International Journal of Academic Research in Business and Social Sciences
July 2012, Vol. 2, No. 7
ISSN: 2222-6990

Effective Utilization Of Tax Revenue In Nigeria

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Abstract

This paper is an attempt to examine the effective utilization of tax revenue vis-à-vis the impact of Government expenditure on economic growth and development of Nigeria. Government intervenes in the economy through a variety of policies, of these policies, two are most important. They are fiscal and monetary policy. This work is on the expenditure component of fiscal policy. Until recently, Nigeria has been one of the most disappointing development stories of the modern era-a cautionary tale of the risk of huge revenue from taxation in an environment of weak governance. In recent years, the most conspicuous fact about Nigeria's economy is that corruption and mismanagement of its post- colonial government has prevented the channeling of the country's resources from taxation and other sources into lasting improvements in infrastructure and the construction of a sound base for self sustaining economic development. Thus despite increasing revenue base, the rate of poverty, unemployment, high rate of inflation, low capacity utilization in industry, debt overhang, deterioration or stagnation of economic activities still prevail. From the foregoing, it should be clear what need to be done to improve the effective utilization of government fiscal (spending) operations by: improving the quantity and quality of resources available to the government for its activities and improve the ways in which the resources available to the government are managed through the application of cost benefit analysis, expenditure analysis, transparency and accountability in the conduct of government business and also ensuring at all times that people of doubtful character are not elected into government or are not entrusted with the management of public resources. Avoiding actions that induce government officials to behave in corrupt ways and been genuinely interested in what government is doing. That is been critical in the activities of government.

1. Introduction

In Nigeria Government capital expenditure has continued to rise due to the huge receipt from production and sale of crude oil, increase tax revenue, and the increase demand for public goods like road, communication, power, education and health. Beside there is the increasing needed to provide both internal and external security for all the people and the nation. Available statistic showed that government capital expenditure has continued to rise in the last three decades. For instance government capital expenditure increased from ₦187. 8 million in 1970 to ₦10,163.4 million in 1980 and further to N960,900 million in 2008. Unfortunately rising government expenditure has not translated to meaningful economic growth and development as Nigeria ranks amongst the poorest countries in the world (Baghebo, 2011).

Throughout the 1970s and 1990's much of Public Sector investment which accounted for two third of total investment during the period 1973 – 90 was directed towards promoting economic growth. Unfortunately the growth rate was very poor. For instance the growth rate of real GDP was – 0.3%, -5.4% and -5.1% in 1983, 1984 and 1985 respectively which were inadequate to support a population growth rate of three percent. Similarly in 1993, the growth rate of real GDP was 2.7 percent, and one percent in 1994 which was too low to support the population growth rate of 2.8 percent (CBN, 1996).

Indeed, rapid economic development and improvement in the quality of life have not been realized as many Nigerians are poorer today than they were in the 1960s and 1970s. For instance at independence in 1960, Nigeria's poverty rate was 15 percent and this translated into about 8 million Nigerians. Forty five years after independence (2005) the population living below the international poverty bench mark of $1 a day was 54.4 percent (Baghebo, 2001; 2011).

The rest of the paper is organized as follows: section two is a review of relevant literature, section three is theoretical framework, section four contain fundamental policy issues underlying the study, section five discuss measures aim at improving the effective use of tax revenue, section six concludes the paper.

2. The Literature

Niloy and Osborn (2003), Baghebo and Edoumiekumo (2012) used a disaggregated approach to investigate the impact of public expenditure on economic growth and development in 1970s and 1980s and 1970-2010 respectively. The authors confirmed that government capital expenditure in GDP has a significant positive impact on economic growth, but the share of government current expenditure in GDP was shown to be insignificant in explaining economic growth and development.

Abdulah (2010) analyzed the association between government expenditure and economic growth in Saudi Arabia. His findings reveal that the size of government is very important in the performance of the economy. He added that government should increase its spending on infrastructure, social and economic activities. In addition, government should encourage and support the private sector to accelerate economic growth.

In the United Kingdom, Greece and Ireland, Lizides and Vamvoukas (2005) employed the Granger causality test to examine the relationship between government expenditure and economic growth. The authors found that government size granger cause economic growth in all the countries they studied. The findings were true for Ireland and the United Kingdom both in the short and long run. The result also indicated that when inflation was included as an explanatory variable in the model, economic growth granger cause public expenditure for Greece and United Kingdom (See Baghebo, 2010, Baghebo and Edoumiekumo, 2012 for this and related issues).

