Abstract

Effective fiscal policy is a development desideratum. Fiscal policy serves as a veritable tool of development management – an instrument for generating and distributing wealth across the various classes. Using the analytic derived from social and public choice theories of collective decision-making, the experience from Nigeria has shown fiscal policy mostly as a tool of political patronage and an instrument of expropriation. This accounts for why growth in public expenditure is linearly correlated with poverty and inequality. For instance, the Gini Coefficients for both market and net incomes increased by 27.81 and 30.81 per cent respectively between 1981 and 2011. The political economy of fiscal policy management in Nigeria manifests in many forms. First, the tax system remains distortionary and largely inequitable. Second, spending 60 per cent of public resources on 1.8 percent of the population (public servants) while more than 98 percent of Nigerians share less than 40 per cent is an economic and social injustice. Third, the Nigerian parliament remains quite expensive, being the second highest paid in basic salary, and the second largest budget in purchasing power parity after USA while civil servants are being owed salary, pension and gratuity arrears. Fourth, the imbalance of fiscal powers and responsibilities across tiers of government is impeding fiscal justice. And finally, the issuance of fiscal waivers and incentives to foreign firms is disadvantaging local firms and productivity. For fiscal policy management to provide the public commons, the system for fighting corruption must be full-proof and an integrated strategy that focuses on prevention, control and sanction is imperative. It is vital to
decouple the economy from the boom and bust of the oil sector through economic diversification, efficient management of the Sovereign Wealth Fund, and strict implementation of the extant national and states fiscal legislations. Moreover, broadening the tax base of the economy, stopping senseless tax waivers and incentives and involving the people in the preparation, implementation and monitoring of development projects remain crucial.

Introduction
The state plays a critical role in managing the economic affairs of any nation. The imperative of the state intervention becomes obvious when markets and the price mechanism fail to allocate social resources efficiently and fairly. Fiscal policy is one of the major instruments to make this adjustment happen. A good fiscal policy management is vital to addressing poverty and inequality. With a progressive tax system, wealth could be redistributed to marginalized people, sectors and societies. Prudent expenditure management distributes the benefits of growth to the less privileged. Well-managed overall fiscal balance does not allow current generation to pass unnecessary burdens on to future generations – avoiding negative bequests. Such fiscal balance can only take place in a fiscal regime that offers fair returns on investment and maximizes benefits to societies and people.

The effectiveness of fiscal policy depends on a commitment to good governance and an adequate blend of economics and politics. The growing importance of a developmental state raises the prominence of government’s role in the allocation of economic and social resources. This importance underpins the politics of the formation of government social and economic policies. The interplay of politics and economics is critical to the achievement, or otherwise, of the development objectives of any country, Nigeria included.

Governments provide public goods, redistribute incomes, and regulate economic activities to correct market failures. Experience all over the world has shown that the results are not always pleasant to the public. On many occasions, a market failure is replaced with government inefficiencies. Key challenges associated with state interventions are poor information about the consequences of public policies, civil service capture, and faulty institutions. This leads to over-provision of public goods and inadequate financing of public services. When this is
not corrected on time, it leads to systemic corruption that negates the objective of state intervention in the first instance.

Understanding how the political structure shapes fiscal policy is central to any national economic management in developed and developing countries. The structure and linkage between politics and economics help to understand the emergence and performance of government policies. The need to have a clear understanding of how stakeholders act collectively to provide public goods, redistribute income, or issue government debt calls for a thorough examination of the political economy of government budgets in Nigeria. Thus, this paper examines the political economy of fiscal policy management in Nigeria.

An Overview of Fiscal Policy Management in Nigeria

The public budget is an important tool of development management. Both recurrent and capital spending have impacts on a population’s welfare. Capital expenditure directly affects people’s welfare, while recurrent has indirect impacts through service provision by public servants. However, whenever the quality of service provision is compromised, the impact of public spending on the populace becomes marginal. On the aggregate, the share of recurrent budget in total budget has been quite high, especially at the Federal Government level. It rose from 42.5 percent in 1981 to 69.0 per cent in 2001-05 and 72.5 per cent in 2011-14 compared to the share of the capital budget of 57.5 per cent, 31.0 per cent and 27.5 per cent, respectively. The Federal government has been less frugal in the use of public resources in paying salaries as opposed to using these resources to support development projects. Figures 1 and 2 illuminate the dynamics of recurrent and capital expenditures at the Federal and state government levels.
At the State level, each election year has been associated with a rise in capital spending (see 1999, 2003, 2007 and 2011). The key question is: why is capital spending always increasing during election years? Two factors could account for this. First, trying to demonstrate that some infrastructure work is happening as a way of winning votes from the people. Second, awarding contracts on capital projects could be an avenue of mobilizing resources for elections. In both cases, there is some element of deceit.

At the Federal government level, strategic efforts should be initiated to reverse the widening trend of capital spending to the level experienced between 1996 and 1998. The restructuring efforts that created this rising trend between 2003 and 2009, especially privatization of some of parastatals that served as drained pipes to the national treasury, should be looked into with a view to enhancing the share of capital spending.
The conclusion from Odusola (2006) provides a good summary of the features of the Nigerian tax system. The tax system is lopsided, dominated by oil revenue, and characterized by unnecessarily complex, distortionary and largely inequitable taxation laws that have limited application in the informal sector that dominates the economy.

