**NIGERIA’S ECONOMIC RECESSION: A MISMATCH OF FISCAL INTERVENTIONS**

**BY**

**EMECHETA, NGOZI GABRIEL, PhD, FCA, FCMA (UK), CIPFA (UK)**

**PROFESSOR OF ACCOUNTING AND FINANCE**

**AND HEAD OF DEPARTMENT, ACCOUNTING, FINANCE & TAXATION**

**CALEB UNIVERSITY LAGOS**

**Email:** [**greatsnremecheta@yahoo.com**](mailto:greatsnremecheta@yahoo.com)

**AND**

**NWIDOBIE, BARINE MICHAEL**

**SENIOR LECTURER**

**DEPARTMENT OF ACCOUNTING, FINANCE & TAXATION**

**CALEB UNIVERSITY LAGOS**

**Email:** [**Barikem@yahoo.com**](mailto:Barikem@yahoo.com)

**TEL: 08035806760 & 08091438486**

**Abstract**

Keynesian and Post-Keynesian proposition for government intervention using countercyclical fiscal policies during periods of economic recession has been implemented with empirical results evidencing its positive effects on economies documented. This study aims to determine the current economic status of the Nigerian economy, the fiscal interventions to ‘pull’ the economy out of its current state, and ascertain the nature of these interventions vis-à-vis fiscal expectations during this economic state. A comparative analysis of data on 2016 ‘in-recession’ fiscal interventions and fiscal interventions in the 2017 fiscal projections shows that the proposed interventions with taxes, transfer payments, employment generation and special intervention in 2017 are procyclical. Projected cash inflows and injections from borrowings and oil exports, threatened by internal social factors and declining oil prices, to finance the budget and budget deficit seems a mirage with expected negative effects on proposed capital expenditures growth, and conclude that the 2017 fiscal interventions are a mismatch and incapable of pulling the Nigerian economy out of recession.

Key Words: Countercyclical fiscal policy, Economic policy, Fiscal policy, Fiscal stimulus, Procyclical fiscal policy,

**JEL CODES:** B22, E12, E61, E62, E63.

**Introduction**

Economic recession is the steady decline in economic activities in a nation over a period of time. This is measured by the consistent decline in a country’s gross domestic product (GDP) over two consecutive quarters. Nigeria’s GDP declined by -0.18% in Q1, -0.3.36% in Q2, -4.38% in Q3 and -3.33% in Q4 of 2016. Universally accepted causes of economic recession are persistent inflation, poor economic planning and implementation of economic plans. Persistent inflation increases product prices which negatively affect volume of consumption, purchasing, production, employment, disposable income and overall GDP.

Nigeria first experienced economic recession in 1984 evidenced by quarter-on-quarter decline in GDP and increasing inflation. Currency management, change in the colours of the naira and foreign borrowings were employed to pull the economy out of recession. Failure of these policies culminated in the devaluation of the Nigerian currency. Various countries have experienced economic recession at different times. Europe and the United States experienced great economic recession in the early 1930s. The United States experienced other recessions in the early 1960s, 1970s and 1980s. The world economy experienced a combined recession in 2008-2009. This was attributed to the financial crisis in the US with spillovers to other countries around the world.

Empirical evidences (Auerbach, 2009; Forster, 2009; Tcherneva, 2012; and Wren-Lewis, 2012) abound in literature of remedies introduced and implemented by various countries the world over to pull their economies out of economic recession. Keynes’ (1936) proposition of fiscal interventions to stem the persistent decline of an economy into deeper recession and pull such economy out of the recession has been generally accepted the world over with positive outcomes. These outcomes were achieved with the interventions being countercyclical.

Fiscal interventions by governments are aimed at directing an economy to achieve desired macroeconomic objectives. These interventions may be an increase/decrease in taxes and/or decrease/ increase in government spending to reduce/increase aggregate demand, consumption, investment, employment and disposable income. Tax cuts are identifiable with government intension to boost an economy especially during recession and pull the economy out of that recession. This policy leaves labour with higher disposable income for consumption, and firms with higher profits for investment with spiral positive effects on employment. Government spending to boost economic activities especially during recession comes via receiving less income and spending more i.e. running a deficit budget with the deficit financed from borrowings. The effect of this borrowing on the economy is positive if the borrowing is from the domestic funds market as it will increase activities in the financial markets and boost employment in the market with increased income to market employees and businesses. Keynesian economists believe that fiscal policy can help governments to manage their economies to achieve full employment. This they argued can be used to stimulate aggregate demand, economic activities and employment.

