shows that the residuals are homoscedastic, with constant mean and variance.

The second part of Table 4.3is the short run dynamic relationship of poverty incidence and fiscal/non fiscal variables used in the study. A major observation is that the estimated coefficients of the dynamic models are smaller than that of the long run estimates. This confirms that the results are products of stable models and suggest reliability. The negative and statistically significant estimates of the error correction term for the nine models further affirm the existence of long run relationship among the variables.

The short run diagnostic tests show that error terms of the short run models are normally distributed and are homoscedastic. The errors are free of serial correlation and ARCH problems in the models. The Ramsey reset test results imply that the functional forms of the short run models are well specified. The stability of the short run parameters is investigated using the cumulative sum (CUSUM) and the cumulative sum of square (CUSUMSQ) graphs and the results suggest stability of the long run and short run parameters as shown in figures 5.4 and 5.5.

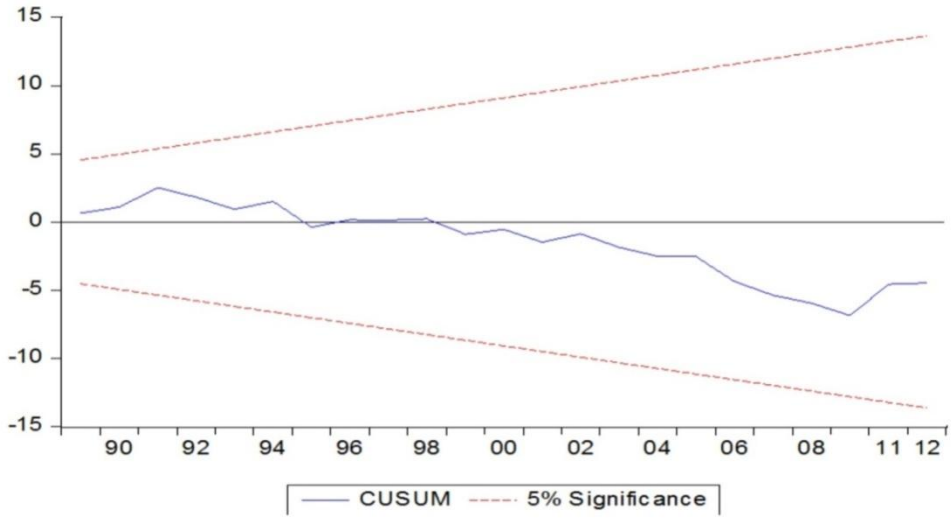

Figure 5.4: Plot of Cumulative Sum of Recursive Residuals.
The straight lines represent critical bounds at 5% significant level,

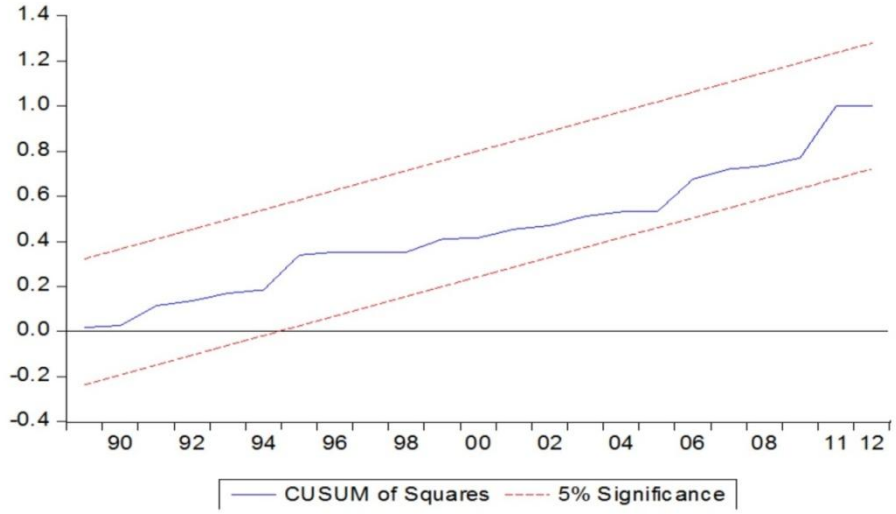

Figure 5.5: Plot of Cumulative Sum of Recursive Squared Residuals.
The straight lines represent critical bounds at 5% significant level,

