

FISCAL FEDERALISM AND MACROECONOMIC STABILITY IN NIGERIA

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Abstract

This study examined the impact of fiscal federalism on macroeconomic stability of Nigeria from 1981 to 2018. Specifically, the study examined the impact of fiscal federalism on economic growth, price stability, and on unemployment. Fiscal federalism has triggered interest of many scholars in view of the believed that a decentralized fiscal system promotes faster economic growth than a centralized system. In view of this proposition, the study sought to empirically examine the position of normative choice theory and market preserving theory of fiscal federalism as they apply to the practice of fiscal federalism in Nigeria. Qualitative as well as quantitative research approach were used for the study. The qualitative approach employed the use of descriptive tools while the quantitative approach employed econometric tools. The fiscal elements were regressed in separate estimation against economic growth rate, price stability and unemployment using ordinary least square estimation technique in logarithm form. The regression results showed that fiscal federalism as practiced in Nigeria has not significantly impacted on macroeconomic stability of Nigeria except that the federal government should be entrusted with the function of stabilizing the economy. In view of the abysmal performance of fiscal federalism on macroeconomic stability of Nigeria, it was recommended among other things that Nigeria fiscal federalism should be restructured to follow the pre-1966 model so as to enhance even development at the grass root.

Keywords: Fiscal Federalism, Macroeconomic Stability, Economic Growth, Price Stability and Unemployment.

1. Introduction

The crux of federalism lies not in the institutional or constitutional configuration but in the society itself (Onwioduokit & Effiong, 2019). Federalism is a political concept in which power to govern is shared between national, and sub national governments

creating what is often called a federation. An aspect of federalism that has generated much interest and controversies in recent time is fiscal federalism (Essien & Uko, 2018). Fiscal federalism, according to Ewetan (2012), refers to the principles that define the allocation of fiscal powers and responsibilities to the various tiers of government, while fiscal decentralization is the actual practice of the principles of fiscal federalism. Fiscal decentralization has become fashionable regardless of levels of development and civilization of societies. Nations are turning to devolution to improve the performance of their public sectors.

Jha (2012) asserts that the growing interest of scholars in fiscal federalism has been due to many factors including globalization and liberalization, problems associated with the weak performance of sub national governments in decentralized federations, development in the European Union on the question of how to assign tax and expenditure responsibilities among different tiers of government and what the role of inter-governmental transfer is. There has been an increasing interest in fiscal decentralization in recent years because of the potential benefits to be derived from its adoption. However, economic globalization occasioned by domestic regional pressure brought about by the process of economic liberalization is believed to bring about increasing interest in fiscal federalism (Essien & Uko, 2018).

Moreover, growing interest in fiscal federalism has been linked to growing dissatisfaction with the role of public sector which give expanding role of income maintenance, income redistribution and economic stabilization to the federal government. In view of this dissatisfaction the neo-liberal economists question the effectiveness of such system and agitate for greater reliance on the market and less power in the hands of federal government. By questioning the effectiveness of the role of federal government in improving the distribution of income and in stabilizing the economy for the purpose of reducing poverty and unemployment, some neo-liberal economists have undermined the legitimacy of federal government's overwhelming role and have taken a position in favour of reducing the size of the public sector while giving more powers to both market and sub-national level of governments (Buchanan, 1995; Jha, 2012; and Essien & Uko, 2018).

Thus, in terms of efficient resource allocation, various arguments have been advanced in support of fiscal federalism as a machinery for understanding: (i) the factors determining the optimal degree of fiscal decentralization (ii) principles underlying the assignment of functions and sources of finance of government of different levels and (iii) the design of suitable inter-governmental transfer scheme to fulfill the objectives of equity and efficiency (Rao & Singh, 2005; Essien & Uko, 2018).

The issues outlined above have led to the re-examination of effectiveness of decentralized fiscal arrangement as enunciated in theories. For instance, the first generation theory of fiscal federalism or theory of normative choice supports

decentralization of expenditure responsibilities and centralization of revenue responsibilities for the purpose of achieving efficiency and equity in the federation. It emphasizes the importance of transfer for addressing the problem of vertical and horizontal imbalances.

The second generation theory or market preserving theory on the other hand, favours decentralization of both expenditure and revenue responsibilities and gives minimal role to revenue sharing and intergovernmental transfers. It gives more importance to incentives generated by sub national tax collection for fostering economic prosperity (Onwioduokit, 2019).

The arguments raised by these theories have been criticized at different fora by scholars using the practice of the theories in different federations as the basis of critique. In view of what had been said and examined about the two positions, this study seeks to empirically examine the impact of fiscal federalism on macroeconomic of Nigeria taking into consideration the application of the two theories and how their operations have impacted on macroeconomic stability of Nigeria. Specifically, this study is directed at examining;

- i. the influence of fiscal federalism on price stability.
- ii. the effect of fiscal federalism on unemployment
- iii. the influence of fiscal federalism on economic growth.

This present study intends to look away from the normative discourse on fiscal federalism to employ indices of macroeconomic stability to measure the effectiveness of a decentralized system of government. Therefore, what this paper aims to achieve is to x-ray the character of Nigeria's fiscal federalism with a view to using the system as a yardstick to measuring the economic performance of the Nigerian Federation.

This study is arranged in five sections. Following the introduction in section one, section two is the literature review. This is followed by methodology in section three. Section four is the presentation and analysis of result findings. Finally, section five is the summary, conclusion and recommendations.

2. LITERATURE REVIEW

2.1. Overview of Nigeria Fiscal Federalism and Macroeconomic Indicators

Fiscal federalism has a long history in Nigeria. It dates back to 1946 with the adoption of the Richards constitution. Over the years, fiscal commissions were appointed to work out fiscal and financial arrangements that were consistent with assignment of powers and responsibilities to each level of government. The idea was that each level of government should have adequate funds to effectively and efficiently discharge its responsibilities. Suffice it to say that Nigeria's fiscal federalism has emanated from historical, economic, political, geographical, cultural and social factors (Francis, LaPin & Rossiasco, 2011).

The reintroduction of a democratic rule in 1999 brought to the fore the problems of intergovernmental fiscal arrangement among the different levels of government with the issue of resource control as the fulcrum. The interference by the executive arm of government on the functions of the National Revenue Mobilization and Fiscal Commission (NRMFC) on the appropriate revenue-sharing formula among the different tiers of government, the debate regarding the correct interpretation of the section of the 1999 constitution with regards to the derivation principles posed challenges for Nigeria's fiscal federalism.

The structure of Nigeria has undergone changes since independence. In 1960 the country had three regions, each dominated by one of the major ethnic groups. By 1967 the establishment of a federation with twelve states offered some ethnic nationalities additional autonomy through the creation of Rivers and Bendel States. By 1976 there were nineteen states, and by 1987, the number of states had increased to 21 and 30 by 1991 and by 1996 the number had grown to 36 plus the Federal Capital Territory in Abuja. Similarly, when the Local Government Area (LGA) was created as separate federating unit by the federal military government in 1976, there were initially 300. Today Nigeria has 774 LGAs, 185 of which are located in the nine oil producing states (Francis *et al.*, 2011).

