Review Paper

Fiscal Policy based Development Strategy for Developing Countries:
A Case Study on Nigeria

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Abstract

A Fiscal economy is strong when governments utilize fiscal policies in a sustainable way and are efficiently structured in application to the general good of the country. Among other factors, fiscal policy incorporates a combination of variables that can build a nation when an adequate care is taken to proactively yield on the merits of the factors in fiscal policy which are a known catalyst for nation building and economic development. This paper delves into the realities of the negligent behaviours of some governments towards the application of fiscal policy, and shows how detrimental that grave omissions have landed these countries. This paper will focus on the effects of fiscal policy on the economies of developing nations, and how an efficient usage will benefit and strengthen developing or emerging nations, and make them fully developed economies. Some comparisons will be made across selected countries (developed and developing).


1. Introduction

This paper addresses intently the factors that can affect the rapid development of a country. Fiscal policy is the means by which a government of a country regulates its spending levels and tax rates among other things, to monitor and influence the nation's economy, always in the positive perspective (Heakal, 2011). In this research, Fiscal Policy will be seen as a tool in the hands of a mechanic, with which they use to repair machines. A Fiscal economy is strong when governments utilize fiscal policies in a sustainable way and are efficiently structured in application to the general good of the country (Rena, 2011). Emerging economies find it difficult to recuperate their ailing economies, because they have not fully utilized the tool at their disposal, or they are totally ignorant of what the adequate use of fiscal policy can do to the economy of their nations.

What is called fiscal policy today was first propounded by a British Economist, John Maynard Keynes in what he described as the "total spending in the economy and the effects it has on output and inflation" (Keynes, 1930). This he described when the great depression first hit the US from September 4, 1929 to the late 1930s and even early 1940s. His theory stipulates that governments can influence or control macroeconomic productivity levels by increasing or decreasing tax rates and public or government spending (Heakal, 2011). This means that governments should be ready at all times to take proactive steps and actions to curb economic
recessions or depressions or economic underdevelopments. Governments, especially of developing nations must at all times adequately exploit the effectiveness of fiscal policy. Most of these governments have been on 'holiday' or using laissez-faire approach to tackle economic problems, thereby frustrating the economy and allowing corruption and political-leadership ignorance to creep and crawl the pace of development in their nations.

Over the years, the impact fiscal policy has generated has been immense, both theoretical and empirical literatures, but most of these studies were centered more on developed economies; which, the inclusion of emerging economies in the case of cross-country analysis, was mainly to get data on degrees of freedom in the statistical analysis (Aregbeyen, 2007). That is what has necessitated this study, to focus on developing or emerging economies; with the evaluation of how fiscal policy can aid development drawing knowledge from how it was applied in the developed countries, especially during the great recession. In most developing countries, they believe that the market and economy are controlled by the forces of demand and supply alone; this assertion is not only erroneous, but misleading, because this notion has crippled most developing economies (Gbosi, 1998). Fiscal policy is a major economic stabilization tool that incorporates measures taken to control and regulate the volume, cost, availability and circulation of money in an economy to actualize some macroeconomic policies and objectives, which ultimately end undesirable and unwanted trends in a given economy (Gbosi, 1998).

The rationale of this paper therefore, is to evaluate the role of fiscal policy in the development journey of developing countries. The paper will be structured as follows: introduction, literature review, methodology, results and discussion and conclusion.

2. Literature Review

2.1 The Role of Fiscal Policy in Developing Countries

Fiscal policy can be seen as a correctional tool, a sure bet in reconstructing economies. This was evident in the scenario of the United States, when they suffered depression that lasted for a decade, and their realization and utilization of this policy brought a dramatic revive to their economy, showing that the effects of this economic theory cannot be overemphasized.

The governments of developing countries should look at some factors that would necessitate rapid economic growth, and invest in them. Most of these governments are careful of running deficit budgets; deficit budgets are not bad, when the increased spending is channeled towards positive projects that would increase employment and the stability of the economy (Keynes, 1936). They should find a possible way to increase the rate of capital formation which they lack in a great deal; capital formation will help them to be well structured (Smriti, 2014). To create capital formations, Foreign Direct Investment (FDI), can complement these governments’ spending; fiscal constraints would be removed and the influx of capital resources to the economy will help expand the economy, give the government the latitude to build infrastructures, and cooperate with Multinationals in driving the macroeconomic effects to the positive direction (Dailami and Atkin, 1990). And for this to be workable, the policy makers of these governments should create a congenial atmosphere, and create a level playing ground, by easing restrictions on FDI and provide incentives for FDI, build infrastructures that would enable FDIs to be possible, encourage a Joint venture system with the people and foreign partners to increase the business scope and local participation.