Nigeria adopts a ‘boom and bust’ style of fiscal policy management. There has not been a consistent policy to decouple the country’s economy (especially exports, expenditures, and non-oil deficit) from the volatility of oil revenues. For instance, since 1976, annual oil production has been shaping the level, growth and dynamics of national per capita incomes. The correlation coefficient is very high: 0.64 for 1976-2008. This shows the fortune in the international oil market constitutes a major predictor of per capita income in Nigeria. Several factors account for this boom and bust fiscal policy management style: policy inconsistency due to political pressure and patronage, corruption, incorrect policy implementation, and wasteful expenditure (Odusola, 2006 and Igen et al, 2014). The adoption of
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A ‘reference-oil-pricing’ regime in 2004\(^1\), which was well applauded by citizens, did not go well with State governments. The fact that this account was operated as a stabilization fund did not provide the opportunity to decouple the economy and fiscal operations of government from current oil earnings. This policy is far from linking government spending to long term oil prices – i.e. using the fund as a long term savings and precautionary fund. The Norwegian, the Kuwaiti and the United Arab Emirates (UAE) examples are quite apposite in this respect. The uproar on the management of the Sovereign Wealth Fund between December 2014 and July 2015 reveals the gross mismanagement of the Fund. The management of the fund lacks transparency and accountability, and is weak in reporting mechanisms.\(^2\) Even when the Petroleum Industry Bill was prepared to stem the tide of vicissitude in the sector, the process was blocked by the entrenched political powers.

To this end, oil still accounts for about 90 per cent of total exports, and between 2005 and 2014, oil accounted for an average of 76.7 per cent of total revenues – from 79.44 per cent (2000-04). Nigeria’s total revenue is pro-cyclical to global oil prices. Non-oil revenues mostly improve whenever there is a serious crisis in the international oil market (Figure 3). The revenues-GDP ratio is volatile and the only period a consistent effort was made to make the ratio 20 per cent and above was between 1999 and 2008. The consistent rise in oil prices and efforts to diversify the revenue base of the economy made this possible. The adoption of a fiscal policy rule, including the creation of the Excess Crude Oil Account, the establishment of the Sovereign Wealth Fund, and the promulgation of the Fiscal Responsibility Act provided some elements of fiscal discipline. However, the adherence to these policies slacked between 2010 and 2015.

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\(^1\) This pricing regime pegs the budget price below the global price level and the balance is kept in the Excess Crude Oil Account as a stabilization fund to augment any future shortfall. The account was managed by the Central Bank of Nigeria. This transformed into a Sovereign Wealth Fund in 2011 through the Nigeria Sovereign Investment Authority Act – with an initial financing of $1.00 billion from the Government of Nigeria. This is managed under the Nigeria Sovereign Investment Authority.

\(^2\) See Igen et al (2014) for more information on the management of the fund and a good comparison between the Fund and the Norwegian approach.
No consistent effort was made to transform and diversify the existing revenue base. Rather, fiscal management has merely transited from one primary product-based revenue to another, making the economy susceptible to fluctuations of the international oil market. Odusola (2006) stressed the imperative of diversifying the revenue base of the country: (i) safeguarding against crude oil volatility; (ii) de-emphasizing cash-based budgeting; (iii) diversifying revenues away from petroleum and trade taxes by focusing on direct and indirect taxes; and (iv) reducing public expenditure to the level of its absorptive capacity while at the same time enhancing capacity to formulate and implement development programmes. Odusola (2017) also underscores the importance of ‘quid-pro-quo’ (increasing quality of expenditure and service provisions) in deepening domestic resource capacity in Africa.

The political economy of fiscal policy management will be incomplete without mentioning the imbalance of fiscal powers and responsibilities across tiers of government. The Nigerian tax system is biased against lower states and local governments. For instance, the federal government, controls the buoyant tax components, while the state and local governments have jurisdiction over the less profitable components. In most instances, the Federal government taxes the corporate bodies, while the state and Local governments tax individuals. The Federal Government also retains legislative powers over concurrent taxation, such as the personal income tax, capital gains tax and stamp duties. The Federal Government administers the Value Added Tax (VAT) and education tax fund, state taxes, under the guise of states’ weak capacity to manage its administration and has refused to relinquish this since 1993. The lack of power to introduce new taxes by lower tiers of government is another impediment to the Nigerian fiscal system.

The implementation of the VAT also calls for a critical review for it to be welfare enhancing. Ajakaiye and Odusola (1996) have drawn attention to the cascading impact of VAT. Using a general equilibrium analysis, they conclude that if input VAT is treated as a cost under mark-up pricing regimes, its price effect is distortionary regardless of whether or not the mark-up rates are rigid or flexible downwards. The price implications of the cascading effects range between 8.7-17.5 per cent across the 29 economic sectors of Nigeria. This is not limited to
the Value Added Tax. The welfare implications of other tax handles deserve some critical review.

Recent development debates are focusing on a ‘race to the bottom’ strategy, where countries offer ‘mouth-watering’ fiscal incentives to foreign firms. Rapu et al (2013) provide a comprehensive view of fiscal incentives across sectors. Some of these sectors include:

- the petroleum sector (tax inversion and capital allowances including investment tax credits, investment tax allowances, petroleum investment allowances, etc.);
- the gas sector (including income tax, capital allowances, investment tax credit, royalty, tax holidays, and upstream gas utilization);
- the power sub-sector (multi-year tariff order, tax holiday, company income tax, and import duty exemptions);
- the manufacturing sector (capital allowances, reduced company income tax, reinvestment allowances, manufacture-in-bond scheme);
- the agricultural sector (e.g. a five-year tax holiday, exemptions on financial interest on agriculture loans, unrestricted capital allowances, interest drawback, etc.);
- the telecommunication (pioneer status for five years and exclusivity for licenses); and
- the export incentives and Free Trade Zones.

These incentives call for a review to avoid a situation where local firms are disadvantaged. In fact, giving more attention to illicit financial flows by foreign companies through over- or under-invoicing, activities in tax havens and related tax evasion, among others, should be looked into.
The economic development literature is replete with the central role of both the market and the state in national economic management. The State intervenes to correct market failures. Market failures arise because of the inability of individuals to act co-operatively when cooperation provides a public good in the form of a preferred allocation – that does not worsen the welfare of the majority of the population. Under an effective governance system, government as a coercive institution, can discipline free riders and can enforce a collective allocation that maximizes societal welfare (Ingberman and Inman, 1987; Romer and Rosenthal, 1987).

