ROLE OF FISCAL POLICY IN INCLUSIVE GROWTH IN NIGERIA

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ABSTRACT

The study examines the role of fiscal policy in inclusive growth in Nigeria using 1980-2013 as the sample period. It employs baseline growth regression model and the Granger causality test to ascertain the long-term impact and the causal relationship between fiscal policy and inclusive growth. Evidence from the study reveal that fiscal policy has a positive and significant impact on inclusive growth. The Granger causality test indicates that a unidirectional causal relationship runs from fiscal policy to inclusive growth in Nigeria. This implies that changes in fiscal policy variables, such as government expenditures, tax revenue and fiscal deficits, can be used to enhance variations in inclusive growth in Nigeria. Based on the findings, the study recommended that government expenditure should be directed to productive investments and infrastructural development with a view to accelerating inclusive growth. Also, government should intensify efforts at mobilizing tax revenue in the country by strengthening tax administration and collection to promote inclusive growth in Nigeria.

JEL classification: H3, H53, H2

1. Introduction

THE NIGERIAN economy has witnessed considerable economic growth in recent years compared to other countries in sub-Saharan Africa, Asia, Europe and Latin America. The country recorded an impressive growth performance over the years, as the growth rate rose from -6.0% in the early 1980s to 6.5% in 2013, which was one of the highest in the world. But this growth process has not been accompanied by job creation, poverty reduction as well as reduction in unemployment and income inequality. It has been observed that rather than a decrease, the rates of poverty, unemployment and inequality have been rising with economic growth. For instance, unemployment rate rose from less than 10% in the early 1980s to 23.9% in 2013 (NBS, 2014). Also, the percentage of the population of people living on less than $1.25 a day increased from 50% in 1986, to about 70% in 2010. Similarly, income inequality worsened from 38.7% in the 1980s to 48.8% in 2010 (World Bank, 2014). As noted by Akpakpan (2014), these problems are also getting worse as the economy grows. This implies that economic growth is not inclusive in Nigeria, even though the macroeconomic goals of the government are not only to stimulate economic growth but also to create jobs, reduce poverty and distribute income equitably to ensure economic transformation.

According to Khan (2012), growth is inclusive if it supports high levels of employment and rising wages. For a developing country such as Nigeria, this means acquiring competitiveness in new sectors and technologies. Growth that is shared (inclusive growth) is now widely embraced as the central macroeconomic goal of many developing countries. Inclusive growth is the growth that builds a middle class. Birdsall (2012) observes that macroeconomic policies can shape the environment and provide incentives for inclusive growth by working towards three important goals, namely fiscal discipline (the more rule-based, the better), a fair fiscal policy (with respect to revenues and expenditures), and a business-friendly exchange rate. Therefore, policies that support inclusive growth should significantly address market failures.

Rapid economic growth has lifted hundreds of millions of Asians, Americans and Europeans out of unemployment and vastly improved their general living standards in the past few decades. Also, advanced countries have a long history of using fiscal policies to reduce unemployment rate, poverty rate and income inequality. As the rates of poverty, unemployment and inequality increase in developing countries, pressure to make the growth process more inclusive is picking up, and there are growing calls for governments to play a more direct role