Baghebo and Edoumiekumo (2012) used the disaggregated approach to examine the relationship between public capital accumulation and economic development in Nigeria covering the period 1970 – 2010. The stationary status of the time series data was determined using group Unit root test. The variables attain stationary after first difference. The long run equilibrium relationship among the variable in the model was examined using Johanson co integration rank test of trace and maximum engen value test. The variables were co integrated. The short run dynamic adjustments required for stable long run equilibrium relationship among the variables was estimated using the Error correction mechanism. The result revealed that an insignificant positive relationship exist between capital expenditures and economic development in Nigeria.

Davarajan et al. (1996) studied the impact of government expenditure on economic growth for a group of developing countries using the ordinary least square (OLS) regression technique. The result shows that capital expenditure has a significant negative association with growth of real per capita GDP. However, the result further reveals that recurrent expenditure is positively related to GDP per capita.

In Thailand, Komain and Brahmasrene (2007) empirically investigated the relationship between government expenditure and economic growth by employing the Granger causality test. The results revealed that government expenditure and economic growth are not co integrated. Moreover, the results indicated a Unidirectional causality from government expenditure to growth. The result also shows that a significant positive relationship exist between government expenditure and economic growth.

Furthermore, some authors in their empirical investigation on the impact of government expenditure on economic growth have found a negative relationship (see Ghali, 1998) on Tunisia, Bogunjoko (1998) on Nigeria, Ashiphala and Haimbodi (2003) on Namibia, South Africa and Botswana, while others found a weak one (see Al Faris (2002) on six gulf cooperation council countries, Kweka and Morrisery (1999) on Tunisia.

3. Theoretical Framework

3.1 Wagners Law Of Increasing State Activity

The Law of increasing State activity was propounded by Adolf Wagner a nineteen century German economist to explain the growth of the share of public expenditure in GNP. He divided government expenditures into three categories, namely, administration and defense; cultural and welfare, and provision of direct services by government in case of market failure. It is well known that rather than allow for monopoly to emerge, government usually creates Statutory Corporations such as NITEL, Post Office, Water Boards, PHCN to cater for the welfare of the people.

Wagner’s Law states that as per-capita income increases, the relative size of the public sector will grow. According to Wagner as the economy becomes industrialized, population tends to concentrate in the urban areas. This in turn leads to externalities (market failure) and congestion which require government intervention and regulations. Legal authorities and the police emerge to address problems of law and order, peace and security.

Banking services by the State arise to link surplus funds with those who have the investment opportunities. The increase of public expenditures on education, recreation, health, and welfare services is explained in terms of the high population in the urban centers. Wagner argued that as real income increase, public expenditure on education, health etc would increase more than the increase in real income. This explains the increasing ratio of government expenditure to gross national product.

Wagner's theory of increasing State activity has many defects. First, it is not a well articulated theory of public wants; rather it is an organic theory of the State where the State behaves as if it were an individual and takes decisions independent of members of the society. Secondly, the predictive power of the theory is very much in doubt. It is not always true that as par-capita income grows, the share of public expenditure in GNP increases. The share of public expenditure may actually decrease as the economy grows particularly when the private sector is strong and dynamic.

3.1.2 Peacock And Wiseman Theory Of Public Expenditure

Allan Peacock and Jack Wiseman theory, otherwise known as PWT, was based on the political theory of public expenditure determination which states that government likes to spend more money, that citizens do not like to pay more taxes, and that government needs to pay some attention to the aspiration and wishes of their people.

PWT attempted to explain the circular trend or time pattern of change in government expenditure in response to development in the political economy while the taxable capacity of the electorate acts as a constraint. Their theory is known as Displacement Hypothesis and is based on the experience of Great Britain. The Displacement hypothesis states that government expenditure grows in step wise fashion.

During periods of catastrophe or wars, government expenditure grew rapidly in Great Britain and remain constant during the war, famine, or disaster otherwise catastrophe period. They argued that government expenditures are largely determined by government revenue or taxation, PWT maintains that as the economy and income grew, tax revenue would raise thereby enabling government expenditures to rise in line with GNP.

The acceptance of the existence of a tolerable level of taxation which acts as a constraint on government behavior is consistent with Clark's "Catastrophe School" of taxation. PW make a destination in government expenditure growth between normal or peak time and war, crisis or social upheaval period. According to PW, during peak, public expenditures would tend to experience an upward trend, even though there may be some discrepancy between a desirable level of government expenditure and a desirable level of taxation.

During war, famine or social upheaval this normal and steady growth in government expenditures, would be disturbed. This was as a result of the displacement hypothesis as unproductive government spending during social upheavals displaced productive government expenditure leading to rapid increase in public expenditure. Government imposes higher taxes which are regarded as acceptable during period of crisis. During this period, public expenditure is displaced upward (i.e. displacement effect). War-related expenditure displaces private and other government expenditure. However after the war or crisis, aggregate public expenditures does not fall back to its original level since a war is not fully paid for from taxation alone.