Figure 3: Revenues, oil revenues and non-oil revenues ratios, 1981-2014

Framework for examining the political economy of fiscal policy management
The economic development literature is replete with the central role of both the market and the state in national economic management. The State intervenes to correct market failures. Market failures arise because of the inability of individuals to act co-operatively when cooperation provides a public good in the form of a preferred allocation – that does not worsen the welfare of the majority of the population. Under an effective governance system, government as a coercive institution, can discipline free riders and can enforce a collective allocation that maximizes societal welfare (Ingberman and Inman, 1987; Romer and Rosenthal, 1987).

Two theoretical frameworks provide some illuminations. The first approach is the Social choice theory. This is characterized by the properties of collective choice mechanisms by typically specifying the form of voters' preferences and the dimensionality of the set of feasible alternatives. It focuses on the existence of an equilibrium, usually defined as that feasible alternative that commands a majority against any other (Ingberman and Inman, 1987). It is a majoritarian political process, where the preference of a simple majority prevails, independent of the institutional environment in which collective decision-making takes place. A simple majority rule is characterized
by pervasive chaotic tendencies, which make stable equilibrium or equilibria possible – in spite of stable administrative regimes, at least four years in a democratic setting – in the context of Nigeria.

In practice, public decisions emerge from complicated institutional structures, often characterized by five dimensions: who votes, on what, when, where, and how? This leads us to the second approach, the political economy or the public choice theory, which tries to address the shortcoming of the social choice theory. It seeks to understand the effects of institutional structure on the existence and properties of equilibria in political processes. It models the rules or institutions governing the process at hand. The final budgetary allocations, sometimes called Structure-Induced Equilibria (SIE), are always influenced by budgetary history, the constitutional rules that define this agenda-setting power, and the structure of institutions involved in the process (Shepsle, 1979). This makes specified and determinate outcomes possible. In a practical sense, the social choice theory helps to understand the necessary trade-offs among the axioms of what should be while the public choice theory assists to understand what is. It is about normative and positive choices.

The guiding assumption of the political economy of fiscal policy management in a democratic setting is that when majority-rule governments succeed in making collective choices, based on extant institutions, no individual nor group has both the incentive and the ability to change the resulting allocation (Ingberman and Inman, 1987). Is this assumption true in most cases? In many countries, achieving a stable outcome over a given period is not always the case. The solution lies in moving beyond a simple majority-rule to more structured collective choice processes. Structure and institutions make stable allocations and outcomes possible.

The political economy of fiscal policy can be better appreciated when fiscal policy is decomposed into its three main components: (i) public expenditures, (ii) taxes and transfers, and (iii) public borrowing – financing fiscal deficit. The literature is replete with the different frameworks of determining the level of public spending: median income voter outcome (spending always equals the median voters preferred allocation) (Inman, 1979 and Rubinfeld, 1987); agenda-setter approach (Romer and Rosenthal, 1982); and structure induced equilibria (Shepsle, 1979). Many studies have also observed that
voters are assumed to have similar preferences over the after-tax consumption, and work effort, but differ in their ability to earn income.\textsuperscript{3} The ability to harmonize differing positions on taxes and transfers is vital to making good fiscal policy decisions. From the tax and transfer side, it is always the middle class and the rich class that are politically advantaged, while the poor ride along with them. The key variables to maximize welfare are the level of transfer, average tax rates, and tax progressivity.

From a Keynesian policy framework, which is based on the economy's failure to efficiently accommodate increasing returns to scale, prescribes the use of government debt to increase aggregate demand and stimulate aggregate employment with its concomitant rise in prices. This, in itself, creates competition between classes, especially those currently fully employed that may suffer from a fall in real income as a result of increases in prices, versus those unemployed that are likely to secure employment as a result of rise in aggregate demand (Hart, 1982; Ingberman and Inman, 1987). When the employment generation is marginal relative to price movement, governments often resort to inter-temporal contracting or reallocations – committing resources from young to old generations – negative bequests. As argued by Barro (1979), the main role of government debt (deficit financing) is to assure efficient systems of public finance by reallocating tax burdens from periods of abnormally high spending to periods of low spending, or times of unusually low national incomes. In this respect, a tax smoothing approach minimizes the excess burden and collection costs of paying for public goods.

Analytics: State capture and fiscal policy management in Nigeria
Fiscal policy is a veritable tool of development management. In many developing countries, fiscal policy has become an important tool of political patronage. This can be from the three components of fiscal

\textsuperscript{3}See, for instance, Romer (1975), Roberts (1977), Meltzer and Richards (1981), and Ingberman and Inman (1987) on people's preferences for gross income, disposable income and ability to earn income. Song et al (2012) and Battaglini and Coate (2014) also provide some illumination on how various groups lose (current high-income earner) and gain (unemployed) from public borrowing – as postulated by Keynesian framework.
policy management: expenditures, taxes or transfers, and borrowings. Public resources that are supposed to be used in enhancing welfare of the citizens are always used to meet the needs of political cronies, godfathers or godmothers, or even public servants. In societies where this is the norm, public budgets that should drive the distribution of democratic dividends to electorate become a tool for satisfying political cronies, nepotism and tribalism – an instrument of patronage.

The OECD’s (2009) conclusions on the political economy of fiscal policy in sub-Saharan Africa (SSA) is quite apposite: “The political economy of the countries of SSA is complex and heterogeneous, but to a greater or lesser extent, the distribution of patronage by political elite using public resources is integral to the political process in most countries.” Political patronage is commonplace in Nigeria, as is the case in most African countries, especially given the prevalence of political ‘godfatherism’ in the present political dispensation. Revenues and expenditures are major sources of resources for patronage. The patronage system takes advantage of the weaknesses in tax administration and the overall public financial management systems at the three tiers of government.