To stimulate an economy using fiscal policy, Forster (2009) suggested that the underlying process of economic growth must first be stimulated to achieve desired results. Tcherneva (2012) argued that the primary objective of fiscal interventions is to stimulate investment and growth. Fiscal policy need to be active to stimulate demand in an economy. Auerbach (2009) noted that the severity of the 2009 recession in the US prompted a strong countercyclical fiscal response. Arguments are rife in literature (Wren-Lewis, 2012; Keynes, 1936) which suggests that the introduction of countercyclical fiscal policies can “pull” out an economy in recession to recovery and back to the expansion path. This phase movement of an economy is akin to a firm’s business cycle. Keynes (1936) argued that countercyclical policies should aim to increase spending and demand in recession (called expansionary fiscal policy) and reduce spending and demand in periods of boom (called contractionary fiscal policy). An expansionary fiscal policy reduces all taxes to increase disposable income and spending, and increase government spending with the aim of increasing consumption, production, employment and income. A comparative analysis of the effectiveness of alternative fiscal policies by Tcherneva (2011) showed that fiscal interventions aimed at labour demand gaps are more effective than that targeted at output gap. In Australia, Barrett (2009) noted that fiscal policy has been successful. This was attributed to the recognition of the impending recession, deciding on the nature of probable responses and implementing identified responses.

A mismatch fiscal intervention in the United States in 1964 with an expansionary tax reduction when tax reduction was essential, and a contractionary tax increase in 1974 when tax reduction was essential brought unexpected economic crisis to the US. Tatom (2009) noted that this policy mismatches necessitated policy prudence in 1981-1982 and 2008-2009 with the introduction of discretionary fiscal policy with expected positive results. The proposed 2017 fiscal plans has in it varied policy proposals aimed at ‘stemming’ further decline of the Nigerian economy into deeper recession and to ‘pull’ the country out of it. What is the nature of these proposed interventions; and are they ideal for and potent enough to pull the Nigerian economy out of the current economic recession?

**Objectives and justification for the study**

This study aims to determine the current economic status of Nigeria, identify expected ideal theoretical and practical fiscal interventions to remedy the economic situation. It also aims to determine whether current macroeconomic fiscal interventions proposed to remedy the economic situation, ascertain the probable outcomes of these interventions and assess whether the current interventions is a mismatch.

**Theoretical framework and review of literature**

**Theoretical framework**

Conflicting propositions by the Keynesian, Post-Keynesian, Ricardian and Friedman schools of thought on ways of diagnosing economic problems, probable solutions to these problems, the precise tools to employ to solve these problems, the timing of the implementation of selected courses of actions and measurement of expected economic outcomes has swayed the minds of government economic managers, scholars and the public from one argument to another. These propositions are based on the two-pronged macroeconomic tools of fiscal and monetary policies. The Keynesian and Post-Keynesian school of thought argue that in recession, the economic target of the government which will pull the economy out of economic ‘doldrums’ is full employment. At this point, employment is high which in turn increases aggregate demand. Some economists argue that a stimulation of aggregate demand through fiscal interventions by the government to increase aggregate demand and take the economy to full employment and out of economic recession is necessary. These fiscal interventions are: (i) reduction in taxes in order to increase disposable income and corporate profits for investment, capacity expansion and employment generation; (ii) increase in government spending via deficit budgeting, with the deficit financed by borrowing; (iii) large government transfer payments. These interventions the Keynesian and Post-Keynesians argue are the ideal tools to increase GDP and pull an economy out of recession.

This study is based on Keynesian and Post-Keynesian propositions. Blanchard and Perotti (2002) confirm Keynesian expectations from fiscal interventions. The effects of taxes in the US were found by Romer and Romer (2010) to be stronger. Empirical evidences by Chambers and Spencer (2008) showed the effects of size and timing of tax reductions on the marginal propensity to consume. Finkelstein (2009) and Chetty, Looney and Kroft (2009) showed that consumption behaviours are influenced by tax. Research results by Auerbach and Gale (2009) showed evidences that countercyclical policy can be adjusted within a short period where necessary to achieve stabilization, and that stimulus policies can alter household consumptions expenditures and business investments in ways that have significant effects on macroeconomic variables. These empirical evidences substantiate the Keynesian and Post-Keynesian argument.