government should make a concerted effort in intertwining the development agency with the fiscal policy agency in the developing countries, this has to be so, because they have to divert the existing resource allocations to unproductive areas, and channel these resources to a more profitable venture. Most of these governments waste resources in areas that do not affect the country in the short run (Smriti, 2014). Keynes (1936) is of the opinion that in the long run, “we are all dead”, some of the policies the developing economies are bringing are policies that would stamp-in permanently the disparity in resource distribution and polarize the
economy in a big dichotomy, that would separate the extremely rich from the extremely poor, but when in the short run, these policy are changed, to salvage the yawning of the poor now, rather than later.

The government should desire to reorient the statues of the people of the state, to actualize an upper middle income state, which means graduating the poor from their former statues to a middle income statues, they have to ensure equitable distribution of income, and try to moderate taxes, increase the workers’ salaries and add benefits and incentives to small business owners, and by this, the poor group will move up to the middle income group, thereby strengthening the economy of the country, and in the long run, increase the GPD of the country, because aggregate demand will increase, which increases government revenues (Smriti, 2014). This effort would need all government agencies to focus on the transformation agenda of the federal government in pursuing development at all levels.

2.2 A Strategy for Macroeconomic Stability

This literature illustrates the reawakened interest in Fiscal Policy, owing to the global crisis that hit major economies of the world in 2008. The crisis has shown the much needed long-term fiscal sustainability for macroeconomic stability of countries, especially developing countries (Kose et al, 2010). This is a wakeup call, not only to major economies, but to emerging economies, which keep relying upon decisions of most developed economies to govern their decisions. Developing economies should start thinking outside the box, and start insinuating some decisions that will pilot their affairs, without relying on the developed countries, and that is why this research is centered on developing countries, to stipulate and affirm the need for long term fiscal policy which would be implementable, and which would be ultimately implemented to give their economies a boost. Almost seven years ago, the world was at the mercy of a crisis that degenerated a lot of economies and tore the work force apart in most countries of the world, and most, if not all developing countries were at the mercy of the troubled western countries, because most of their policies, trades, whether import or export depended on these countries that were badly hit by the economic recession; they were directly or indirectly affected by this crisis (World Bank, 2008).

That is why developing countries have a huge role to play in determining what befalls them and what doesn't befall them and to ensure economic stability, they don't have to depend or copy other people's policy which might not suit their current economic state. What countries are doing now, would show where they would be in the future, most of the developing countries are using laissez-faire policy to hoodwink the development of their nations (World Bank, 2008).

The financial market, which was in a state of turmoil affected most developing countries because they were vulnerable to the effects of this turmoil from outside, which they have no control of, and they are concerned about the effect it will pose to their macroeconomic stability (World Bank, 2008). Even though, some developing nations were not directly affected with the economic turbulence, but the effect was still on them indirectly, because of globalization. Many developing countries have stored up huge foreign reserves to rely on, in times of economic crisis; this is good, but it serves only a temporary solution (World Bank, 2008). Since macroeconomic volatility reduces the growth of economic output, and also affects future consumption of some poor countries that are institutionally and financially weak, and are unfit to adjust their fiscal policy in response to this volatility, developing countries should come up with more comprehensive strategies to contain macroeconomic volatility on all angles, including ways of absorbing or surviving external shocks (World Bank, 2008).

The recent drop in oil price has left many developing countries’ economies that rely on oil exportation in limbo. These economies have shrunk because of the price of oil that got halved, and most of these countries don't have huge enormous foreign reserves to keep them on the short run, before the price of oil stabilizes (BBC, 2015). Some of the developing countries who depend largely on oil for their export, and which rely heavily on revenues gotten from it are at their wits end because the price of oil came to half of the previous price, meaning that the
revenues of these countries dropped by 50%, which signifies a huge recession if nothing is done, and in this case, no single country has total control of oil price, which means that the way governments respond to external shock would either make their economies to boom, or to plunge, and as this is obvious, many economies are badly hit, and are plunging towards recession (BBC, 2015).