Despite this fragmentation, the latitude of autonomy granted to the states is basically restrictive- a bye-product of prolonged military rule. In fact, the creation of states and LGAs is the outcome of two simultaneous but opposing processes. One tendency is to satisfy the demands of local and ethnic (or sub-ethnic) minorities by granting them their own administrative units; the second consolidates the strength of the federal government by keeping the growing number of states and LGAs relatively weak (Barkan *et al.*, 2001).

Since the return to civilian rule in 1999, the degree of autonomy of the 36 states has increased. However, the hybrid centralized/federal political structure of the country has created tensions between the center and the federating units which rely largely on the federal government. In principle, state and local governments are responsible for nearly all public functions with the exception of defense, the police, external relations, and customs; yet, they remain fiscally dependent on the center. Their autonomy is also limited by the provision of the 1999 Constitution, which bars states from having their own constitutions or passing legislation that contradicts national legislation. The power of the federal government over weak state and local governments has heightened ethno-regional competition across Nigeria, and in the multi-ethnic nationality it has contributed to a sense of dependency and marginalization (Collier & Sambanis 2005).

Nigeria's political economy continues to be dominated by a federal system shaped largely as a vehicle for the redistribution of centrally collected oil revenues (Suberu, 2005). Contention over the distribution of these revenues has been, as it continues to

be, the source of much political debate inside and outside the Nigeria polity. Given the overwhelming dominance of oil revenues, controlling them has increasingly become the main locus of political struggle for Nigerian stakeholders at all levels.

In the land and waters of the Niger Delta, where nearly all oil reserves are located, the high stakes involved have led to a call for greater “resource control” and have frequently led to violence (Watts, 2004). Attempts to accommodate the claims of Niger Delta states have been made by granting them a greater share of oil revenues. The 1999 Constitution guarantees oil producing states a minimum of 13 percent of federal income derived from production. Nevertheless, the 13 percent “derivation” and the creation of special institutions that channel resources to the region have had limited success in bringing about a lasting political solution. Indeed, the tensions in center-periphery relations have become all the more vocal and violent following the restoration of civilian government in 1999. The incentives created by the political economy of revenue distribution have also fueled rivalries between groups and states over issues such as the location of oil wells and boundaries, often resulting in violent clashes.

Two pieces of Federal legislation, the Petroleum Decree of 1969 and the Land Use Decree of 1978 are particularly credited with having undermined local control over resources in the delta. The Petroleum Decree gave the central government full ownership and authority over the country's oil and gas reserves. It restated and strengthened the Mineral Oils Ordinance of 1914 and its subsequent amendments, which made oil and minerals legal property of the British Crown. The Land Use Decree of 1978 nationalized all land, both urban and rural, and handed its administration to state and local governments. In place of the customary land tenure that existed in Nigeria prior to 1978, this decree established a new system whereby statutory and customary rights of occupancy formed the basis of land-holdings (Francis, 1986). Communities in oil producing areas of the country had previously been accustomed to negotiating directly with oil companies over access to land and compensation (Ebeku, 2001). After 1978 however, state governments had the power to revoke rights of occupancy in the case of overriding public interest, including (under Section 28) the use of land for mining, mineral extraction, and the construction of pipelines (Allott, 1978).

Resentment to these laws was central to the grievances against the federal government articulated in the Ogoni Bill of Rights in 1990. Later, the 1998 Kaiama Declaration by Ijaw youth described the Land Use and Petroleum Decrees as laws that “rob our peoples/communities of the right to control our lives and resources” (Kaiama Declaration 1998). In both cases, public demonstrations were ultimately met with violent government repression, exacerbating the sense of political exclusion and economic marginalization felt by these and other Niger Delta communities. Fiscal decentralization is believed to promote economic activities and improve upon the living standard of the citizens in general. Instead of improved

better living conditions and economic development of the Niger Delta region and Nigeria at large, what is experienced is poverty in the midst of plenty due to hijacking of people's resources by the few corrupt elites.

Umo (2012) using such indicators as domestic poverty line and international poverty line noted that Nigeria domestic poverty index reached all time high of 88% in 2002, above that of 83.1%, 74%, 72%, and 71.2% in 2001, 2000, 1999 and 2003 respectively. About 69.14 million persons on the average were affected by domestic poverty within the period in question. In 2011, domestic poverty index was 60.9% with about 102 million persons affected. On the international poverty line, 70.4% Nigerians on the average lived below \$1 per day poverty line between 1992 and 2011. And on the \$2 per day poverty line, about 92% of Nigerians lived below the poverty line on the average between 1992 and 2012.

Akin to poverty is unemployment. Ekpo (2018) observed that states' unemployment in Nigeria on the average stood at 18% between 2007 and 2011 with Bayelsa state having the highest of 36.4% followed by Rivers state 31.9% despite having huge oil deposits and about the highest collector of monthly vertical allocation from the federation allocation account. The prevalence of poverty and unemployment in the body polity no doubt create rooms for low and poor self-esteem, poor value reorientation and indeed less life expectancy- the very opposite of development indicators.

Examination of other macroeconomic indicators shows that the highest growth rate of Nigeria was 25.01% in 1970 and 14.24% in 1971 respectively. The growth rate had been found to dip to negative in 1975 with (-53.2%), -5.76% in 1978, -13.13% in 1981, -1.05 in 1982, -5.05 in 1983, -2.02 in 1984, -8.75 in 1986, -10.75 in 1987, -0.62 and -0.31 in 1991 and 1995 respectively (Ekong, 2019) and the -1.62% of 2016 when Nigeria was deep into recession. Most of the years with positive economic growth rate are found to be years when there was increase in pump price of petrol in the international market. The recession of 2016 lend credence to this.

Inflation, an index of price stability, has been mostly double digit with the highest inflation rate of 76.76% in 1994. Apart from 1970, 1985 and 1999 when the rate of inflation in Nigeria was 1.3%, 1.03% and 0.22 respectively, Nigeria has not been able to maintain a consistent one –digit inflation rate. The general principle in economics is that at an increasing rate of inflation, unemployment reduces and vice-versa. This postulation collapsed in Nigeria during the 2016 recession where inflation and unemployment were rising simultaneously.

Application of Ismihan (2003) macroeconomic stability index in computing macroeconomic stability of the discussed indices between 1970 and 2017 indicate that economic growth was only about 39% stable (current value – minimum value/maximum value – minimum value) which is below average of 50%. Inflation

using the same index could not be attained at one-digit, instead it is found to be in the region of 21.8% while unemployment was found to be 84%. The outcome of each of these variables clearly shows that there is high degree of macroeconomic instability in Nigeria.