**Review of related literature**

Market economies are seen to fluctuate from the expansion phase with positive effects on employment, output and income. This phase is characterized by rising prices and interest rates. The trend ends with recession characterized by declining employment, output, incomes, prices and interest rate. The IMF (2013) and Caballero (2013) pointed out that fiscal policy is an appropriate countercyclical policy tool during recession. In addition, both acknowledged that countercyclical fiscal policies could be more effective when used properly; contending that appropriate policy depends on the nature of recession.

With the failure of the free market to provide the required employment, Keynes (1936) proposed the fiscal approach to revive an economy in recession. Keynes (1936) stated that fiscal policy cultivated through the stimulation of the aggregate demand for household goods will increase consumption, spending, purchases, industrial production, employment and disposable income; asserting that inadequate overall demand could lead to prolonged periods of high unemployment. The expected increase in spending by households and governments to stimulate industrial growth may be hindered by cyclical economic forces as erosion of consumer confidence may cause reduction in expenditures with spiral negative effects on investments and employment. The existence of fiscal multipliers magnifies the negative effects of these outcomes. Holding unto the Keynesian argument, Wren-Lewis (2012) argued that current fiscal policy in the Eurozone seem particularly misguided as they are not countercyclical. Fiscal profligacy was adduced as the cause of major crisis in Ireland and Spain by Wren-Lewis in 2012. A proponent of Keynesian economics, Tcherneva (2011) argued that Keynes may not have promoted broad-based fiscal policies but required governments to focus on employment schemes. Results by Budnerich (2002) showed that fiscal policy in Latin America has been procyclical. Jansen (2002) argued that a countercyclical fiscal policy reduces expenditure and/or increase taxes when aggregate demand pushes output beyond the potential level. At recession, Jansen (2002) noted that there will be a reversal. This way, fiscal policy would prevent unemployment, inflation and excessive accounts deficits.

Tcherneva (2012) noted that government countercyclical fiscal policy can effectively lead to a reduction in unemployment, fairly distribute income and reduce economic instability in the long-run provided the fiscal policy is re-oriented as the ‘bottom-up’ approach instead of the ‘top-down’ Keynesian approach. Getting an optimal result from fiscal interventions according to Tcherneva (2011), should commence with an identification of the source of the recession. A recession caused by a fundamental working of an economic system that endogenously produce unstable demand according to him, should be tackled by policy response that directly boosts aggregate demand through government expenditure. Where a recession is a direct consequence of exogenous shocks to the system, Tcherneva (2011) advised that the supply side should be addressed via policies that deal with market incentives which in turn are expected to boost consumption and investment independent of government spending.

Findings by Weeks (2009) showed that countercyclical policy increases demand when the growth in the economy is below its long-run potential, and suggested that the potent instrument for this is taxes. Weeks (2009) cautioned that in practice, taxes are clumsy instruments for demand management as changes in them may require legislative actions and changes in administrative procedures which may take time. Experience in the US according to Taylor (2009), indicated that countercyclical discretionary policy of large temporary tax rebates of 2001 and 2008 helped the country’s economic recovery. Forster (2009) noted that the current Keynesian stimulative fiscal policy requires increase in budget deficits yearly.

The common belief among Keynesian economists is that fiscal stimulus is created when a government spends more than it receives in taxes and other revenues which is referred to as deficit financing. The deficit can be financed from reserves and/or borrowing. The latter increases investments in the money and capital markets which in turn increase income. It also results in credit creation in the economy with positive effects on financial performances of financial institutions, production capacity, expansion financing, employment, disposable income and consumption. Arguments are rife in economic literature against the Keynesian approach to economic management to ‘pull’ an economy out of recession. Taylor (2009) cautioned that the older Keynesian theory has falsely assumed that a short-run stimulus will revive an economy. It failed to take into cognizance the complex dynamic or general equilibrium effects of an open economy.