**Public expenditure for the people or for political patronage?**

Fiscal policy is a tool for generating and distributing wealth across the various classes in the society. A society experiencing non-state capture benefits maximally from fiscal policy management. What does the evidence say? The pervasive scam in the petroleum subsidy management, the pension fund, the operations of the Nigerian National Petroleum Company (NNPC) and the Niger Delta Development Commission (NDDC), to mention a few, and the implementation of government budgets at all tiers of government are good examples of impunity in public resource management in Nigeria – evidence of state capture.

Public expenditure, if well managed, provides access to public goods like security, roads, electricity, health, and education services. It helps to connect farmers to markets, marginalized communities to modern infrastructure, and caters for the interests of disadvantaged people. To this end, it is a tool for tackling poverty, inequality and exclusion. However, the evidence on the link between the average growth in public expenditure and poverty rate on Nigeria is counterintuitive. The correlation index between government expenditure and poverty
rate ($1.25) is highly positive (0.84). The faster the growth of public expenditures in Nigeria, the higher the level of corruption. Contract awards are instruments of expropriation. With quality expenditure, poverty is expected to fall with increases in public spending, especially if a substantial part of it goes into infrastructure development and quality service delivery that benefits a majority of Nigerians, or an effective social protection mechanism is adopted. The trended movement between the poverty rate and growth rate of public expenditure in Nigeria could imply a manifestation of intense corruption and patronage (see Figure 4). There are instances where the same projects appear on annual budgets for multiple years without any evidence of implementation. The second River Niger Bridge is a good example.

Alternatively, resources are financing what does not benefit the people. For instance, seven State governments own 11 private jets and helicopters – worth N39.17 billion and being serviced annually with N6.00 billion. Some of these states (Bauchi, Cross River, Osun and Rivers) owed workers’ salaries worth between two and ten months – as a result of the dwindling oil prices. Expenditures like those above are not likely to make any serious dent in the poverty rate. Rather, they could be a major driver of inequality.

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Inequality exhibits a similar relationship with growth in public expenditure in Nigeria (Figure 4). There is clear evidence that rapid growth in public spending fuels inequality in Nigeria. Inequality tends to fall when there is an appreciable reduction in public spending. This tends to suggest low absorptive capacity or weak budgetary institutions. The absence of adherence to fiscal rules subjects public expenditure to political pressure, thereby making spending to be procyclical to global oil prices. In many situations, spending is at variance with public capacity. This confirms other studies that find that countries with weak budget institutions are more likely to have poor fiscal policy implementation outcomes.\(^5\)

Using the Standardized World Income Inequality Database (SWIID), the Gini Coefficient market income (before taxes and transfers) increased by 27.811 per cent between 1981 and 2011, while the net Gini

Coefficient rose by 30.809 per cent (see Figure 5 for the dynamics and trends). The regime with highest level of inequality (both market and net) is Abdulsalami regime (1997-99), followed by Abacha regime. On the other hand, Babangida and the second term of Obasanjo regimes had the lowest inequality levels (Table 1). However, Babangida’s regime recorded the worst trend in inequality, while Obasanjo’s first democratic regime (1999-03) had the best trend. The regime with the best distributive impact of fiscal policy is Abacha. The establishment and implementation of the Petroleum Trust Fund (PTF) \(^6\) between 1994 and 1999, which was about N181 billion, led to the execution of many roads and waterways; supply of educational materials and rehabilitation of educational infrastructure; food supply; health; water supply; and what was curiously termed “other projects.” This, to a large extent, enhanced access to socio-economic infrastructure in the country.

The use of waivers and concessions have become a drain pipe in the governance public financial system. Good examples of this include granting income tax holidays or import duty exemptions to politically favoured companies on a selective and non-objective basis. For instance, evidence from the House of Representatives Committee on Customs and Excise revealed that Nigeria lost over N380 billion in import duties at the run-up to the 2007 elections,\(^7\) while the Customs Services said in 2011 alone, the Federal Government lost N37.2bn (about 7% of Customs collections in the year) to import duty waivers granted to importers of raw materials.\(^8\) When waivers to importers of

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\(^6\) General Abacha, in 1994 increased the prices of petrol, diesel and kerosene and put the saving from the subsidy removal into a trust fund called PTF dedicated for the implementation of infrastructural projects under the chairmanship of General Muhamadu Buhari. The project accelerated access to socio-economic infrastructure. For instance, 18,311 kilometres of roads were either rehabilitated or constructed. However, the political economy of the PTF is that its activities were over-concentrated in the Northern part of Nigeria. For more information on this see http://pointblanknews.com/pbn/exclusive/buhari-ptf-days-untold-story/

\(^7\) See Modebe et al 2014.

intermediate and finished goods are accounted for, the value will be particularly large. Also, anecdotal evidence from the ongoing Senate probe of import waivers under the President Jonathan administration revealed N585 billion was lost to waivers between 2011 and 2014. Tax authorities helping politically linked individuals and companies to reduce their tax liabilities is also in vogue.

Figure 5: Income inequality and Fiscal Redistribution in Nigeria, 1981-2011

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9 Senate Probes Import Waivers granted by Jonathan’s Government. 
Table 1: Dynamics of Market and Net Inequality in Nigeria by Regimes (1985-2011)

<table>
<thead>
<tr>
<th>Regime</th>
<th>Average Daily Net Inequality</th>
<th>Average Market Inequality</th>
<th>Redistributive Impact of Fiscal Policy</th>
<th>Change in Net Inequality</th>
<th>Change in Market Inequality</th>
<th>Change in Fiscal Redistribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Babangida Regime (1985-93)</td>
<td>42.207</td>
<td>44.482</td>
<td>2.275</td>
<td>21.383</td>
<td>21.429</td>
<td>22.276</td>
</tr>
<tr>
<td>Abdulsalami Retime (1997-99)</td>
<td>49.342</td>
<td>51.653</td>
<td>2.311</td>
<td>-4.508</td>
<td>-4.578</td>
<td>-3.125</td>
</tr>
<tr>
<td>Second Obasanjo Regime (2003-07)</td>
<td>43.650</td>
<td>45.897</td>
<td>2.247</td>
<td>2.228</td>
<td>2.615</td>
<td>11.288</td>
</tr>
</tbody>
</table>

Source: Author’s computation from Stock F. (2009).