5.13 Policy Implications

The main focus of the study was on how fiscal policy measures have been used in eliminating poverty incidence in Nigeria within 1970 to 2015. The thrust is whether poverty reduction has been a major objective in government fiscal operations. Government expenditure need to be budgeted to accommodate implicitly and explicitly the scourge of poverty and addressed in the implementation plan in a manner that rent-seeking, fiscal indiscipline and wastages are minimized or eliminated to forestall further policy and program failures. Even when fiscal operations may not purely focus on poverty elimination, the achievement of other developmental objectives could still bother on improving living standards and growth.

From the result, total direct tax and other government revenue had significant relationship with poverty incidence, hence, taxes on personal income tax, company income tax and revenues derived from other sources reduces poverty incidence. Since government cannot operate without earning revenue from taxes, ameliorating tax incidence should be a focus or tax incentives be advanced to ensure that disposable income is returned indirectly, maybe by compensating variation as proposed by Hicks through appropriate production support subsidy than the outright removal of subsidy of any kind as advanced by Bretton woods institutions. No country in the world operates without one form of subsidy or the other to the citizenry and even in the United States of America with their advocacy for the *laissez faire* economy, there are various subsidies the government provides for the citizens such as unemployment benefit, pregnancy benefit for women and home for the elderly. Total indirect tax shows to be non-distortionary but seem to have a long run inducing effect on poverty when considering the cumulative effect of its magnitude, and there is the likelihood that the present rate should be maintained. Other government revenue like licensing fees can be pro-rated for different types of businesses. The problem with small scale businesses not thriving in Nigeria has been the issue of double taxation.

Different tiers of government despite aligning of tax assignment crisscross the mandate and collect taxes on the same overhead and at very high rates. Demand notice for payment of these taxes should not be at the start of business but after about three to four years tax holiday to enable the investor recoup the initial cost outlay.
On the expenditure side, the total recurrent expenditure is seen to be more prone to poverty elimination than total capital expenditure. The need to improve expenditure provision for general administration need not be overstressed as it has shown from the result that it has poverty reducing effect. The government should as a matter of urgency seek avenues to raise salary and encourage the private sector to do same to act as incentive to better productivity. Much as total capital expenditure should have played the lead role in poverty reduction due to its long-term strides in the development of infrastructure that would enhance income generation and other employment/job creation opportunities, it could not play that role properly because of the reasons advanced earlier. If most of these factors are checkmated, the expenditures would be manifesting more appropriately in its effect on poverty elimination.
Aside the fiscal policy variables, the non-fiscal policy variables have shown that there are a lot to consider apart from expenditure and tax profile of government in the struggle to eliminate poverty.

Conclusion/Recommendations

Fiscal policy effect on poverty elimination is complex since poverty is multi-dimensional in nature and its different impacts may be influenced by different factors and even the channels through which its effect is made is not straight.

Following the findings, it is recommended that these policy options be followed and adopted:

i. Government focuses more on the use of other government revenue sources (non-tax income) in the finance of their expenditures and implementation of programs.
ii. Massive private investment is needed to impact poverty situation, hence, infrastructural amenities to create enabling social, economic and political environment to encourage private investment must be established and where possible, develop the informal businesses to become small/medium scale enterprises.
iii. Effort be more at fighting corruption. A strong political will is needed and unnecessary parochial interest avoided. Without a reduction of the level of corruption in the country, fiscal policy components will not achieve the required level of economic growth.
iv. Expenditure monitoring and evaluation in all tiers of government is pursued to mitigate corruption, red-tapism and nepotism to make the system more transparent and follow due process.
v. A system of efficient tax management need be institutionalized to avoid corrupt practices in tax administration in Nigeria, especially to checkmate tax avoidance and evasion on the part of the people and the stopping of multiple taxes on people on the part of government.

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