On the effects of fiscal interventions in the US in two years, Forster (2009) observed that unemployment is steadily on the increase, concluding that Keynes fiscal stimulus are ineffective and does not work. Forster (2009) argued further that increased government spending from domestic savings and borrowings from abroad has left employment and incomes unchanged. This experience he added is similar to those of Asia, Europe and North America. Across these continents, debt-financed consumer-oriented tax reductions and substantial increase in government spending pushed up aggregate demand with the aim of increasing output, employment and income. The $152 billion stimulus in the US in 2008 and $787 billion in early 2009 did not change the level of employment.

Findings by Forster (2009) showed that results in the US, Europe and Japan did not identify any positive effect of fiscal stimulus on employment; as unemployment increased with the introduction of fiscal stimulus. From the study of Thailand, Jansen (2002) concluded that the use of fiscal automatic stabilizer is small as opposed to the discretionary fiscal policy interventions. Explanations by Tcherneva (2012) showed that unemployment increases quickly with a decline in private spending. A countercyclical injection of public expenditures, he added, does not seem to guarantee a reduction in the increased level of unemployment as windfalls during recession are usually directed towards safe non-employment generating financial assets. Auerbach and Feenberg (2000) observed that fiscal stabilizers tend to mitigate output without any explicit government actions. Research results by Taylor (2000) showed that the US had consistently used automatic fiscal stabilizers over a forty-year period with consistent results instead of discretionary fiscal policy. Public investments according to Weeks (2009) are not ideal instruments for countercyclical actions; stating that they are only ideal for increasing aggregate demand.

A comparative analysis of the effectiveness of forms of fiscal policies by Van de Noord (2000) showed that built-in stabilizers are much more important and sizeable in Europe than in the US. Findings by Taylor (2000) showed that the use of built-in stabilizers in the US has declined over the years. Taylor (2000) recommended that discretionary fiscal policy should be used for longer-term issues, and rule-based automatic stabilizers be used to provide systemic and predictive rules. Auerbach, Gale and Harris (2010) noted that the magnitude of effect on economic growth depends on the state of the economy, the state of the financial markets and other public policies. Findings by Auerbach and Gale (2009) showed that implemented fiscal policies were successful in Japan; while Werner (2004) sees the performance of fiscal policy as disappointing. .

Auerbach (2009) concluded from his study of fiscal stimulus that the 2009 US fiscal package was large but the implementation approach was conventional which needed improvement through changes. Weeks (2009) recommended that countercyclical fiscal stimulus in African countries must largely be financed by public sector borrowings. Funding by donors according to Weeks (2009) should not be included in the countercyclical programme. Oh and Reis (2012) showed a model indicating that lump-sum transfers under fiscal stimulus are expansionary. On the impact of fiscal policies, Coenen et al (2012) estimated that discretionary fiscal policies have increased annualized quarterly GDP during recession by 1.6 percentage points. Findings by Corsetti et al (2013) showed that strained government finances impacts on macroeconomic stability and on the transmission of fiscal policy.

Keynes (1936) linked the achievement of macroeconomic stabilization to the attainment of full employment. The conveyance of fiscal stimulus is distorted by administrative costs and leftovers into the economy which according to Tcherneva (2011), do not have direct job creation effect. This argument of leaks from the amounts of fiscal stimulus conveyed by the ‘leaky bucket’ was made popular by Okun (1962). Okun (1962) concluded that the effect from fiscal interventions on employment is minimal. Citing the case of the US, Tcherneva (2011) observed that when increases in government demand did marginally increase output and production, such did not achieve the employment creation the policy makers targeted. Tcherneva (2011) attributed this to production restructuring which improves automation, reducing recruitments. Eggertson (2006) noted that fiscal policy will be effective if monetary policy supports the policy. Research results by Weeks (2009) showed that fiscal expansions must be accompanied by an increase in that country’s exchange rate either through automatic response or conscious management. This according to him is to prevent increased importation with the funds from fiscal interventions and thereby causing an unsustainable trade balance.