From the expenditure side, the practice of awarding contracts to political heavyweights is ubiquitous, yet most of the contracts were never implemented. In 2012, the investigations from the House of Representatives indicated that 15 fuel importers collected more than $300m during 2009-2011 without importing any fuel. It was further revealed that importers were being paid for 59 million litres a day, while the country only consumes 35 million. Due to patronage, the number of fuel importers ballooned - rose from 5 in 2006 to 10 in 2007, 19 in 2008 and 140 in 2011. The country spent a whopping sum of N2.587 trillion ($16.46 billion) on fuel subsidy in 2011; representing 95.5 per cent more than the N245 billion ($1.56 billion) in the budget. The total subsidy represents 4.1 percent nominal GDP and 54.9 per cent of the national budget. This egregious amount is by all standards economic and financial crimes.

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11 This is even based on the assumption that all criteria used in the calculation of the subsidy for the 2011 (N245.00 billion) is accurate. This paper does not dispute the argument that there was no convincing reason for a subsidy of N245.00 billion as included in the budget.
There was no evidence of any significant rise in domestic consumption of petroleum products due to, perhaps, a sharp rise in the number of vehicles used in Nigeria and an astronomical increase in the population in 2011. A copious review of the global market does not justify the monstrous spike in the subsidy size in 2011. Figure 6 provides the dynamics of crude oil prices that could have influenced the spike in subsidy provision - in case Nigeria operates a modulated pricing system. Using the most optimistic scenario, (the highest crude price of $116.75 is considered for determining the subsidy level relative to the December 2010 price), this only accounts for a maximum of 20.4 per cent rise (i.e. N49.98 billion). The most pessimistic scenario (using the average price of 2011) yields only a 4.6 per cent increase (i.e. N11.27 billion). Based on this analysis, the mammoth increase in subsidy in 2011 deserves a thorough investigation and ensuring all culprits face the law as enshrined in the country’s extant laws. This is important to ensure public budgets serve the good of the people.

Figure 6: Crude Oil prices in 2010-2012 ($ per barrel)

Source: Author’s computation from
http://www.macrotrends.net/1369/crude-oil-price-history-chart

The non-accountability of NNPC (the state-owned oil company) provided an opportunity for gross mismanagement and theft. The NNPC owed, as of 2011, the government N704 billion for various...
violations of the subsidy scheme and it owed a string of fuel traders $3.5 billion. The NNPC is not alone; other agencies of government are also involved. For instance, as a way of circumventing the procurement rules, the Accountant General's office paid 128 subsidy payment transactions of N999 million naira, each in the space of 24 hours between January 12 and 13, 2009. This sleaze is not limited to the oil sector. It also abounds in other sectors of the economy including education, health, agriculture, infrastructure (road and power projects), and security, among others. A good example in the security sector is the $2 billion arms deal under the office of the National Security Adviser, as revealed by the presidential investigations committee on arms procurement under President Goodluck Jonathan administration.

Can we stop the revenue fleece and hemorrhage?

There is *quid-pro quo* in fiscal policy management. The political credibility or legitimacy of the state has some strong implications on voluntary compliance by taxpayers in meeting their tax liabilities. This is otherwise called “fiscal-citizenship.” Countries where public sector transparency and accountability are very weak and where quality of public service provision is sub-optimal, taxpayers’ willingness and voluntary compliance rates are always very low (Moore, 2007). On the other hand, countries where the quality of public expenditures is high – taxpayers receiving better services from the state – voluntary compliance is often high. This tends to suggest the existence of an implicit contract between the state and citizens in which the latter voluntarily pay taxes in return for public services from the former. There is a virtuous circle between an accountable and transparent government and domestic resources mobilization (e.g. share of tax revenue to GDP), thereby providing strong incentives to promote the prosperity of taxpayers and the society.

The evidence on the link between corruption and fiscal space capacity from Nigeria is quite illuminating (see Figure 7). Nigeria was rated as

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the worst on corruption perception index in 2000. This initial condition, coupled with the monumental scale of sleaze and venality in recent times, still continues to have serious impacts on revenue generation capacity. No citizen wants to contribute into an empty basket or pocket! Among African countries with complete data on corruption and fiscal pressure (revenue-GDP ratio) during the period of analysis, Nigeria shows a good example of strong correlation between corruption and revenue collection capacity. The large scale corruption weakens taxpayers' morale to contribute to the public commons and also creates incentives for tax collectors and agencies to rewards themselves. Uganda, Tanzania and Ethiopia also appear on the lowest rung of the ladder of transparency and accountability. As evident in Figure 7, countries with endemic bribery and fraud show a vicious cycle between corruption and fiscal capacity.

In contrast, countries with the best ranking on corruption (with respect to transparent and accountable governance) such as South Africa, Namibia, Mauritius, Morocco and Tunisia exhibit some virtuous circle relationship between corruption and fiscal capacity. Their low level of corruption propels fiscal capacity and volume of revenue regenerated relative to the size of their economies (Figure 7). The evidence is quite strong - with a coefficient of determination of 0.57.

Government efficiency and effectiveness are major correlates for analyzing the political economy of fiscal policy management in Nigeria, as is also the case in many countries in Africa. Transparent and accountable governments create a Pareto optimality in terms of the impact of revenues and expenditures to the society. The opposite creates a condition where very few people, especially public officials, connected politicians, and immediate family of the ruling classes corner what is meant for the public.
Figure 7: Initial condition on corruption and Revenue Generation Capacity in Africa

Source: Author’s computation from the World Development Indicator and Transparency International
(http://www.transparency.org/research/cpi/cpi_2000/0/)

Note: Lower figures for the corruption perception index indicate endemic corruption while higher figures show the opposite.