Inspection effect may also occur as government attempts to increase expenditures to improve social conditions which have deteriorated during the period of the crisis. Government finances the high expenditure from the increase and tolerable level of taxation that does not return to its former level.

There are two possible scenarios which may occur after the war or social upheaval. First, total private expenditures may return to its original growth path and second, government expenditures experienced during the war may continue in the post-war period along with an increase in civilian government expenditures until the desired growth is reached.

4. Fundamental Policy issues underlying the study

4.1 Corruption In The Public Service

Corruption is a fundamental issue that deters economic progress of a country. One of the reasons behind the difficulty surrounding the study of corruption is the loose way it is often defined, making it so all encompassing that it loses its capacity to serve as a 'principle of differentiation' (Staats, 1972). Some authors take it on the level of cost-benefit analysis, as if it is a project on its own. Rashid (1981) and Olopoenia (1998) have further argued that in certain circumstances in the Third World, "corruption is pareto-desirable, provided it can be kept within some limits". Similarly, Steven Staats (1972) in his comment on corruption in the Soviet Union surmises that, "in certain circumstances, corruption on a limited scale may make an important contribution to organizational efficiency and goal-fulfillment".

Samuel P. Huntington's definition of corruption as "behavior of public officials which deviates from accepted norms in order to serve private ends (Staats, 1972:41), may give the impression that corruption is limited only to the public sector". Baghebo (2010) correctly appreciates the fact that corruption, which is the use of one's office for private advantage, can occur in both State and private office, but the public is naturally more interested in the former. In fact, as Adedotun Phillips (1979:19), tersely put the Nigerian situation, "Corruption has reached dizzying heights in the private sector".

In other words, corruption in the public sector simultaneously involves the private sector as well (Gray and Kaufman, 1998; Khan, 1996; Klitgard, 1998). Whatever the origin, the relevant point is that such corrupt activities, the full scale of which may never be known, contribute to the fiscal crisis of the Nigeria State.

Corruption in Nigeria has become so pervasive that we can dub the economy a system of 'pirate capitalism'. Among the nine-point programme for transition to civilian rule of the Gowon Administration announced on October 1, 1970, was 'the eradication of corruption in our national life'. According to Murtala Muhammed, on his assumption of office in July 1975, the government planned to set up and entrench in the constitution a permanent Corrupt Practices Investigation Bureau. His regime later confiscated fraudulently-acquired properties from some State governors and other officials – but unfortunately these have been fully or partially returned to the culprits.

All the foregoing is without reference to the more celebrated cases involving the setting up of Commission of Enquiry. During the Second Republic, Nigeria lost conservatively, as much as N12.5 billion in the oil industry through fraud, involving the illegal sale of Nigerian crude oil and refined products. The syndicate culprits involved Nigerians and foreigners. The Irikefe Probe Panel that looked into the allegedly missing N2.8 billion oil money was told of how some ships lifted oil without clearance from the inspectorate division of the Nigerian National Petroleum Corporation (NNPC). A Greek ship, the MV Trans was reported to have illegally lifted 2,300 metric tones of Nigerian crude oil from Dawes Island berth in Port Harcourt on September 12, 1983, only to be arrested in Italy. The value of its stolen cargo was put at $1.3 million.

Over the four-year period of the Shagari regime, corruption in the petroleum industry resulted in revenue losses to the treasury amounting to nearly $4.00 billion a year. In addition, another $17 billion was looted from the country's external accounts. Evidently, like what Kameir and Kursany (1985) found in the Sudan, corruption has become a 'fifth' factor of production, a veritable source of income generation in Nigeria.

Gray and Kaufman (1998) have identified a number of economic costs of corruption to include: rising transaction costs and uncertainty in an economy; impeding long term foreign and domestic investment; pushing firms outside the formal sector; reducing state's ability to provide social services, including the rule of law. The result is a vicious circle of corruption; imposing a regressive tax , the burden of which falls heavily on trade and service activities undertaken by small enterprises and undermining the State's legitimacy. In Nigeria corruption has led wrong people occupying political offices . Also huge amount of money has been appropriated into private pockets leaving mounting internal and external debts. The near non-existence of both social and economic infrastructures is not unconnected with corruption. The massive level of unemployment is caused by corruption. (see Oloepoenia, 1998; Shleifer and Robert, 1993; Khan, 1996; Klitgart, 1998, on corruption and related matters).

4.1.1 The "Pirate Capitalism" Thesis

An important feature of Nigeria's capitalist system is that the State is the dominant source of economic surplus. This juridical concentration of surplus-potential and actual – affords those with access to State power to have an enormous influence on the pattern of resource allocation. The surplus of the public sector comes mainly through direct and indirect taxes. The direct taxes include company income tax, petroleum profits tax, personal income tax etc; excise tax, import and export taxes etc are the indirect taxes. Both direct and indirect taxes jointly constitute the major source of the Federal government's total revenue.