In discussing fiscal federalism and macroeconomic stability, we also consider the extent to which government is able to increase its revenue generation efforts in line with the level of economic activities of the country (fiscal pressure). A high fiscal pressure indicates that government is able to increase her revenue generation. The index which is calculated as the ratio of tax revenue to GDP is considered high from 20% upward.

A look at this ratio between 1981 and 2018 indicate that the ratio has been very low ranging between 1% to 4% except in 2001 when the ratio shot to 11% and has been consistently low since then. The low ratio of fiscal pressure is indicative of government inability to generate adequate revenue from taxation but rely on oil revenue as a means of funding her expenditure needs.

Another index of measuring macroeconomic stability is the government fiscal policy stance (GFPS) given as the ratio of fiscal deficit to GDP. If this ratio is higher than 3% threshold recommended by the World Bank and IMF, there is likelihood of inflationary pressure and disequilibrium in the balance of payments. This ratio had been found to be higher than 3% in some of the years. For example, 3.94% in 1982, 4.08% in 1986, 4.43% in 1990 and 6% in 1991 among others (CBN, 2018).

Prior to 1966, financial strength of the regions was enhanced by full sharing of the proceeds from export taxes, import and export duties, regionalization of the marketing boards and the appropriation and retention of surplus by the regional government and allowing the region full control of personal income taxes following the recommendation of Raisman's Revenue Commission. This provision and others resulted in phenomenal increase of revenue to the regional government from 12.7% in 1954 to 70% in the 1965/1966 fiscal year. But this development was to change following the military takeover of government in 1966 through a coup d'état and the subsequent reversal of revenue policy of government.

In the new policy: mining rent and royalties were to be transferred to the federal government; marketing boards were to be centralized and subsequently dissolved; company income taxes and excise duties were to be collected and retained by the federal government; uniform rate of personal income tax and sales tax were to be introduced to prevent states from varying them to achieve financial leverage; VAT which was hitherto assigned to states were to be administered by the federal government. All these changes resulted in taking huge revenue to the centre while the state governments were left with very little to cater for their assigned responsibilities. This arrangement has contributed to the continued uneasy inter-governmental

relationship in the Nigerian federal structure. In addition, they have done little to mitigate the latent distrust, suspicion and rivalry among the different socio-political entities in the country.

Macroeconomic stability is concerned with moderating the behavior of most of the aggregative variables such as the national output, general price level, overall employment level and balance of payments position. Nnanna, Alade and Odoko (2003) allude to macroeconomic stability as an offshoot of macroeconomic governance and covers issues of prudent fiscal and monetary management. Thus, the measures of macroeconomic stability are essentially price stability, growth of output and maintenance of balance in the external sector. Growth with economic stability dominates the imperative of fiscal policy. Growth performance of any country cannot be complete without mentioning of fiscal policy as an important growth determinant. Since economic growth with economic stability is inevitable, it is important that we identify key indices of macroeconomic stability for a country like Nigeria.

Ndebbio (2003) asserted that for macroeconomic stability to be achieved, there must be: (i) a stable exchange rate (ii) fiscal surplus (iii) positive real rate of interest and (iv) a positive growth rate of output or GDP. In Nigeria, fiscal federalism is aimed at ensuring a balanced federation, economic development and national unity. But the argument goes, how has the country's fiscal system performed in this respect? To what extent can Nigeria's fiscal federalism be said to have achieved its objectives?

Apparently, fiscal federalism has been viewed as the devolution of fiscal responsibilities among federating units, the purpose of which is to ensure free choice of preferences and enhance easy allocation of resources to priority areas within the jurisdiction of each federating unit (Alade, Ebajimatu, Rapu & Tule, 2003). Fiscal federalism is essentially about the allocation of government resources and spending to the various tiers of government. Government at any level within a federation has the role of allocating and distributing resources so as to ensure overall stability of the system.

Given the functions of government, which tier of government should be given the allocative, the distributive and stabilizing role? Uko (2015) quoting Musgrave and Musgrave (2010) highlighted that the allocation function entails the division of total resources between private and public goods and by which the mix of social goods is chosen. Distribution function on the other hand is the adjustment of the distribution of income and wealth to ensure conformity with what society considers fair and just state of distribution. While stabilization functions are the use of budgetary policy as a means of ensuring the attainment of macro-economic objectives of full employment, economic growth, price stability and maintenance of favourable balance of payments. Responsibility for each of the following functions can be handled by any of the federating unit based on their taxing power and assignment responsibility.

However, Musgrave and Musgrave (2010) suggest that macroeconomic stability and income distribution functions should come under the jurisdiction of the central government, while the allocation function should be shared among the lower level of government that make up the federation. Ubokudom and Ndiyo (2003) argue that spending and taxing decisions that substantially affects the level of unemployment and inflation should be reserved for the federal government because no state or local government is financially strong and large enough to influence the overall level of economic activity. Consequently, other macroeconomic activities that affect social welfare are made efficient if allocated to lower level of government. Contrary to this position, Stigler (1998) earlier suggested that functional role of government work best the closer it is to the people and that irrespective of the level of government which provides what people should be given the right to vote for the amount of and type of provision they want. This goes to mean that decision making should occur at the order of government closest to the people consistent with the goals of allocational efficiency. In recent years, it has been observed that there is a growing concern towards greater fiscal decentralization even by non-federal states (Ibbih & Idiagi, 2015).

The traditional theory of fiscal federalism lays out a general framework for the assignment of functions to different levels of government and the appropriate fiscal instruments for carrying out these functions. At the most general level, this theory contends that the central government should have the basic responsibility for the macroeconomic stabilization function and for income redistribution in the form of assistance to the poor. In both cases, it is argued that the lower level governments have some basic constraints that would not allow them to perform (Oates, 1999).

In a plural society like Nigeria, federalism is theoretically about equality and equity, justice and fair play amongst both the constituent units and the communal groups that comprise it. It is also about mobilization and utilization of societal resources in a manner that facilitates balanced growth and development. The greater the sense of equity, fairness and justice in the federation, the more the likelihood of stability, harmonious co-existence and growth within it (Jega, 1996; Musgrave & Musgrave, 2010).

In the division of public sector functions and finances among different tiers of government, economics emphasizes the need to focus on the necessity for improving the performance of the public sector and the provision of their services by ensuring a proper alignment of responsibilities and fiscal instruments. While economic analysis, in the theory of fiscal federalism seeks to guide this division by focusing on efficiency and welfare maximization, it should be recognized that the construction of optimal jurisdictional authority in practice goes beyond purely economic considerations. Political considerations, as well as historic events and exigencies, have in practice played major roles in influencing intergovernmental fiscal relations in most federations (Ozo-Eson, 2005; Ibbih & Idiagi, 2015).