From the Public Servants to the Public Lords
Public servants and politicians hold the trust of the people to manage public resources for the common good. They are to run the public service as a ‘going concern’ to ensure every citizen feels government presence through provision of quality services and charting the course of transformation and development. What is the reality in Nigeria?

The most comprehensive baseline information of the size of public service in Nigeria is presented in Table 2. The total public servants across the three tiers of government (2.6 million) represent just about 1.8 per cent of the population as of 2006. The emoluments of these less-than-two-per cent of the population dwarf the total public available resources for the remaining 98 per cent of the population. The political economy of this resource allocation explains the state of national economic development.
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The analysis of El Rufai (2011) provides some illuminations to the political economy of fiscal policy management in Nigeria: "In most states other than Lagos, Kano, Kaduna and Rivers, an average of 50 per cent of the budget goes towards the payment of salaries – to about 1 per cent of their population – an unfair and unsustainable state of affairs." For instance, spending an average of 67.5 per cent of total Federal Government resources between 1999 and 2014 to service just about 0.79 per cent of the population is economically unsustainable, socially unethical and politically uncharitable if the interest of the majority of the population is considered. Over the same period, the state is spending about 53 per cent of their resources on about 1.1 percent of their population.
Table 2: Breakdown of Public Servants in Nigeria as of 2005

<table>
<thead>
<tr>
<th>Tiers of Government</th>
<th>Categories</th>
<th>No of staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Federal Government</td>
<td>Federal Core Civil Servants</td>
<td>180,492</td>
</tr>
<tr>
<td></td>
<td>Uniformed Services - Military, Police and</td>
<td>457,000</td>
</tr>
<tr>
<td></td>
<td>Paramilitary Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Parastatals, Agencies, Educational and Health</td>
<td>470,000</td>
</tr>
<tr>
<td></td>
<td>Institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total Federal Public Service</strong></td>
<td><strong>1,107,492</strong></td>
</tr>
<tr>
<td>2 Federal Capital Territory Administration</td>
<td>Public Officers</td>
<td>19,000</td>
</tr>
<tr>
<td>3 State Government (36 states)</td>
<td>Public Officers</td>
<td>856,000</td>
</tr>
<tr>
<td>4 Local Governments (774 LGAs + 6 FCT</td>
<td>Public Officers</td>
<td>620,000</td>
</tr>
<tr>
<td>Area Councils)</td>
<td><strong>Total Sub-National Public Service</strong></td>
<td><strong>1,495,000</strong></td>
</tr>
<tr>
<td>Grand Total</td>
<td><strong>Total for all tiers</strong></td>
<td><strong>2,602,492</strong></td>
</tr>
</tbody>
</table>


A further analysis of the total recurrent spending reveals the share of the various groups. As indicated in Figure 8, substantial proportion of the emolument goes to the military and para-military, agencies and educational institutions – 35 and 31 per cent, respectively. The core civil servant accounts for about 18 per cent of the total emoluments. One important lesson from this is the misplaced attention on the core civil service in the public service reform since independence. While the urge to ensure result and merit-based civil service is quite apposite, searchlights also need to focus on the larger public service. For instance, if the military and para-military are gulping 35 per cent of total Federal Government emoluments in the face of the recent insecurity, robbery and insurgency, then Nigerians are not getting the best value for money on the huge resources going to this sector. The
current level of educational quality also does not behove the mammoth resources going into this sector. It is high time a merit- and value-based system is put in place.

The narrative of the political office holders is even more poignant. Spending about N65.5 billion annually on the salaries and allowances of just 472 political office holders of the Federal Executive arm of government alone (as of 2007) (Adewunmi, 2012) calls for further scrutiny. This shows a per capita income of a political office holder of N138.77 million. By the time the emoluments of those in the 36 states and the 776 local governments are accounted for, a miniscule part will be left for operation and maintenance, capital budgets and social protection for the marginalized.

![Figure 8: Percentage Share of Federal Government Emoluments](image)

Source: Author’s compilation from Adegoroye (2006) and Adewunmi (2012).

The recent outcry in the Federal legislators’ emoluments is heartbreaking and nostalgic. The Nigerian legislators are the second highest paid globally, after Australia. The annual salaries and allowances of the 109 Senators and 360 House of Representatives...
The Nigerian Legislators’ basic salary of $189,500.00 is only next to Australia ($201,200.00). As indicated in figure 9, the Nigerian Legislators’ pay is higher than their counterparts in USA, Japan, Germany, Britain, France, Italy, Brazil and South Africa.

Indeed, Nigerian legislators are the highest paid when compared with the flow of income and the economy’s capacity – in terms of income per capita. While legislators from all countries from the Organization of Economic Co-operation and Development (OECD) earned less than eight times their countries’ per capita income (ranging from 1.3 times in Norway to 7.1 times in Britain), in Nigeria it is 64 times. This is followed by Kenya (60 times), South Africa (15.1 times) and Brazil (13.2 times) (see Table 3). The Nigerian Legislators have become the Lord and Temporal Majesties. With the exception of Nigeria and Kenya, no country allows its legislators to earn more than sixteen times its GDP per capita. A very miniscule part of the population is earning a substantial part of the national wealth. This is a clear indication of inequality in earnings and access to public resources. And in terms of performance and substantive contribution to national development, they cannot compare with their counterparts from OECD that earn far less relative to the share of income per population in their respective countries.

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14 In June and July 2015 alone, each Senator collected N36.40 million and each House of Representatives member received N25.00 million. This amounts to N12.97 billion or $66.84 million.
The Nigerian parliament is considered to be quite expensive. In addition to being the second highest paid in basic salary, it is also the second largest budget in purchasing power parity after USA, and followed by Japan, Mexico and France (IPU and UNDP, 2012). In spite of the fact that Nigeria is the second largest paid, it is ranked as the 7th in terms of population per parliamentarian (300,000 people per parliamentarian) compared with 1.5 million people for India, whose parliamentarian earned just $11,200 per annum – 5.9 per cent of a Nigerian legislator’s salary. This is despite the fact that India is one of the oldest and well-developed democracies in the world.