Political reality seems to have made the implementation of Keynesian economic thought an unviable option in recession. The direction of the implementation of the fiscal stimulus has also been a subject of debate. Proponents of the macro-micro approach to stimulus implementation argue that it requires reductions in taxes to increase disposable income in the hands of households, which in turn will increase consumption, production and employment to pull an economy out of recession. Opponents to this thought argue that an economy left in the hands of the private sector will be chaotic and directionless. Firms and individuals, they added, may transfer the savings abroad or expend them on wasteful ventures with no positive effect on the economy, i.e. to pull it out of recession. Proponents of the macro-micro approach to fiscal stimulus implementation argue that deficit government spending and subsequent borrowing increases government activities as such spending will be targeted at sectoral expansions, growth and employment. Another argument against the implementation of fiscal stimulus is the time lag involved in implementing the policy: budget preparation, approval and release of budget allocation. Deficit financing may also result in debts. While government spending may increase incomes of businesses, the case in Nigeria may be different as project-execution input materials are imported. Such spending may only increase income of offshore firms and create offshore employment. Criticisms of traditional fiscal policy approach according to Tcherneva (2011), stems from its target of growth with job creation as a by-product instead of targeting job creation with growth as by-product.

Nelson (2006) argued that Keynes saw GDP as being determined in the short-run by aggregate demand. He asserted that recession or depression was attributable to falling demand, itself being short of the country’s productive capacity. Nelson (2006) opined that stimulating demand was the only remedy to pull such an economy out of recession. Nigeria’s recession seems characterized by declining production which in turn reduces employment, disposable income and aggregate demand. Keynes on his part recommended increased government spending to stimulate purchases and reduction in taxation to increase disposable income and stimulate demand. In addition, Keynes recommended that economies run deficit budgets to stimulate demand. Nigeria’s case of multiple taxations at the federal, state and local government levels may make the implementation and effectiveness of the Keynesian propositions difficult. Lane (2010) argued that fiscal policy is important in environments in which monetary or exchange rate policies seem difficult to implement. For such fiscal policies to be effective, Lane (2010) suggested that such policies must be countercyclical. Taylor (2009) noted that fiscal interventions should focus on automatic stabilizers with longer lasting reforms instead of on discretionary countercyclical actions.

Huge long-term deficits according to Wren-Lewis (2012) can be effectively curtailed through a combination of appropriate long-term controllable fiscal rules. He further argued that the existence of fiscal rules in an economic union as the Eurozone should encourage countercyclical rather than procyclical fiscal policy. Tcherneva (2012) argued that the introduction of non-conventional fiscal policies, the bail-out, in the US aimed at the financial sector, in magnitude, was more than the conventional countercyclical stabilization efforts. The result he added was a disappointing low level of employment. Reasons adduced to this result were the misdirected focus on the output gap instead of the employment gap. Tcherneva (2008) noted that Keynes had a targeted (as against aggregate demand) approach to full employment; adding that expected results from fiscal stimulus are unattainable because modern fiscal policies target to close the demand gap. This Tcherneva (2008) observed, is inconsistent with the Keynesian approach to fiscal intervention both in theory and practice. This argument is hinged on the thought that aggregate demand tends to increase inflation and hinder income distribution when the economy is close to full employment. According to Weeks (2009), a reduction in expenditure or increase in taxes in an economy in recession would further depress domestic expenditure which in turn would have a multiplier decrease in tax incomes.

On the contrary, Jansen (2002) noted that fiscal policy is deficient in stabilizing output fluctuations. This according to Jansen (2002) is due to two reasons. Firstly, is the inflexible nature of the policy in the short-run which makes it impossible for it to respond quickly to output fluctuations. Secondly, the fall of tax revenues with the decline in output when tax rates remain stable does not provide for increased government spending to increase output. In spite of this perceived drawbacks, Jansen (2002) agreed that the stabilizing effects of this policy in developing countries is usually noticeable as automatic stabilizers makes fiscal balances show an anticyclical pattern. On the timing of fiscal interventions, Bird (1998) suggested that periods of supply shocks is the most appropriate as it will be able to stabilize fluctuations in output and exchange rate. According to Heller (1997), the existence of capital outflows during recession requires the introduction of a contractionary fiscal policy. This he argued will reduce domestic absorption to finance current account surpluses and improve on the confidence of international investors to limit the outflows. Capital outflow volatility according to FitzGerald (2001) usually results in fiscal volatility. The fiscal stimulus in the US which included a two-year payroll tax deductions and extension of the emergency unemployment compensation according to Bivens (2015) produced the same effect on output and employment. Citing the experiences in advanced economies, weeks (2009) recommended the implementation of fiscal policies which will compensate for fluctuations in private sector demand using countercyclical fiscal policy.