During 1976-1988, direct taxes constituted an annual average of 63.3 per cent of total government revenue. The surplus comes mainly, of course, from the oil sector. The role of the Nigerian State has been essentially that of a rent-collector in the petroleum industry which remains effectively under foreign control. Huge rents, royalties and fees are collected, annually by the government and then distributed to the three tiers of government in accordance with some laid down revenue sharing formula.

Beyond financing State assistance programmes to facilitate private sector capital accumulation such as credit schemes, subsidized estates and other cost-underwriting measures, public sector surplus is also appropriated by private interests through various corrupt practices. This elaborate system of private appropriation of public sector surplus is what Schatz (1988) has described as 'pirate capitalism'. The wheel of pirate capitalism revolves around the State and its manipulation for private acquisition of income and wealth.

Unlike 'nurture capitalism' (Shleifer and Robert, 1993) which is geared towards economically productive activities, under pirate capitalism such appropriated surplus is usually diverted to unproductive ends. Instead of increasing the productive capacity of the economy, it is drained out of the system. Public sector bureaucrats nurse this system through the execution of costly white elephant projects or social extravaganza with little if any, economic benefits.

The system operates as a huge network of contracting with heavy in-built of over-invoicing. Public funds are diverted to private pockets by highly placed individuals Bhinda 1999, AFDB/OECD 2004 FDI magazine 2003. The Assets Investigation Panel set up in 1975 by the Federal Military Government under Murtala Muhammed to look into the stewardship of State Governors came out with reports of high impropriety.

Since most of these activities are fraudulent, it is normally considered safer to repatriate incomes therefore resulting in capital flight. Here, capital flight is defined to mean capital outflows outside normal transactions. The reported "loss" of $17 billion in the country's balance of payment accounts between 1979 and 1983 can be attributed to fraud and official corruption. Also, it makes sense to assume that a substantial proportion of the huge assets held abroad by private Nigerians came from such illegal activities. These and other related practices characterize and reinforce the development of pirate capitalism. Primitive capital accumulated and repatriated abroad but not invested in the home country, promote economic growth and development abroad and reduce productive economic activities in the home country.

5. Measure For Improving The Effective Use Of Tax Revenue

Given the ways in which many public officers in this country handle public property, it seems fair to say that the need for improvement in the management of resources is more urgent than the need for improvement in resources availability. We will gain little as a Nation, by increasing the quantity of resources to the government for its activities if we do not first improve the government capacity to effectively and efficiently manage resources.

The corrupt practices and mismanagement of resources can be checked through an approach to public administration that is characterized by transparency and accountability.

Transparency is about being honest and open about what is being done on behalf of the people, not pursuing hidden agenda in public policy and implementation and giving the public access to information concerning government plans and actions.

Accountability is about explaining and justifying to the people the ways in which the government has used the public resources under its control.

Transparency and accountability in the conduct of government activities will make it difficult for corrupt minded people to defraud the country.

Cost benefit analysis involves specifying the costs and benefits of a project on which public funds are to be spent and comparing them to determine whether or not the project is worthwhile. This means that for every project that is proposed, the decision – maker should attempt to identify the costs and benefits to the society as a whole and base his decisions on how the benefit compares with the cost.

Another way of improving the effective utilization of tax revenue is expenditure analysis. This is the examination of the effects of an expenditure on the society.

Expenditures analysis examines the effect of an expenditure programme From which facts are obtained for sound decision making.

People of doubtful character are not elected into government or are not entrusted with the management of public resources. Also avoiding actions that induce government officials to behave in corrupt ways. The public should be genuinely interested in what government is doing with the tax payer's money.

Be watchful on the activities of government and asking question where possible.

6. Conclusion

Nigeria's over-riding objective since independence in 1960 has been to achieve stability, material prosperity and social progress. However, this has been hampered as a result of internal problems. These include inadequate human development, weak infrastructure, uninspiring growth of the manufacturing sector, unemployment, poverty, debt overhang, a poor regulatory environment and mismanagement and misuse of resources etc. The persistence of these problems is not unconnected with institutional failure.

Acknowledgement

I am sincerely grateful to the Head of Department of Economics, Niger Delta University Wilberforce Island Bayelsa State of Nigeria Prof. Gesiye Salo Angaye who has provided excellent intellectual and moral support for the production of this work. I am also thankful to Profs: Wilfred A. Ndongko; Apkan H. Ekpo; Nyong M.O. for encouraging me to engage in scholarly publications in journal articles. I also appreciate IJARBSS and HRMARS for given international recognition to my article.

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