Regular payment of nationally agreed wages is a barometer of measuring the good health of the economy. When employers are derelict in paying monthly compensations to their workers, it is a sign of a serious economic crisis and social injustice. More than 50 per cent of states are owing more than six months salaries, pensions and gratuities arrears (see Box 1). The non-payment of workers entitlements has further complicated the income insecurity characterized by low and irregular pay. Salary and pension arrears are happening when inflation is biting quite hard (approximately put at 9.5 per cent on twelve month-average in the first quarter of 2015)
and naira depreciated by 20.9 per cent over the past one year (September 2014 and August 2015). This makes cost of living unbearable to public servants at the Local, State and Federal levels. As the breadwinners of their nuclear and extended families, the family support is near total collapse. Some children and wards have been withdrawn from schools and access to basic health services remain a luxury. The economies of most states that depend heavily on public service incomes have been brought to their knees.

The non-payment of salaries, pensions and gratuities is a mere tip of the iceberg. Anecdotal evidence reveals that running cost for primary and secondary schools have not been released in many states for more than two years. A similar situation is applicable to running of hospitals and clinics, even at the federal government level, where capital and overhead budgets were not released as between January and October 2014. Rather, attention was focused on election campaigns.

The wage crisis in Nigeria is a manifestation of a deep rooted crisis in the economy. Many of the states are not economically viable – with low internally generated revenue. Between 2010 and 2013, three states accounted for 67.33 per cent of the total states’ IGR – Lagos (47.61%), Rivers (12.59%) and Delta (7.13%). See Figure 10 for performance of each state. The fact that most states are living on rents coming from Federal allocation makes them susceptible to vagaries of international oil market. Management of the State should be based on resources under their control. Besides, most of the states are yet to realize that they need to examine both the cost and revenue sides of their fiscal operations. This calls for substantial fiscal restructuring for sustainability. Local, state and federal governments should realize that public service is about service provisions. A public servant that is not adequately and regularly remunerated will compensate himself or herself through the system – either through moonlighting, silent, or obvious corruption. The system is always at the receiving end.
Table 3: Legislators Pay and Inequality in Pay across highly paid parliamentarians globally

<table>
<thead>
<tr>
<th>Country</th>
<th>Basic salary per annum, 2013</th>
<th>GDP Per Capita (Current USD, 2013)</th>
<th>Ratio of GDP per capita</th>
<th>Index by GDP per capita</th>
<th>Ranking by GDP per capita</th>
<th>Index by Inequality in pay</th>
<th>Ranking by Inequality in pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>189500</td>
<td>2966.1</td>
<td>63.88861</td>
<td>0.029</td>
<td>20</td>
<td>1.000</td>
<td>21</td>
</tr>
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<td>Kenya</td>
<td>74500</td>
<td>1238.5</td>
<td>60.15341</td>
<td>0.012</td>
<td>21</td>
<td>0.942</td>
<td>20</td>
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<tr>
<td>South Africa</td>
<td>104000</td>
<td>6886.3</td>
<td>15.10245</td>
<td>0.067</td>
<td>18</td>
<td>0.236</td>
<td>18</td>
</tr>
<tr>
<td>Brazil</td>
<td>157600</td>
<td>11938.9</td>
<td>13.20055</td>
<td>0.116</td>
<td>17</td>
<td>0.207</td>
<td>17</td>
</tr>
<tr>
<td>Italy</td>
<td>182000</td>
<td>35477.5</td>
<td>5.130012</td>
<td>0.345</td>
<td>14</td>
<td>0.080</td>
<td>15</td>
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<tr>
<td>Hong Kong</td>
<td>130700</td>
<td>38364.2</td>
<td>3.406822</td>
<td>0.373</td>
<td>12</td>
<td>0.053</td>
<td>13</td>
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<tr>
<td>USA</td>
<td>174000</td>
<td>52980</td>
<td>3.284258</td>
<td>0.515</td>
<td>5</td>
<td>0.051</td>
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<tr>
<td>Japan</td>
<td>149000</td>
<td>38633.7</td>
<td>3.856736</td>
<td>0.376</td>
<td>11</td>
<td>0.060</td>
<td>14</td>
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<tr>
<td>Australia</td>
<td>201200</td>
<td>67473</td>
<td>2.981934</td>
<td>0.656</td>
<td>2</td>
<td>0.047</td>
<td>10</td>
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<tr>
<td>Germany</td>
<td>119500</td>
<td>46255</td>
<td>2.583504</td>
<td>0.450</td>
<td>8</td>
<td>0.040</td>
<td>6</td>
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<tr>
<td>Britain</td>
<td>105400</td>
<td>14776.8</td>
<td>7.132803</td>
<td>0.144</td>
<td>16</td>
<td>0.112</td>
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<tr>
<td>France</td>
<td>85900</td>
<td>42631</td>
<td>2.014966</td>
<td>0.415</td>
<td>9</td>
<td>0.032</td>
<td>3</td>
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<tr>
<td>Norway</td>
<td>138000</td>
<td>102832.3</td>
<td>1.341991</td>
<td>1.000</td>
<td>1</td>
<td>0.021</td>
<td>1</td>
</tr>
<tr>
<td>Israel</td>
<td>114800</td>
<td>36050.7</td>
<td>3.184404</td>
<td>0.351</td>
<td>13</td>
<td>0.050</td>
<td>11</td>
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<tr>
<td>Singapore</td>
<td>154000</td>
<td>55979.8</td>
<td>2.750992</td>
<td>0.544</td>
<td>4</td>
<td>0.043</td>
<td>8</td>
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<tr>
<td>New Zealand</td>
<td>112500</td>
<td>42409</td>
<td>2.652739</td>
<td>0.412</td>
<td>10</td>
<td>0.042</td>
<td>7</td>
</tr>
<tr>
<td>Ireland</td>
<td>120400</td>
<td>50470.3</td>
<td>2.385561</td>
<td>0.491</td>
<td>7</td>
<td>0.037</td>
<td>4</td>
</tr>
<tr>
<td>Sweden</td>
<td>99300</td>
<td>60364.9</td>
<td>1.644996</td>
<td>0.587</td>
<td>3</td>
<td>0.026</td>
<td>2</td>
</tr>
<tr>
<td>Canada</td>
<td>154000</td>
<td>52305.3</td>
<td>2.944252</td>
<td>0.509</td>
<td>6</td>
<td>0.046</td>
<td>9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>65800</td>
<td>3643.9</td>
<td>18.05758</td>
<td>0.035</td>
<td>19</td>
<td>0.283</td>
<td>19</td>
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<tr>
<td>Saudi Arabia</td>
<td>64000</td>
<td>25819.1</td>
<td>2.478785</td>
<td>0.251</td>
<td>15</td>
<td>0.039</td>
<td>5</td>
</tr>
</tbody>
</table>