Feldstein (2002) and Eichenbaum (1997) argued that countercyclical discretionary fiscal policies have not positively affected an economy and are neither desirable nor politically feasible. Countering this argument, Taylor (2009) noted that temporary rebate payments in fiscal stimulus packages increases demand for consumption, stimulate aggregate demand and get the economy on the path of recovery. Tatom (2009) observed that fiscal stimulus in the US have always come late with minimal effects on the US economy. Ivanova and Weber (2011) contended that the effects of successfully implemented fiscal policies to manage the economy may be distorted and/or neutralized by fiscal spillovers from other countries within the same economic, trading and political bloc. Eliminating these negative fiscal spillovers according Ivanova (2011) is feasible with large fiscal multipliers and/or import elasticity. Findings by Gros and Hobza (2001) showed that government spending in Germany increased GDP in that country by 1%, positively affected GDP in Austria, Belgium and the Netherlands by 0.02 percent of baseline GDP. On the contrary, this negatively affected GDP in France, Italy, Spain, Greece and Portugal by 0.05 percent of baseline GDP. Earlier study by Cwik and Wieland (2010) showed that spillover from Germany increased GDP in France by 0.04 percent after one year, while it negatively affected Italy by -0.001percent.

Lane (2010) concluded from his study that pro-stabilization fiscal policies are likely to be more effective if fiscal policy is ascertained under a formal fiscal framework which combines identified fiscal rules with a substantive role for an independent fiscal policy council. The latest world financial crisis according to Lane (2010) and Spilimbergo et al (2008) was aggravated by the inability of the affected economies to respond by fiscal means. This seems worsened by the absence of precise data of contributions of each fiscal intervention. Lane (2010) agreed that precise estimation of the relative contributions of cyclical and trend factors to determining macroeconomic outcomes at any time may seem difficult. The European Commission (2009) and Fabrizio and Mody (2006) on their part observed that economies with stronger fiscal rules show evidences of improved structural fiscal balance. Findings by Ffrench-Davis (2010) showed that the fiscal framework adopted by Chile in 2001 and codified in Chile’s 2006 Fiscal Responsibility law, helped cushion the effect of the 2009 recession in the country. Lane (2010) cautioned that short-term effectiveness of fiscal policy depends on its long-term sustainability.

In the 1990’s, Japan embarked on massive government spending to increase aggregate demand increasing debt-to-GDP ratio from 15% to 60% with no positive effect on employment. In 2008, the US had a budget deficit of $459 billion increasing government debt with effect on employment, production and income. Forster (2009) attributed the non-response of the Japanese and US economies to the Keynesian fiscal stimulus to attendant economic costs and budgetary consequences of the stimulus. In addition, Forster (2009) observed that government borrowings to finance budget deficits counter the increase in demand from tax savings leaving the economies static in recession; noting that government borrowings are subtractions from available savings for use for business expansions with production remaining unchanged. The preference for fiscal intervention waned with the emergence of the Ricardian equivalence hypothesis (Barro, 1974), which seems to be no substitute..

Forster (2009) suggested a thorough examination of economic data to determine the efficacy of Keynes fiscal stimulus across countries and ascertain whether the result is a mismatch. Taylor’s (2000) observation collaborated Barro’s (1974) that Keynesian arguments and perceptions waned in the 1970’s because of its inability to explain and solve the stagflation that existed during that period. Weeks (2009) observed that in the ‘face’ of expected fiscal interventions, Sub-Saharan economies pursue a ‘business-as-usual’ approach and ‘hope-for-the-best’ option requiring the implementation of policy frameworks designed for advanced economies with no need for fiscal interventions, worsening their economic situation. Whatever the stimulus package by a government, Spilimbergo et al (2009) suggested that it should be timely, large, long lasting, diversified, contingent, collective and sustainable. Citing the US, Blinder and Zandi (2010) noted that the country’s response to the financial crisis and the ensuing great recession included some of the aggressive fiscal and monetary policies in the nation’s history.