The imbalance between resource needs and availability of different governments requires the sorting out of one basic issue in a federal system. And this is the issue of allocation of revenue between different levels of government and among governments at the same level of jurisdiction in Nigeria (Ibbih & Idiagi, 2015). Therefore, there exist unresolved issues on this matter. The major problems of revenue allocation have revolved around the intra-tier level sharing of federal revenues. The institutional framework for resolving the issue of horizontal or inter-state revenue allocation has been similar to that of dealing with the problem of inter-tier revenue allocation. Based on the premise that the stability and good working of any federation depend critically on the fiscal relations of the constituent governments, the various revenue allocation review bodies have over the years evolved several principles and criteria for sharing revenue among the regions and states of the federation and among the local governments within each state. In all of these, fiscal arrangements remain a controversial issue since 1946 (Ekpo, 2004; Williams & Orokpo, 2014).

2.2. Theoretical Framework

Every constituent unit in a federation has a stake in the development of its jurisdiction and ensure as practically as possible the political and economic stability of the polity. In view of this, this study takes a review of theories that pertain to fiscal decentralization as the inertia of growth and development vis-à-vis centralized system of governance. Prominent among the theories are: Classical theory of normative choice or equalization theorem otherwise referred to as first generation theory of fiscal federalism, market preserving theory of fiscal federalism otherwise known as second generation theory of fiscal federalism and stakeholder theory of management.

2.2.1 Classical Normative Choice Theory

The first generation theory of fiscal federalism also known as classical normative theory of fiscal federalism spearheaded by Oates, Musgrave and Musgrave and Tiebout supports decentralization of expenditure responsibilities and centralization of revenue responsibility for the purpose of achieving efficiency and equity in the federation. The theory contends that the federal government should have basic responsibilities for the macroeconomic stabilization of economy and income redistribution. This is because federal government possesses a far greater capability to maintained high-levels of employment with stable prices than a sub-national government. One of the first generation theory – the '*decentralization theorem*' put forward by Tiebout (1956) and collaborated by Oates (1972) state that;

Each public service should be provided by the jurisdiction having control over the minimum geographical area that would internalize benefits and costs of such provision.

The practical implication of this theorem according to Shah (2007) is that it requires a large number of overlapping jurisdictions. On the basis of this Frey and Eichenberger (1999) argued that jurisdiction can be organized along functional lines while overlapping geographically and that individuals and communities could be free to choose among competing jurisdictions.

Thus, decentralization according to Oates (1972) is justified on the ground that:

- i. Provision of public goods and services by federal government leads to uniform level of consumption and utilization of goods and services respectively across all regions. Such uniformity may result in inefficiencies. But decentralized provision allows government to cater better for the tastes and needs of local resident.
- ii. Welfare gains in case of decentralized provision of goods and services enhanced consumer mobility. Citizens vote with their feet when they can to some extent select a place of residence that provides a fiscal package best suited to their preferences.
- iii. Decentralization may result in greater experimentation and innovation in production of public goods and services. Availability of large number of independent producers of public goods will in the long run promise greater progress in the modes of production of such goods and services.
- iv. Inter-jurisdictional competition as a result of decentralization may also lead to efficiency in the provision of public goods and services.
- v. Decentralization of allocative functions may lead to more efficient levels of public output because expenditure decisions are tied more closely to real resource cost.

From the forgoing, it can be deduced that classical normative theory of fiscal federalism strongly supports decentralization on the ground of efficiency, accountability, manageability and autonomy principles.

It should be noted that emphasis of the theory is on expenditure decentralization while favouring revenue centralization. Theoretical argument for this arrangement is that if tax responsibility is decentralized, lower level government will engage in stiff competition to such an extent that capital and labour would be taxed and the whole exercise will be self-defeating resulting in low tax yield and as a consequence, under provision of public goods and services. From this argument, it is apparent that the distribution of financial resources among government will not correspond to the distribution of expenditure responsibilities. Because while the federal government has more taxing power but comparatively less expenditure responsibilities, sub-national government have less taxing authorities but more expenditure functions to perform. This in consequence contributes to what Sharma (2011) refers to as Vertical Fiscal Imbalance (VFI).

2.2.2 Market Preserving Theory of Fiscal Federalism

The second generation theory of fiscal federalism is an emerging theory which

favours the decentralization of both expenditure and revenue responsibilities and gives minimal role to revenue sharing and intergovernmental transfers. The new theory underlines the fact that growth of public sector, due to centralisation of tax responsibilities, have prevented multilevel governments to compete with each other vertically as well as horizontally. Lack of competition has in turn led to inefficiency.

In summary, market-preserving federation is concerned about the ill-effect of the growth of public sector as a consequence of centralization of responsibilities. Competition is the main crux of the new approach. It favours common markets which imply that there is no restriction over the mobility of goods across a country. It demands that local government should be responsible for all policies of economic regulation and development while the federal government is responsible for developing a federal constitution committed to the principles of free and open markets and for maintaining its proper implementation and emphasizes on the importance of federal government imposing hard budget constraints on sub-national governments.

2.2.3 Stakeholder Theory of Management

This theory was pioneered by the work done by Stanford Research Institute in the 1960s and was popularized by Richard Edward Freeman in 1984, in the book - Strategic Management: A Stakeholder Approach came out. Stakeholder theory looks beyond the relationship between shareholders and managers to include other categories of stakeholders such as customers, suppliers etc. Corporate governance efforts should be geared towards empowering those stakeholders who contribute or control resources and skills and to ensure that the interests of these stakeholders are aligned.

This theory considers the firm as a chain of contracts between management and shareholders on the one hand and employees, stakeholders; creditors and government on the other. Applying this principle in public sector management, the country as a whole can be viewed as the firm, the federal government and sub-national governments are the managers while citizens, other governments, international bodies among others are the stakeholders. Thus, from the point of view of the stakeholder theory, concern should go beyond the traditional management-shareholder relationship to include all other players in the management of resources- human and materials in this case the government at every level and the citizens.

The idea of stakeholders, or stakeholder management, or a stakeholder approach to strategic management, suggests that managers must formulate and implement processes which satisfy all and only those groups who have a stake in the business. Relating this to the public sector, policies and processes formulated should satisfy public servants, taxpayers, other government, international bodies etc. The stakeholder theory, in essence suggests that every organization strives to create value for all stakeholders as a reason for its existence.

2.3. The Empirics

The discourse on fiscal federalism and economic development of Nigeria had taken centre stage in all the discourses bordering on Nigeria's development efforts. Ubokudom and Ndiyo(2003) examined the impact of revenue allocation on development. Per capita GDP and discomfort index were used as explanatory variables while federal government revenue, state government revenue and local government revenue were used as explained variables. The relationships were estimated using Ordinary Least Square (OLS) estimation technique. Result showed that total federally collected revenue contributed positively to real GDP growth, per capita GDP, provision of social services and the diminution of the discomfort index, while revenue decentralization worked in the opposite direction in each case. The study attributed the result of the relationship between decentralization and economic development on the multiplicity of avenues for resource mismanagement and corrupt practices occasioned by large number of states and Local governments as opposed to single central government. The study however did not recommend large revenue and expenditure powers to the federal government; rather, it recommended intensification of the fight against corruption so as to ensure accountability in the management of public resource for public good.