Sources: Author’s computation from The Economists (15 July 2013) and World Development Indicators, 2013.
Figure 10: Average Share of States in total IGR (2010-13)

Source: Author’s computation from http://resourcedat.com/document/internally-generated-revenue-igr-for-nigerian-states-2013/

Box 1: Paradox of salary arrears in Nigeria
Some Policy Considerations
Understanding how government decisions are made is central to the political economy of fiscal policy management in Nigeria. It requires a strong ability to manage a combination of actions and processes: agent tastes, public technologies, and the rules of collective choice. Each of these has its strengths and weaknesses. However, the objective is looking for the optimal solution. An enduring process of influencing government decision is to continuously seek improved and better political institutions. This calls for creating champions across the various political classes and institutions on the urgent need to end detrimental political patronage, stop economic hemorrhage and fight corruption.

Another structural impediment to an effective fiscal policy management is the urgent need to address the heavy dependence on oil. Nigeria must diversify its economy from oil. Strategies to reduce revenue and export dependence on revenue from over 80 per cent and 90 per cent respectively to less than 45 per cent in the next 15 years should be worked out.

Strengthening the existing fiscal rules for better and improved results is ineluctable. First, all tiers of government should work towards a rule-based recurrent spending. Spending more than 50 per cent of public budgets on public service is ridiculous and uncharitable. Recurrent spending should be a function of internally generated revenues. On no account should any government (either national or sub-national) allow its recurrent spending to go beyond its IGR. This makes economic sense although perhaps difficult politically in some states. There should be medium-term and long-term strategies of making this realizable.

Second, the objective and management of the Sovereign Wealth Fund calls for urgent attention. The administration of President Jonathan has brought out some important lessons on the management of the Fund. The rascality of the Federal Government must be tamed. Withdrawing from the Fund and distribution should be the collective responsibility of the constituent parts of its structure. The ‘cap-in-hand’ approach of State governments too is also condemnable. The idea of state governments running to Federal Government to share the Fund whenever they are in financial crisis is also condemnable.
The objective of the Fund requires some reconsideration. The Fund should not be for stabilization purpose as it is currently configured. It should be a combination of stabilization, long-term saving and precautionary. Norway and Botswana provide some good examples of this. Even some parts of derivation resources to oil-bearing states should also follow a similar approach. It is not meant to be spent at once. Through the derivation resources, strategic investment should be made for communities generating these resources to avoid negative intergenerational bequeath. What happens to these communities when the oil dries up? The time to provide answers is now!

Third, the extant national fiscal act and states fiscal legislations should be put to action. This requires full implementation. The extant fiscal rules (the share of recurrent and development spending in total budget, maximum debt that could be incurred, procurement procedures and the financial rules) should be implemented without delay.

The political economy of budget preparation cannot be overlooked. Most States and Federal Government budgets are prepared with minimal consultations with stakeholders. This is antithetical to a democratic dispensation. This calls for a review of the budgetary process and the imperative of involving the people in the preparation, implementation and monitoring of development projects. Another aspect of this is the absence of budget-plan link in Nigeria. It is high time to stop ‘inspirational’ budgets. Budgets must derive from local, state and national plans and visions.

An important policy derivative from this is the urgent need for the governments at the three tiers to create conducive environments for fiscal policy management to serve the public good by providing the public commons. The revenue fleece and hemorrhage must stop for Nigeria to reap democracy dividends. Strict adherence to national and international procurement rules and regulations in the award of contracts, leadership by example in public resource management, unequivocal fight against corruption, and institutionalization of penal and reward systems for tax collection agencies is vital to charting the course of positive political economy of fiscal policy management in Nigeria.
Moving forward calls for stopping the hemorrhage and broadening the tax base of the economy. Nigeria needs comprehensive tax policy reforms that prioritize broadening the tax base. Levying moderate tax rates on a broad base of taxpayers is usually less costly in terms of distortions to resource allocations than raising tax rates applied to a very narrow base of taxpayers. This reduces tax evasion and avoidance. Broadening the tax base includes drastically reducing tax exemptions and ‘race to the bottom tax incentives,’ especially to foreign firms at the expense of the local ones. Bringing into the tax nets unrecorded incomes such as property tax in rural and urban centres is also critical.

Achieving the foregoing requires serious political considerations. The political economy of achieving this matters. People fleecing the treasury, firms and individuals benefiting from tax exemptions, and the coterie of political cronyisms will frustrate such reforms. Even the citizens who believed in ‘quid-pro-quo’ and are yet to see quality service, will resist being brought into the tax net. This has to be adroitly managed. The system for fighting corruption must be full-proof and an integrated strategy that focuses on prevention, control and sanction is imperative. This must be complemented with quality service provision across all ministries, departments and agencies.

References