With these criticisms, positive results have emanated from economies that implemented some fiscal stimulus package. Observations by Forster (2009) showed that government in Asia, Europe and North America constantly pursue different forms of Keynesian fiscal stimulus aimed at cutting taxes and increasing government spending to increase output, employment and income. Resultant multiplier effects of this according to Barro (2009) could be zero in periods of peace and 0.8 in periods of war. Woodward and Hall (2009) insisted that the multiplier at war periods is unitary. Findings by Mankiw (2008) showed that the value of fiscal intervention multiplier is 1. Auerbach and Gorodnichenko (2010) found distinct effects of multipliers in recessions and expansions. Corsetti et al (2010) found a series of countries multipliers for government spending shocks to be much higher in times of crisis, making output to increase by 200% with positive spiral effects on production, employment, disposable income and consumption.

**Methodology**

**Research data**

Data for this study are secondary data obtained from the Budget Office of the Federal Republic of Nigeria and deemed valid and reliable. Budget break downs were obtained from Price WaterHouse Coopers (PWC) and Agusto & Co reports on the 2016 and 2017 fiscal budgets.

**Data analysis**

Data obtained for the study are cross-analysed to determine the current economic status of the Nigerian economy and the nature of the ‘in-recession’ fiscal interventions and stimulus packages.

**Data presentation**

Nigeria’s current economic status:

Data in fig 1 shows that Nigeria’s GDP fell by -0.4% in the first quarter of 2016, and further by -2.06% in Q2, -2.4% in Q3 and by -13% in Q4. Nigeria was in recession at the end of Q2 with an 800% decline in GDP.

Fig 1: Nigeria’s quarterly GDP growth



Non-oil sector growth had a similar patern of decline as the GDP with a negative growth of -0.18% in Q1 of 2016. The sector witnessed further decline in growth of -3.36% in Q2, -4.38% in Q3 and -0.33 in Q4 (fig 2).

Fig 2: Nigeria’s quarterly non-oil export growth



**Research results and policy implications findings**

Comparative analysis of fiscal interventions in 2016 and “in-recession” proposed fiscal interventions in the 2017 fiscal budget:

Fiscal interventions in the 2016 fiscal year and fiscal projections for the 2017 fiscal year (three quarter into the recession) are shown on table 1 below:

Table 1: Fiscal interventions in 2016 and ‘in-recession proposed fiscal interventions in 2017

|  |  |  |  |
| --- | --- | --- | --- |
| Economic variable | 2016 values (N’B) | 2017 values (NB) | % Δ |
| Total Expenditure | 6,060 | 7,260 | 19.8 |
| Total Revenue | 5,720 | 4,940 | -13.6 |
| Budget Deficit | -2,204.9 | -2360 | 0.07 |
| Capital Expenditure | 1,587.6 | 2062 | 29.8 |
| Financing of Budget Deficit:  Internal-  External- | **1,840**  984  900 | **2,317**  1,250  1,067 | **25.9**  27  18.6 |
| Special Intervention Programme | 300 | 100 | -66.7 |
| Non-oil Tax Revenue:  Company Income Ta ax-  VAT- | 1,880  1,440 | 1,990  1,370 | 5.85  -4.86 |
| Job Creation Programme | 2 | - | -100 |

Source: [www.budgetoffice.gov.ng](http://www.budgetoffice.gov.ng) (2017); [www.pwcnigeria.com](http://www.pwcnigeria.com) (2016, 2017); Agusto & Co. Research (December 2016).

With the onset of recession in the Nigerian economy at the end of the second quarter of 2016 (fig. 1), expected 2017 fiscal interventions were decrease in taxes, increase in budget spending, deficit budgeting, increase in transfer payments and fiscal stimulus. These are countercyclical measures to ‘stem’ further economic drift into deeper recession and pull the economy out of it. The multiplier effects of these are expected to improve Nigeria’s GDP. Data on table 1shows that proposed total expenditures in the 2017 budget increased by 19.8% over the fiscal appropriation in 2016. This is expected to be financed mostly with oil revenue which has dwindled with falling oil price and declining oil production. This will negatively affect the attainment of the 19.8% (table 1) proposed increase in total expenditure. It follows that the effect of expenditure on aggregate spending and GDP to pull the economy out of recession may be minimal or zero. Similarly, expected effects of increase in capital expenditures by 29.8% (table 1) may also not be achieved; and the expected multiplier effect to increase aggregate demand and GDP may also not be achieved. Though the proposed increases in both variables are countercyclical as recommended by Keynesian economists, the increases are not ‘massive’ enough to positively affect aggregate demand and GDP. The expenditures on capital projects will go into the ‘coffers’ of multinational firms who will transfer them out of the country with near zero effect on the Nigerian economy.