Nyong (2003) measured the effect of revenue allocation on economic development using growth equation from neoclassical production function. The estimate covered a period of 1960-1996 and two stage least square estimation procedure was employed. Dynamic policy simulation was also attempted to determine the probable part of Nigeria's economic development had alternative revenue formula was adopted. The result of the study showed that the revenue shares to the federal, state, and local government are statistically significant in influencing economic development in Nigeria and that the impact multiplier of the shares on economic development is largest for the federal government, followed by that of local governments before that of the state governments. Based on this, the study recommended that larger share of revenue should be given to the local government than the state government. However, this decision should be taken under the condition of equal absorptive capacity between states and local government areas.

In a bid to examine empirically whether revenue allocation formula adopted in the past has had any meaningful impact on the economic growth process in Nigeria, Usman (2011), assessed the impact of revenue allocation on economic growth in Nigeria using growth of GDP as dependent variable while population growth rate, gross fixed capital formation as percentage of GDP, growth rate of federal government share of the federation account, growth rate of state government share of the federation account, growth rate of local government share of the federation account and inflation were the independent variables. Application of Ordinary Least Square estimation technique to the estimation of the model showed that, there exists a direct relationship between the revenue allocation formula as proxies for the share of federal, state and local government from the federation account and economic

growth process in Nigeria. This implies that the revenue allocation formula is a catalyst for economic growth and development. The sign of the variables conforms to the a priori expectation which is positive, except for the share of the state that is not statistically significant.

Usman deduced from his findings that the share of local and federal government from the federation account contributes to the economic growth process of Nigeria. Hence, the share of local government must be increased for improved performance. However, the share of the state from the federation account does not perform as expected. Hence, effort should be geared towards effective and efficient utilization of fund at the state level. Effort should also be geared towards increase in investment through expansion in private sector investment.

Jimoh (2003), sought to determine the optimality or otherwise of how functions are assigned, how the taxing powers to raise resources for the performance of the assigned functions are shared, and how resources are transferred between (or among) the tiers of government. He examined the effects of the level of decentralization of Nigerian government activities as measured by the number of states, the number of local governments, its expenditure concentration ratio, revenue concentration ratio and fiscal autonomy ratio on the Nigerian aggregate output level and on the prevalence of poverty in the country. This was done by specifying and estimating output and poverty equations respectively.

The study found that while the assignment of expenditure responsibilities among tiers of government appears to accord with the conventional wisdom on such as well as with the pattern in majority of federal arrangements around the world, revenue collection appears to be concentrated in the hands of federal government and vertical arrangements appear to have left proportionately more than needed at centre and too little for states and local governments. The study suggests that more decentralized governance, especially in terms of increased local governments and increased transfer of revenues to lower tiers of government would stimulate economic activities thereby resulting in economic growth. Consequently, the study recommends that efforts should be made to increase the revenue allocation powers of lower tiers of government as well as increase their rights to revenues.

Abaniwo (2010), sought to determine the extent to which the allocation of revenue between levels of government could influence and have impact on the level of economic growth and development in Nigeria. In order to evaluate the impact of resource allocation in economic growth and development, he used a multiple regression econometric model. He assessed the effect of two or more economic variable(s) on the dependent variable. The dependent variable of his work was Gross Domestic Product (GDP) while the independent variables were total capital expenditure, total recurrent expenditure and total fiscal balance. Abaniwo's findings show that although there is a positive relationship between economic growth and

development and revenue allocation as confirmed by the a priori expectation, the positive relationship is very weak. Thus, federalism has not fully had a positive impact on the socio-economic development of Nigeria. He recommended that the revenue base of the federal, state and local government should be diversified in order to reverse this negative trend. He recommended the need for the Nigerian government to ensure that capital and recurrent expenditures are properly managed in a manner that will raise the nation's production capacity and accelerate growth and development.

Onwioduokit (2019) examines the impact of fiscal decentralization on inflation and economic growth in Nigeria. Findings from the study showed that a unit change in fiscal decentralization increases inflation by half. This is found to run in sharp contrast with the belief that fiscal decentralization is best for price stability than a centralized fiscal system. Consequently, the result of the relationship between fiscal decentralization and economic growth indicated that fiscal decentralization does not seem to contribute significantly to increase in per capita income. The study concluded that fiscal decentralization has the potential to create the conditions that undermine price stability and has little or no potential to foster sustained increase in per capita income. In recommendation, the study suggested that borrowing ability of sub-national government should be limited. Besides, the need for greater accountability and transparency through honest fight against corruption and the devolution of juicy tax powers to sub-national governments should be promoted.

3. METHODOLOGY

3.1 Research Design

In view of the reviewed theories and given the impact of fiscal federalism on macroeconomic stability, we adopt a politico-economic approach in our study. This approach is all encompassing as it considers the political as well as economic implication of decentralization on economic performance.

3.1 Model Specification

Fiscal federalism arises as a result of resource allocation and assignment of responsibilities. On the basis of this we look at the position of classical normative theorists and that of the market preserving theorists so as to ascertain which work well for Nigeria macroeconomic stability. The argument of normative choice theorists is that revenue centralization and expenditure decentralization work well for stabilization. On the basis of this we specify that macroeconomic stability proxied by economic growth rate, price stability and employment as a function of fiscal decentralization proxied by pooled of resources from the federation account to sub-national government and expenditure of constituent units of government along with number of constituent units within each tier of government. Thus,

$$GDP_r = f(\text{fiscal decentralization})$$

Equation 3.1

$$Inf = f(\text{fiscal decentralization})$$

Equation 3.2

$$Unem = f(\text{fiscal decentralization})$$

Equation 3.3

Equation (3.1), (3.2) and (3.3) attempt to establish the impact of fiscal decentralization on economic growth, price stability and employment respectively. Following a centralized revenue and decentralized expenditure model we further specify (3.1), (3.2), and (3.3) as

$$\text{GDP}r = f(\text{FGTCR}, \text{SGTR}, \text{LGTR}, \text{FGTEXP}, \text{SGTEXP}, \text{LGTEXP}, \text{NOS}, \text{NOL})$$

Equation 3.4

$$\text{INF} = f(\text{FGTCR}, \text{SGTR}, \text{LGTR}, \text{FGTEXP}, \text{SGTEXP}, \text{LGTEXP}, \text{NOS}, \text{NOL})$$