In the other vein, some of the developing countries who do not rely heavily on oil exportation or revenues, are at the best time to buy oil at a cheaper price, and they have the capability to store up oil reserves, but most of these countries do not have enough foreign reserve to deep hands into, as the oil price fall was not anticipated by many (Bowler, 2015). Although a fall in price signifies higher demands, as the law of demand states, but this has to be offset by huge resources, which most of these countries do not have (Bowler, 2015). Developing countries should start taking proactive steps, towards controlling macroeconomic volatility, and external shocks, to be able to stabilize their economies, and grow into fully developed nations.

2.3 Theoretical framework

John Maynard Keynes in what he described as the “total spending in the economy and the effects it has on output and inflation” in his book, 'The General Theory of Employment, Interest and Money' is the origin of the definition and the term fiscal policy (Keynes, 1936).

Heakal (2011), described Fiscal policy as the means by which a government of a country regulates its spending levels and tax rates among other things, to monitor and influence the nation’s economy, always in the positive perspective.

Alan (1986) opines that aggregate demand has a great impact on output and inflation, and therefore agreed with the proposition of Keynes’s.

The theories that are selected in the following paragraphs will elucidate more on the study, as they will shed more light on previous studies conducted in connection with the research topic.

3. Research Design and Methodology

As this study aims at showcasing the relevance of fiscal policy, the exploratory one would be used. However, in showing the accuracy and the need for proper evaluation and understanding of the research phenomenon, some descriptive aspects of the study will be employed.

In this study, four out of the six processes of the research process onion as by Saunders et al. (2008: 138) will be adopted to be able to get the data necessary in answering the research questions.
In this research, the pragmatism philosophy is be adopted as the work shows the practical implications of the economic strategy to use, in relation to how the falling economies of developing countries can be restrenghtened. The propositions in this work will showcase the research strategy, and the qualitative research method that has been adopte; as it is quite believed that it would be of practical relevance to relate theory to the actual reality that surrounds the research problem. In considering the research method, the necessary contemplation of the research question of the study is acknowledged; as fiscal policy is seen as a tool for economic development for developing nations, and drawing knowledge from how it was used in developed countries before now.

Based upon the purpose of this research, a case study strategy is adopted because it will concentrate on a specific dimension (developing countries) for the experimental evidence, and the context is real life.

The rationale in choosing a strategy lies in the research agenda which is centered on knowing why developing economies have ignored the vigorous adoption of fiscal policy in actualizing economic development. Furthermore, the case study does not require behavioural control over events, such as questionnaires. This case study focuses on the main realities, on how the adoption of fiscal policy can change economies, helping them to fully maximize opportunites around them.

4. Results and Discussion

The current economic state of Nigeria will be analyzed before the findings of this research would be applied to it. Nigeria is a country located in the western part of the African continent, with the population of about 180 million people. Nigeria is the most populous Black Country in the world, and the most populous country in the region (World Fact Book, 2015). The economy has grown over the years, and as current, Nigeria is the biggest economy in Africa, and the 26th in the world, and the economy has steadily grown by 7.4%, which is an economic strong trend (World Bank, 2014). But amidst this huge economic growth and wealth of the nation, the occupants and people of Nigeria are still poor. According to World Bank (2014), there are about 55.9 million poor people in Nigeria, which is about 33.1% of the population. Nigeria is the richest country in Africa, with the highest GDP, the highest oil exporting in the region, yet many live below the poverty line (BBC, 2014). Its GDP per capita is at $ 2800, GNI per capita at $2710 and its Inequality-adjusted Human Development Index (IHDI) is at 129 out of 144 countries, a significant degradation; all factors keeping Nigeria as one of the poorest and least developed countries in the world, it is a paradox, that an economy which is growing is non-reflective on the general populace of the country (World Bank 2013).

Problems in the country

- Nigeria has a track record of decades of corruption, and this cankerworm has denigrated the standard of living and has instituted a big ravine between the rich and the poor.
- Lack of infrastructure: in this regard, Nigeria scores a very low grade; in fact the inadequacy of infrastructures has been the scorn of developing countries.
- Income distribution: the vast wealth of the nation resides with 1% of the population. The resources are not equitably distributed, and that cements the ungodly gap in the finances of the people of the country.

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1Source: Research methods for business students, Saunders et al., (2009: 138)
Unemployment: in Nigeria, about 22% of Nigerians are unemployed (World Bank, 2013). This brings a sharp decline in any economy, a developing country, shouldn't suffer this.