The special employment intervention programme of N2 billion (table 1) in the 2016 fiscal appropriation was discontinued in the 2017 ‘in-recession’ fiscal intervention. The expected continuous benefits on employment and income generation, aggregate expenditure and GDP growth will be lost. So no countercyclical intervention via employment generation to pull the Nigerian economy out of recession exists in the 2017 fiscal intervention programme. The proposed increase in non-oil tax revenue (stamp duties on bank transactions, introduction and increase in communication tax and increase in custom duties) by 5.85% (table 1) is procyclical with increased fiscal obligations on the populace, reducing disposable income, aggregate expenditure and overall GDP. This action will deepen the level of recession in the country. The reduction in value-added tax (VAT) income by 4.86% may seem countercyclical but is not. This reduction may be attributable to reduction in production of vatable products by firms due to the harsh economic environment and inability to continue production, as the VAT rate remains at 5% in the 2017 fiscal year. This will have no fiscal effect on the Nigerian economy.

The special fiscal intervention by the Federal Government via housing development which was N300 billion in the 2016 fiscal appropriation declined by 66.7% in the proposed 2017 fiscal intervention. This implies a reduction in income to housing development workers and artisans with spiral negative effects on aggregate consumption and GDP. The proposed increase in budget deficit financing in the 2017 fiscal projections by 25.9% is countercyclical and capable of positively adding to the nation’s aggregate consumption with a multiplier effect on GDP. Borrowings from internal and external sources are expected to increase by 27% and 18.6% respectively. In principle and in practice, these are expected to contribute to pulling the Nigerian economy out of recession being lump-sum inflows and interventions. These will increase money supply, overall purchasing power, drive down interest rate, boost industrial borrowing, industrial production, employment and disposable income with spiral positive effects on GDP and movement of the economy out of recession. The refusal of the Nigerian National Assembly to approve the $30 billion external loan will make this expectation a mirage with the expected pulling of the economy out of recession unrealizable; entrenching the economy in deeper recession.

Identification of these procyclical measures in the 2017 fiscal intervention programmes necessitates an immediate adjustment to the 2017 fiscal appropriation proposal, making fiscal interventions therein countercyclical and ‘massive’ enough to pull the Nigerian economy out of economic recession.

**Conclusions and recommendations**

In conclusion, the proposed fiscal interventions in 2017 via job creation programme, non-oil taxes, special intervention programs are procyclical which will deepen Nigeria’s economic recession. The proposed increase in budget deficit financing in the 2017 fiscal interventions-though countercyclical in nature-may not have the desired effect on GDP to pull the economy out of recession as the economic reality of and non-approval of the proposed borrowings by the National Assembly may make the expected cash inflows and injections, investment growth, increase in money supply and decline in interest rate and the attendant positive spiral effects on industrial production, employment, disposable income, consumption, aggregate expenditure and GDP growth unrealizable. Capital expenditure growth in the 2017 fiscal interventions, being countercyclical, may also not have the desired short and long-run effects as funds from external and internal borrowings, and oil sales for capital projects’ execution may not be available. The current fiscal interventions vis-à-vis fiscal expectations for the ‘in-recession’ economic situation in Nigeria, is a mismatch.

To make the 2017 interventions effective in pulling the Nigerian economy out of recession, these interventions must be countercyclical and ‘massive’ enough to cause considerable change in the country’s GDP. Other factors affecting cash flows from oil and borrowings should be resolved by the government. Taxes should be reduced to increase personal and disposable income, spending and GDP. Transfer payments and special intervention programmes should be increasingly financed by government to increase spending, aggregate consumption, industrial production, employment and GDP, and pull the Nigerian economy out of recession.

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