Equation 3.5

$$\text{UNEM} = f(\text{FGTCR}, \text{SGTR}, \text{LGTR}, \text{FGTEXP}, \text{SGTEXP}, \text{LGTEXP}, \text{NOS}, \text{NOL})$$

Equation 3.6

Where:

GDP_r = real GDP growth rate

INF = inflation (proxy for price stability)

UNEM = rate of unemployment

FGTCR = federal government total collected revenue

SGTR = state government total revenue

LGTR = local government total revenue

FGTEXP = federal government total expenditure

SGTEXP = state government total expenditure

LGTEXP = local government total expenditure

NOS = number of states

NOL = number of local government

Following the argument of market preserving federalism theorists where both revenue and expenditure should be decentralized, we re-specify (3.4), (3.5), and (3.6) as:

$$\text{GDP}r = f(\text{FGRR}, \text{SGIR}, \text{LGIR}, \text{FGTEXP}, \text{SGTEXP}, \text{LGTEXP}, \text{NOS}, \text{NOL})$$

Equation 3.4*

$$\text{INF} = f(\text{FGRR}, \text{SGIR}, \text{LGIR}, \text{FGTEXP}, \text{SGTEXP}, \text{LGTEXP}, \text{NOS}, \text{NOL})$$

Equation 3.5*

$$\text{UNEM} = f(\text{FGRR}, \text{SGIR}, \text{LGIR}, \text{FGTEXP}, \text{SGTEXP}, \text{LGTEXP}, \text{NOS}, \text{NOL})$$

Equation 3.6*

Where:

FGRR = federal government retain revenue

SGIR = state government internally generated revenue

LGIR = local government internally generated revenue

Other variables are as earlier defined.

To contend for change in the variables we estimate all the models in logarithm form.

Hence;

$$\text{GDP}r = \alpha + \beta_1 \text{Lfgtcr} + \beta_2 \text{Lsgtr} + \beta_3 \text{Llgr} + \beta_4 \text{Lfgtexp} + \beta_5 \text{Lsgtexp} + \beta_6 \text{Llgtexp} + \beta_7 \text{Lnfu} + \beta_8 \text{Lnos} + \beta_9 \text{Lnol}$$

Equation 3.7

$$\text{INF} = \alpha + \beta_1 \text{Lfgtcr} + \beta_2 \text{Lsgtr} + \beta_3 \text{Llgr} + \beta_4 \text{Lfgtexp} + \beta_5 \text{Lsgtexp} + \beta_6 \text{Llgtexp} + \beta_7 \text{Lnfu} + \beta_8 \text{Lnos} + \beta_9 \text{Lnol}$$

Equation 3.8

$$\text{UNEM} = \alpha + \beta_1 \text{Lfgtcr} + \beta_2 \text{Lsgtr} + \beta_3 \text{Llgr} + \beta_4 \text{Lfgtexp} + \beta_5 \text{Lsgtexp} + \beta_6 \text{Llgtexp} +$$

$$\beta_7 \text{Lnfu} + \beta_8 \text{Lnos} + \beta_9 \text{Lnol}$$

Equation 3.9

$$\text{For (3.7)} \beta_1 - \beta_9 > 0$$

$$\text{For (3.8)} \beta_1 - \beta_9 < 0$$

$$\text{For (3.9)} \beta_1 - \beta_9 < 0$$

Consequently, (3.4*), (3.5*) and (3.6*) can be expressed explicitly as:

$$\text{GDP} = \alpha + \beta_1 \text{Lfgrr} + \beta_2 \text{Lsgir} + \beta_3 \text{Llgir} + \beta_4 \text{Lfgtexp} + \beta_5 \text{Lsgtexp} + \beta_6 \text{Llgtexp} + \beta_7 \text{Lnfu} + \beta_8 \text{Lnos} + \beta_9 \text{Lnol}$$

Equation 3.10

$$\text{INF} = \alpha + \beta_1 \text{Lfgrr} + \beta_2 \text{Lsgir} + \beta_3 \text{Llgir} + \beta_4 \text{Lfgtexp} + \beta_5 \text{Lsgtexp} + \beta_6 \text{Llgtexp} + \beta_7 \text{Lnfu} + \beta_8 \text{Lnos} + \beta_9 \text{Lnol}$$

Equation 3.11

$$\text{UNEM} = \alpha + \beta_1 \text{Lfgrr} + \beta_2 \text{Lsgir} + \beta_3 \text{Llgir} + \beta_4 \text{Lfgtexp} + \beta_5 \text{Lsgtexp} + \beta_6 \text{Llgtexp} + \beta_7 \text{Lnfu} + \beta_8 \text{Lnos} + \beta_9 \text{Lnol}$$

Equation 3.12

$$\text{For (10)} \beta_1 - \beta_9 > 0$$

$$\text{For (11)} \beta_1 - \beta_9 < 0$$

$$\text{For (12)} \beta_1 - \beta_9 < 0$$

3.3 Nature, Sources of Data and Estimation Technique

Data on all the variables for estimation were time series data and were obtained from Central Bank of Nigeria (CBN) statistical bulletin 2018 edition. Each model was estimated using ordinary least square (OLS) estimation technique in log linear form.

4. RESULTS AND DISCUSSIONS

4.1 OLS Regression Results

Table 4.1 below shows the result of the impact of centralized revenue and decentralized expenditure on stability of macroeconomic indices.

Table 4.1: Impact of Centralized Revenue and Decentralized Expenditure on Economic Growth

Variable	Coefficient	Standard error	t-statistic	Probability
C	-96.501	146.151	-0.6603	0.5179
LFGTCR	-2.6662	7.6398	-0.3489	0.7314
LSGTR	13.5384	31.6176	0.4282	0.6739
LLGTR	26.8632	59.1138	0.4555	0.6553
LFGTEXP	-11.936	6.1114	-1.953	0.0675
LSGTEXP	-16.096	28.6936	-0.5609	0.5821
LLGTEXP	-14.083	56.4371	-0.2495	0.8059
LNOS	43.4991	46.6846	0.9318	0.3645
R² = 0.39		Adj R² = 0.14		DW = 2.4

This result shows that neither revenue centralization nor expenditure decentralization has any significant impact on economic growth. Federal government total collected revenue has a negative and non-significant impact on economic growth. This means that instead of totally federal collected revenue to contribute to economic stability, it rather leads to instability. This is typical of Nigeria federalism where concentration of enormous resources at the centre does not translate to improvement in the life of citizens but result in poverty in the midst of plenty and wanton looting of state resources by few elites. The centrally allocated revenue to the states has positive but non-significant relationship with economic growth.

This means that if the state revenue handles increase, the likelihood is that this may translate to economic stability. This finding raise doubt as to why the federal government should control greater chunk of the national resource instead of allowing each state to control its resources. The share of local government revenue from the federation account impacts positively and non-significantly on economic growth. The implication of this finding is that providing more revenue to the local government from the centre could help the local government in providing life touching projects to the rural populace. Grassroots' development has a multiplier effect on the national economy since the locals are the sustainer of the economy through provision of food from agricultural production.