Limited access to health care, modern transportation, social security and pensions. This list is not exhaustive, but these are the core limitations in most developing countries, as is the case of Nigeria.

The Integration Process (using Humble's Economy Board)

This research aims at providing developing nations, some practical guide on how to develop. This integration process is a product of this research and it is recommended to all developing countries, even as a case of Nigeria is adopted for this research.

The ministries in the Humble's Economy Board should be integrated independently, working together to be able to fill up lapses and create more jobs. Keynes (1936) says that when a country’s government is fully into the economy of the nation, increases expenditures towards important areas that will give an idle person job, when full employment is reached, the economy will bounce back and reach its potential output level, and the standard of living will be bettered, then poverty and inequality will be reduced drastically. The inter-connectedness in this board will enable the government through the Finance and Coordinating Ministry for the economy to create more jobs, which is the main problem of Nigeria and other developing nations. It would subsequently help in resource allocation, as important ministries and institutions of ministries would be well funded, and less important ministries will be less funded to avoid surplus in less important ministries and deficit in more important ministries. This integration will allow merit system to thrive and people will be fully committed into serving their respective areas. If the Ministry of Health is independently integrated with the Ministries of Agriculture and Science and Technology; scientists, physicists, chemists, biologists and pharmacists will use their scientific knowledge to discover new drugs and other medications. The agriculturalist, through herbalism/ herbology will discover the use of plants for medical purposes. The institution would learn how to find cure to the countries diseases, instead of relying on foreign countries on drugs. The amount of fake and substandard drugs in Nigeria is astronomically high (NAFDAC, 2013), but when a research institute that is interrelated and committed starts working, the advent of fake drugs will be a thing of the past. Then, the scientists, including the physicists, chemists and biologists will discover scientific manures and fertilizers that suit the soil texture.
of the country and mechanized farming will replace subsistence farming, which will mechanize the farming style, and increase output which will automatically bring boom to the economy, and food to the table of every Nigerian citizen. These inter-relations will help in many areas, creating millions of jobs (2-3 million jobs expected), and making people useful. This applies to the Power and Petroleum Ministries; the institution will maximize the use of petroleum products in generating enough power for the country. Nigeria has gas, but it only succeeds in flaring the gas, instead of converting it to Electricity (CBN, 2013). The integration will do a lot. The Labour and Productivity Ministry and Ministry of Works, will through the Nigeria Bureau of Statistics provide the number of people to be dispersed across ministry institutions, both at the federal and state levels; this will help to keep pace with growing economy in providing labour. The Trade and Investment Ministry will ensure that the increased output and the introduction of new products would be exported to needing countries, and where the country lacks they can cover up through FDIs and joint ventures in those areas. The Ministry of Education will be part of all the correlation of the interrelated ministries and institutions, to provide quality graduates on the current trends. The government would strengthen the Aviation and Transport Ministries by bringing Metro buses and trains for commuters and build more airports in states that do not have, and reconstruct and refurbish those that need to; thereby equipping the country with massive infrastructures and good transport systems, and there will be rapid development. The government will open an incubating research center, a place where everything and anything would be tested. Students and researchers would be encouraged to try their findings in this place, no matter how unrealistic or over-burdensome the discovery might be, it would be tried out, and whatever discovery that comes out of there would be a joint product, between the government and the researcher, because the government would fully fund the whole research process. This will encourage rapid and dogged scientific and artistic discoveries all around the country.

When this and more is done, then the economy would reach full potential, then the government would use Contractionary fiscal policy to control the booming economy, and the surplus will be used to pay off deficits incurred during massive infrastructure development and the remainder will be in the country's foreign reserve.

5. Conclusion

The analysis shows that a lot has to be done by developing nations to come out from the cloak of underdevelopment and abject poverty; and in order to achieve this, a concerted and deliberate effort has to be put so as to achieve development. Governments of developing countries should make a decision to annihilate corruption, which impedes development. They have to launch into massive infrastructural development (Expansionary fiscal policy) that would increase the inflow of capital formations through FDIs and JVs, which will drive the economy higher towards potential levels. And when development is achieved, they can reduce spending (Contractionary fiscal policy), to control the economy to avoid inflation, as well as allow private sectors to come in to boost healthy economic competitions and diversifications. The Integration Process, through Humble’s Economy Board Model, will help any developing country find where they are ailing, and adjust the economy for full economic growth and even distribution of resources.

Reference