The total expenditure of federal, state and local government does not impact positively on economic growth. Rather, the relationship between federal, state and local government expenditure on economic growth is negative and non-significant. It goes to show that expenditure of government at any level in Nigeria does not consider the wealth impact of such expenditure on the welfare of generality of the populace. Rather such expenditure may be taken merely for political reason. Number of states has positive and non-significant impact on economic growth. What can be deduced from here is that creating more states apart from political reason could expand growth and development faster than when the states are few. Nigeria case to some extent has shown that some states which are now autonomous entity and are building infrastructure would have still remained unnoticed and underdeveloped if they were not created. However, in creating state as a unit of growth and development, there is need to look at resource endowment of the state to see if they would be able to generate reasonable revenue from their resources to meet their expenditure needs. Creating states without recourse to its resource endowment but to rely solely on centrally shared revenue is to say the least retrogressive.

Thus, concentrating revenue at the centre to be shared as a common pool does not ensure economic growth neither does decentralized expenditure. Hence it can be said that the revenue-expenditure mix of tier of governments in Nigeria does not reflect the desire and choice of the masses. This in essence impacts negatively on macroeconomic stability. A major explanation for Nigeria's poor economic

performance in particular may be found in the state's flawed domestic political economy, which encourages over-dependency on oil. The Nigerian state now operates an oil-centred economy in which all other sectors, and by extension, governments at all levels, consequently depend on the oil sector. This scenario according to Ewetan, Ike and Ige (2015) has been characterised by a lack of growth and increasing poverty, a phenomenon Terry Lynn Karl (1997) describes as oil's "paradox of plenty".

Table 4.2: Impact of centralized revenue and decentralized expenditure on price stability

Variable	Coefficient	Standard Error	t-statistic	Probability
C	793.004	120.924	6.5578	0.0000
LFGTCR	-7.6947	6.3254	-1.2164	0.2395
LSGTR	-51.136	26.1684	-1.9541	0.0664
LLGTR	-30.483	48.9039	-0.6233	0.5409
LFGTEXP	-11.66	4.8526	-2.4027	0.0273
LSGTEXP	54.094	23.7613	2.2765	0.0353
LLGTEXP	30.9037	46.662	0.8337	0.4154
LNOS	-196.45	38.5313	-5.0983	0.0001
R² = 0.94		Adj R² = 0.92		DW = 2.34

From the result presented in Table 4.2, total federal government collected revenue has a negative and non-significant impact on price stability. So is the state total collected revenue as well as that of the local government. The negative signs indicate that a rise in revenue profile of government results in lowering the general price level thus promoting price stability. This goes to show that the tool of government revenue generation when properly used could help to ensure price stability. In a bit to raise more revenue, government may use discretionary fiscal policy measures which could tend to contract demand thereby ensuring moderate price regime. However, the non-significance of these revenues make little economic significance of this result.

Federal government total expenditure is negatively and significantly related to price stability. The negative sign is appropriate. This implies that federal government can use her expenditure pattern to ensure price stability. More so, the power of fiscal policy at any given time resides with the federal government and it can use this power discreetly if it so desired. We can further deduce from this result that the responsibility for stabilizing the economy rest with the federal government through its expenditure mix. Furthermore, this finding supports the age long position that stabilization function should be undertaken by the federal government.

The state government total expenditure is positively and significantly related to price stability. This implies that state government expenditure is inflationary. The reliance of states on statutory transfers to finance her expenditure does not match expenditure responsibilities with the assignment of tax powers. A direct consequence is that state governments tend to spend freely since tax revenues are hardly linked to spending. According to fiscal illusion literature, a distortion between revenue and expenditure means the state government do not internalize the full cost of their spending because part of the cost is passed on to taxpayers residents outside their territories, while attempting to internalize the benefits of public spending. The result of this is a divergence between cost and benefits and the state governments tend to spend with little restraints resulting in inflationary pressures (Egwaikhide, 2016).

The Local government total expenditure follows the same pattern as the state and as such creates inflationary pressures. The fact that the relationship between local government expenditure and price stability is not statistically significant makes it of no economic relevance. However, the number of states is significantly found to contribute to price stability. The likely explanation to this is that creating more states though for political reason may prompt the discovery of hitherto undiscovered and un-utilized resources. This in a way may promote domestic production and ensure near perfect match between domestic demands and supply invariably resulting in price stability.

Table 4.3: Impact of centralized revenue and decentralized expenditure on unemployment

Variable	Coefficient	Standard Error	t-Statistic	Probability
C	-31.741	27.756	-1.1436	0.2678
LOG(FGTCR)	0.70599	1.14343	0.61744	0.5447
LOG(SGTR)	-7.2455	4.73039	-1.5317	0.1430
LOG(LGTR)	-2.0754	8.8402	-0.2348	0.8170
LOG(FGTEXP)	0.68051	0.87719	0.77578	0.4480
LOG(SGTEXP)	3.47495	4.29525	0.80902	0.4291
LOG(LGTEXP)	5.65664	8.43495	0.67062	0.5110
LOG(NOL)	5.43601	4.64918	1.16924	0.2576
R² = 0.90	AdjR² = 0.86		DW = 1.75	

The result presented in Table 4.3 does not significantly impact on reduction of unemployment. None of the variables has any significant impact except that the state government and local government total revenues has the impact of reducing unemployment though not significantly. None of the government expenditure seems

to reduce unemployment. This is typical of Nigeria scenario where huge budgetary spending on yearly basis does not translate to better life for the citizenry neither is attention paid to life enhancing projects but on gigantic white elephant projects which help the elites in siphoning large chunk of the country's resources to their private offshore account.

Table 4.4: Impact of decentralized revenue and decentralized expenditure on economic growth

Variable	Coefficient	Standard Error	t-Statistic	Probability
C	-57.50295	109.7797	-0.5238	0.6072
LOG(FGRR)	-0.374887	7.089022	-0.0529	0.9584
LOG(SGIR)	4.939549	5.007906	0.98635	0.3378
LOG(LGIR)	8.852399	5.318343	1.6645	0.1143
LOG(FGTEXP)	-17.03546	7.342946	-2.32	0.0330
LOG(SGTEXP)	-13.08503	10.5463	-1.2407	0.2316
LOG(LGTEXP)	13.41072	8.61671	1.55636	0.1380
LOG(NOS)	43.71002	35.08789	1.24573	0.2298
R² = 0.48		Adj R² = 0.27		DW = 2.95

The result of the decentralized revenue and expenditure of different tiers of government denoted by the internally generated revenue of these tiers of government as shown above indicate that decentralized revenue of different tiers of government does not significantly impact on economic growth. The state and local government internally generated revenue show the proper sign but the relationship is not statistically significant. It goes to mean that if the state and local government internally generated revenue increase this in a way would lead to increase economic growth. The negative sign of the coefficient of the federal government retained revenue though not statistically significant indicate that despite huge sources of internally generated revenue available to the federal government, this has not transformed into economic growth. More so, reliance of government on oil revenue has made it seem as though other sources of revenue are not important. This may be the reason for the ineffectiveness of internally generated revenue to foster growth in a decentralized fiscal system like Nigeria.

Federal government expenditure significantly impacts on economic growth yet the negative sign of the coefficient of federal government expenditure shows that government expenditure is growth retarding. The state government expenditure is negatively and non- significantly impact on growth. But the local government expenditure is positively and non-significantly related to economic growth. It can be deduced from this result that if local government expenditure is properly guided it can lead to growth which may have contagious effect on the economy. The number of

states impact positively but non- significantly on growth. This implies that while number of states may lead to growth, it is not the yardstick to measuring growth per se.

Table 4.5: Impact of decentralized revenue and decentralized expenditure on price stability

Variable	Coefficient	Standard Error	t-Statistic	Probability
C	846.5969	91.32955	9.26969	0.0000
LOG(FGRR)	-23.98817	5.892904	-4.0707	0.0007
LOG(SGIR)	5.784634	4.029103	1.43571	0.1682
LOG(LGIR)	-2.29316	4.404336	-0.5207	0.6089
LOG(FGTEXP)	2.816924	5.563818	0.50629	0.6188
LOG(SGTEXP)	1.491066	8.724001	0.17092	0.8662
LOG(LGTEXP)	7.47222	7.111876	1.05067	0.3073
LOG(NOS)	-211.8788	28.92237	-7.3258	0.0000
R² = 0.95		Adj R² = 0.93		DW = 2.50

From the result in Table 4.5, only federal government retained revenue and the number of states have significant impact on price stability. While local government internally generated revenue has the proper sign it is however not significant. Thus, no economic interpretation could be given to that. The significance of federal government retained revenue in relations to price stability confirms the fact that the responsibility of stabilizing the economy rest with the central government. In addition, the federal government controls the fiscal as well as monetary policy instruments and this give the power to ensure economic stability.

Table 4.6: Impact of decentralized revenue and decentralized expenditure on unemployment

Variable	Coefficient	Standard Error	t-Statistic	Probability
C	-17.75704	17.40342	-1.0203	0.3211
LOG(FGRR)	-1.458344	1.12293	-1.2987	0.2104
LOG(SGIR)	0.806842	0.767771	1.05089	0.3072
LOG(LGIR)	-0.822071	0.839274	-0.9795	0.3403
LOG(FGTEXP)	1.463813	1.06022	1.38067	0.1843
LOG(SGTEXP)	-3.214331	1.662413	-1.9335	0.0691
LOG(LGTEXP)	3.988929	1.355212	2.9434	0.0087
LOG(NOS)	6.903268	5.511338	1.25256	0.2264
R² = 0.90		Adj R² = 0.86		DW = 2.12

The result in Table 4.6 shows that FGRR, LGIR and SGTEXP show the proper signs yet none of them significantly impact on unemployment. However, the LGTEXP does not show the proper sign yet it is statistically significant. It goes to show that

while local government could have provided employment its expenditure instead of reducing poverty tends to promote poverty. It can be deduced perhaps that the expenditure undertaken by local government is not wealth generating.

5. CONCLUSION AND RECOMMENDATIONS

This study was undertaken with a view to ascertaining the impact of fiscal federalism on macroeconomic stability in Nigeria. Specifically, it examined the impact of fiscal federalism on economic growth, price stability and unemployment. The general belief had been that a decentralized fiscal system promotes economic growth faster than a centralized one. It is on the basis of this premise that the study was taken so as to empirically examine the authenticity of this proposition. Though various studies had been conducted before now, none seem to establish the fact that decentralized fiscal structure promotes growth faster than a centralized system in Nigeria. This study took into consideration the normative choice theory of fiscal federalism and the market preserving theory of fiscal federalism. While normative choice theory prefers revenue centralization and expenditure decentralization, market preserving theory prefer both revenue and expenditure decentralization. From this study it has been found that none of the two positions promote economic growth. Thus, the practice of fiscal federalism is not whether revenue is centralized or decentralized but about the attitude of managers of the system. Much politics had been brought to bear on the practice of fiscal federalism in Nigeria and this no doubt may be the reason for poor economic performance in Nigeria of macroeconomic indices.

Examination of fiscal operations of different tiers of government from the constitution of democracy in 1999 indicates that there is high level of dependency of states and local governments on federal allocation from a distributable pool. Thus, the increasing dependency of sub-national government on federation account is indication of emphasis on how much is gotten and not how much is generated. Furthermore, the degree of dependency clearly indicates that Nigeria fiscal federalism is very shallow. This condition is worsened by widespread malpractices in internal revenue mobilization and generation besides rent seeking behavior in general which individually and collectively rob the public treasuries of substantial government revenue. The very high dependency status of sub-national government is an effect of the design of the fiscal system in general and the practice of federalism driven by greed that has killed the incentive to produce.

In submission thereof, we posit that:

- a) Fiscal federalism is inherent in all federal system of government and is driven by political, economic and social-cultural consideration. Fiscal federalism is not synonymous with macroeconomic stability but macroeconomic stability is contingent upon the design and practice of a particular fiscal system.
- b) Macroeconomic stability can be consistent in a federation if sub-national governments have adequate tax assignment with autonomous revenue in which the central government establishing a firm political grip on budget

discipline. Fiscal decentralization requires the balancing of revenue and expenditure profiles to eliminate or at least minimize dependence on transfers and loans and worse of all monetary financing. Huge oil revenue allocated to sub-national governments facilitates expansion of expenditure programmes at sub-national level thereby constraining the central government from stabilizing the national expenditure and the macro economy.

In spite of huge oil revenue accruable to each tier of government, there is still underdevelopment and widespread poverty in the midst of plenty. In view of the observed limitations of fiscal federalism practice in Nigeria, we suggest that;

- i. Imposition of hard budget constraint on lower level government by the central government should be enforced to ensure prudent financial management and accountability in the management of public finance.
- ii. Development of critical sectors of the economy such as agriculture, manufacturing and power among others would help diversify the economy away from over reliance on oil revenue and boost the economy through export thereby promoting employment.
- iii. Anti- graft agencies should be independent of the executive through enabling legislation so as to give them independence of operation to arrest and prosecute corrupt public officers. This is believed would ensure probity, transparency and accountability in the conduct of public affairs.
- iv. Internal revenue generation should be emphasized as the basis of principle of derivation. The operation of Nigeria fiscal federalism should be restructured to reflect the pre-1966 structure where power to control and manage resources resided with the regional government.
- v. The duty of stabilizing the economy should be entrusted with the federal government.

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